



**The University of
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Outsourcing Accounting Services

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Abstract

In recent decades, there has been an increase in the number of UK based companies turning to countries like India & China to reduce costs. The process is known as offshore outsourcing and was initially used by manufacturers to gain access to cheap labour. Over time, India has developed as an outsourcing nation and is able offer a range of outsourcing solutions, including accounting services.

Larger companies have utilised this service to outsource entire departments to countries like India and have been doing so for a number of years. The opportunity has now arisen for small to medium sized enterprises (SMEs) firms to explore such solutions.

The aim of the study was to identify the perceived risks in relation to offshore outsourcing and ascertain the measures in place to control these risks. A review of existing academic literature established the various advantages and disadvantages associated with outsourcing.

The perception of forty-four UK based SMEs was obtained by way of postal questionnaires, revealing that majority of firms held an apprehensive attitude to offshore outsourcing. Having identified a number of risks, interviews with offshore service providers were required to ascertain if any relevant safeguards were in place. The research concluded that the providers had recognised the risks and introduced appropriate preventative measures.

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1.0 Introduction

This section of the study will begin with a background into offshore outsourcing and establish the main aims and objectives to be satisfied.

1.1 Background to Study

Businesses sometimes find that contracting a third party to perform a particular activity can be far more cost efficient than undertaking the activity in house, this process is called outsourcing and dates back to the industrial revolution (Blokdijs, 2009).

UK companies began the process of offshore outsourcing decades ago when they began to manufacture goods in countries with cheap labour. With the development of communication technology and IT systems, business processes soon followed a similar trend (Babu, 2006).

Offshore outsourcing opportunities are available in numerous countries, however many authors consider India to be the market leader. Indian vendors have been supplying offshore services to larger companies for many years. However, the growth of the industry has seen suppliers trying to access the market of smaller companies.

1.2 Aims

The aims of the research project are to identify how SMEs in the UK perceive offshore outsourcing. Although larger companies have been outsourcing for many years, the concept of SMEs outsourcing is still in its infancy.

This study intends to gain an understanding of how SME's perceive the risks of offshore outsourcing, whilst considering the advantages and disadvantages. Upon identifying the perceptions, the study will explore how the offshore providers are managing these risks.

1.3 Objectives

The study has identified the following set of objectives.

- 1) Identify the advantages and disadvantages for SME's (<50 employees) outsourcing accounting services to offshore providers.
- 2) Establish how SME's perceive the risks in relation to outsourcing accounting services.
- 3) Explore the preventative measures offshore providers have in place to reduce the risks identified in objective two.
- 4) Report and draw upon the research to make a conclusion

1.4 Summary

A series of tasks will be completed to satisfy the objectives. Academic literature relating to outsourcing will be scrutinised, research method and strategy established, primary research conducted and the results analysed. A conclusion will complete the study.

2.0 Literature Review

This section of the study examined research previously been carried out on the chosen topic. Using a range of relevant sources, a critical review of existing academic literature was conducted. The review promoted the development of research objectives whilst ascertaining recommendations for further research.

An introduction into the history of outsourcing will be followed by how outsourcing is being used today. The advantages and disadvantages of offshore outsourcing will be extensively examined in order to satisfy the first research objective.

2.1 What is Outsourcing

In certain situations businesses find that contracting a third party to perform a particular activity can be far more cost efficient than undertaking the activity in house. This process is called outsourcing and dates back to the industrial revolution (Blokdijs, 2009).

2.1.1 Definition

There are many different definitions of outsourcing, Chase et al (2004) as cited in Schniederjans et al (2005, p.3) refer to the definition of outsourcing as,

“An act of moving some of a firm’s internal activities and decision responsibilities to an outside provider”

2.1.2 Off-shoring vs. Outsourcing

Off-shoring and outsourcing are often used as synonyms whereas they hold different connotations. Mehrotra (2007) refers to off-shoring as work being sent to a foreign country usually where the cost of labour is cheaper. Mehrotra continues to say there is a common mistaken belief that all off-shoring activities are outsourced. Off-shored activities could include work carried out ‘in house’, although by a department located in a low cost country. For the purpose of this report, off-shoring will refer to work carried out by a third party vendor.

2.1.3 Origins of Outsourcing

Greaver (1999) explains that although the term outsourcing was invented by the information systems trade in the late 1980's, the concept has been around for hundreds of years and has been used since before the industrial revolution (Blokdijs, 2009)

Prior to the Industrial Revolution, the trend of companies was to carry out all activities themselves. The Industrial Revolution (1750 – 1900) saw a vast increase in the production of goods and this period provided momentum to the development of outsourcing. Companies began to outsource accounting along with a number of other tasks to specialised firms (www.roseindia.net, 2013). However, during this period outsourcing was carried out by onshore firms, i.e. within the same country. Offshore outsourcing did not begin until the 1950's with companies like Nike and Reebok subcontracting their production to low cost countries (Jacques, 2006).

Off-shoring became very popular in the late 80's as companies began to outsource lower level repetitive tasks to low cost countries. The Year 2000 problem (millennium bug) created a programming nightmare within the IT world. Countries like the US and UK began hiring programmers from other countries, primarily India, to complete necessary work prior to the deadline.

2.1.4 Modern Outsourcing

The UK manufacturing industry began the process of offshore outsourcing decades ago however, with the development of communication technology and IT systems business processes soon followed a similar trend (Babu, 2006). Dominguez (2006) explains that the development of the internet and telecommunications significantly reduced the cost of working with long distance colleagues.

Greaver (1999) proposes that due to the costs involved in acquiring specialist technology and technical staff, it is quite often cheaper to outsource to specialist companies that have such assets in place, reducing both the cost and risk. This view is shared by Sople (2009) who adds that expertise is the main reason for outsourcing with specialist companies more likely to provide a service of superior quality at a lower price.

2.2 Types of Outsourcing

2.2.1 Onshore Outsourcing

Onshore outsourcing has been described as an arrangement for domestic suppliers to provide services or goods to a company (Oshri & Corbett, 2013). Essentially, it is outsourcing where the customer and supplier are from the same country.

Oshri & Corbett explain that this method of outsourcing was preferred up until the late 1990's as it provided businesses with innovative ideas. Since the dawn of the millennium this has all changed as offshore providers are able to offer more than just cheap labour. (www.growthbusiness.co.uk, 2010)

Disruptive time zones, language barriers and cultural issues are a few of the challenges that would be avoided with onshore outsourcing as opposed to off-shoring (Power et al; 2006). This point is supported by Trojahn (2009) who adds geographical proximity as another benefit, although cited higher costs as a disadvantage. These issues will be critically reviewed in further detail in Section 2.3.1.

2.2.2 Offshore Outsourcing

Offshore outsourcing is best described as a service delivered by an external supplier from another part of the world than the country in which the customer is located (Wijers & Verhoef, 2009). Section 2.3 will discuss offshore outsourcing in further detail.

2.2.3 Finance & Accounting Outsourcing

Finance and Accounting Outsourcing is the subcontracting of an organisation's finance and accounting functions (www.clientsolutions.cpa2biz.com, 2013) and will be the focus of the study.

Further information relating to various other outsourcing servicing can be found in appendix 1

2.3 Advantages vs. Disadvantages

Many countries offer outsourcing solutions to businesses around the world; Buchta et al (2009) and McIvor (2010) both agree the offshore geographic location is a key factor and can influence the success of the relationship.

Figure 1 Top Ten Cities for Offshore Outsourcing

Rank 2012	Rank 2011	City	Country
1	1	Bangalore	India
2	3	Mumbai	India
3	2	Delhi	India
4	4	Manila	Philippines
5	6	Chennai	India
6	7	Hyderabad	India
7	5	Dublin	Ireland
8	8	Pune	India
9	N/A	Cebu City	Philippines
10	N/A	Shanghai	China

(www.globalservicesmedia.com, 2013)

The data illustrates that cities dominating the outsourcing industry for services are from four countries with India as the clear market leader. In fact many authors including Overby (2008), Rao (2009) and Kobayashi-Hillary (2007) have stated that there is no doubt that India has the lion's share of the outsourcing market. On that basis, the study will use India as an offshore case study. The success of India within the outsourcing industry has been influenced by a number of factors which are discussed below.

2.3.1 Costs

The reduction of costs is considered the primary motive behind companies moving internal operations to an offshore location (Greaver; 1999). Outsourcing accounting services eliminates cost associated with employment such as national insurance, employee benefits, pension contributions and facilities (Rao 2009).

Hunter (2006) explains that labour costs account for an average of 67% of the total operational costs involved in running a call centre. For a similar operation in India this figure would be around 30%, including training and benefits. Outsourcing company Plus HR has prepared an example of the costs associated to a HR department ran in-house compared to the entire HR department being outsourced. The costs are based on a company with 100 employees over a three year period,

In-house costs	£364,200
Outsourced costs	£162,000
Total savings	£202,200

Full details in Appendix 2

The above example was prepared as part of a marketing campaign, the concept however is reliable. The saving is primarily achievable, due to the cost of labour in India being cheaper than in the western world. However Hunter (2006) suggests that the cost of labour in India is on rise and this view is corroborated by a number of reliable online articles, confirming that labour costs within the Indian manufacturing trade rose by 20% in 2012 (www.manufacturingcost.com, 2012) (www.just-auto.com, 2012) (www.sourcingline.com, 2012).

This may present a problem in the long term for companies that have outsourced entire departments, as a rise in labour costs will reduce savings.

2.3.2 Employee Morale

Green (2006) and Greaver (1999) share the opinion that employee morale and productivity would also suffer with the likelihood of layoffs. Schniederjans et al (2005) agree and add that a drop in morale can be expected to cost a firm productivity, loyalty and trust. However, morale would only be affected in a situation where there was a risk of redundancies. If a firm utilised outsourcing exclusively as an alternative to increasing staffing levels, a drop in morale would be questionable.

2.3.3 Liquidity

Greaver (1999) argues that outsourcing could increase the liquidity of a company. For example, an expanding business may be required to consume capital for the acquisition of a new building, outsourcing eliminates this costs and thereby increases liquidity.

2.3.4 Flexibility

Greaver (1999) and Willcocks et al (2004) consider the factor of fluctuating levels of business activity. They discuss how the implementation of a variable cost system would be valuable to a firm with a workload that varies from month to month. For example during a quiet period, a company may have more employees than work, however in contrast, during a busy period a company may be forced to turn away business. Redundancies cannot be based on short term performance and therefore offshore outsourcing would allow the company to vary staffing levels as required. This system will reduce unnecessary overheads whilst providing unlimited access to workers. The benefit of this method is apparent however, the drawback is loss of control (2.3.6).

2.3.5 Focus on Core Competencies

Kakabadse & Kakabadse (2002) and Weerakkody et al (2003) suggest an added benefit of outsourcing is the time created for focusing on core competencies without the burden of routine tasks. For example by outsourcing menial tasks such as payroll companies can focus their efforts on core business activities. However, consideration must once again be given to loss of control (2.3.6).

2.3.6 Loss of Control

Outsourcing can also lead to a loss of control over important functions and knowledge (Langfield-Smith et al; 2000). This is particularly relevant to those decisions that involve outsourcing activities integral to the business. For example if a small accounting firm reduced staffing levels and began to outsource all accounts preparation, they would no longer be able to control the quality of that function. By making a decision to outsource a company is likely to reduce the number of staff and assets; if the quality of service thereafter deteriorates or prices are increased, reverting the process could be very complex and expensive (Rivard & Aubert; 2009). A similar situation would arise if the offshore service provider were to cease trading (Desai; 2009).

2.3.7 Efficiency

As well as offering low cost labour, India has gained a reputation of being able to provide a high quality service. For example, Indian call centres answer an average of 7.5 calls per minute whilst the equivalent in the United States average just three calls per minute. This demonstrates that a call centre in India would offer cost savings as well as increased efficiency. (Hunter; 2006)

Jenster (2005) provides an example of a primitive village where each household would require consumables such as food, pots, tools, etc. The acquisition of these would entail tasks such as farming, hunting and production. Naturally, as some people were more skilled at certain tasks than others, villages developed a system whereby individuals would concentrate on the tasks best suited to their specialist skill. For example, the best hunters in the village would focus their efforts on hunting allowing others to produce pots and weapons.

Jenster explains, that when people concentrate on their specialised skill set, the quantity and quality of tasks being completed increases. He also talks about the 'learning curve effect', which reduces the time taken to complete the tasks as more experience is gained. For example where an individual would be hunting once or twice a week, specialisation would enable that individual to hunt every day and thereby improve efficiency through experience.

As larger companies tend to segregate departments according to the task, an accountant has the opportunity to specialise. Accountants within smaller companies however may be required to deal with a multitude of different tasks. Due to the variation in work, these accountants do not gain the benefit of specialisation. Using the example above if specialisation reduces the time taken to complete a task, a small accountancy firm would benefit from outsourcing as the time taken to complete the menial tasks would be reduced. This is supported by call centre example used above.

However, online blogger, Svetlana Gladkova, argues that many companies have already had experience of off-shoring to India and the seemingly low prices often results in poor quality work, which subsequently requires continuous self-adjustments and sometimes the need to redo the work from scratch (www.profy.com, 2009).

2.3.8 Communication

Kobayashi-Hillary (2005) believes that the quality of English language amongst the Indian workforce is excellent and provides India with a huge advantage over countries like China. India has invested significant amounts of money in education and Indian universities currently offer some of the most comprehensive curriculums available (www.grasshopper.com 2013). Plunkett (2009) agrees with Kobayashi-Hillary and adds that the combination of India's growing population, together with widespread education in English language skills, India is on the verge of becoming the world's largest English speaking nation.

An article in Outsource magazine (author unknown) contradicts both Kobayashi-Hillary and Plunkett. The article argues that English spoken internationally is very different from the English spoken in India. Heavy use of acronyms, local jargon and the high tempo of speech can make Indian English incomprehensible to Westerners (www.outsourcemagazine.co.uk, 2013). Although the literature is conflicting, the opinion holding greater substance would be that of Kobayashi-Hillary, a well-known outsourcing expert.

2.3.9 Natural Disasters

The threat of natural disaster is another factor likely to hinder the attractiveness of India as an offshore destination. In 2001, India suffered an earthquake in the Gujarat region measuring 6.9 on the Richter scale and claimed almost 20,000 lives. The possibility of any sized earthquake is expected to rise anxiety, however the Indian government's inability to coordinate a relief operation, which was severely criticised at the time, would potentially provide greater concern for foreign companies (Kobayashi-Hillary, 2005). In 2005, Mumbai was affected by monsoon floods that brought the city to standstill, killing over a thousand people in the region. Airports, rail networks and highways were closed, together with all telecoms within the region. Despite these incidents, India has continued to grow over the years and has managed to obtain the number one spot as an offshore destination, illustrating what could be perceived as a lack of anxiety amongst foreign companies.

2.3.10 Terrorism

The threat of terrorism has also raised concerns over India in recent years. Foreign companies are aware that a potential attack could affect the delivery of any service

outsourced. In 2005, terrorists struck at the Indian Institute of Science in Bangalore, a city that is known as the outsourcing capital of India. The Indian government found evidence to suggest that the outsourcing industry was the target of terrorists (www.cio.com, 2006). During 2008 alone, India experienced more than 20 confirmed terror attacks including the Mumbai attack. Many people consider India as a risky offshore location; in fact, potential outsourcing customers have highlighted this as a concern (www.ezinearticles.com, 2008).

Literature suggests outsourcing firms are now upgrading their security networks to safeguard themselves. As the Mumbai attackers were armed with automatic weapons, a petition has been made to the Indian government requesting authorisation for private security agencies to carry such weapons (www.zdnetasia.com, 2008). Outsourcing vendors are also setting up command centres that will become active in the event of an attack. These centres will continuously monitor the situation and co-ordinate the safety of its employees, assets and operations. Client data is also backed up on a regular basis and stored in offsite locations (www.silicon.com, 2008).

In practice, the effectiveness of these defensive measures may be difficult to test, however in addition to deterring terrorists, they may enhance the confidence of customers.

2.3.11 War

The conflict with Pakistan over the region of Kashmir has been ongoing since 1947 and the two countries have been to war four times between 1947 and 1999 (Sathasivam; 2005). If the conflict resumes, it is likely that outsourcing operations could be affected, together with India's reputation as a provider (Hunter; 2006).

2.3.12 Data Security

Data Security represents a concern for UK companies, as India does not meet the same legal framework for protecting data as the UK. India relies entirely on an industry code of practice with no statutory foundation to act as a deterrent against data protection offences (Green; 2006). Bridget Treacy a specialist in data protection law states that despite UK companies sending personal data abroad as part of outsourcing projects, the responsibility of the data will remain with the UK companies under UK data protection laws. Organisations cannot outsource their compliance obligations and this includes data protection and data security compliance. However, she goes on to add that due to the

anxiety surrounding data protection Indian vendors have implemented very tight security procedures (www.silicon.com, 2010).

Bhaowati (2005) disagrees on the issue of tight security procedures, citing the work of Vamsee Tirukklala, cofounder of offshore consulting company Zinnon. Tirukklala states that Indian companies may claim to be secure however, thefts still seem to occur. The study will identify whether SME's consider data security to be an issue. It should be noted that the statement made by Tirukklala dates back to 2005 and there may be a possibility that Indian vendors have since improved security procedures, although no supporting literature was found.

2.3.13 Foreign Workforce

Authors like Sreenivas (2006), Trippon (2008) and Swaminathan (2009) believe that the general workforce in India is highly efficient and motivated. In contrast, an article by Saritha Rai states the rapid growth that the outsourcing industry is beginning to take its toll on its workforce. Long work hours in a stressful work environment together with tight deadlines and disrupted eating and sleep patterns are resulting in workers suffering from obesity, sleep disorder, depression and broken relationships. The article states that there has been a recent rise in the number of Indian workers developing mental health issues like depression, bi-polar disorder and suicidal tendencies. These issues may impede the ability of vendors to provide an efficient service and is likely to concern current and potential clients (www.silicon.com, 2009).

Saritha Rai refers specifically to the outsourcing industry, whereas Sreenivas et al refer to the workforce of India in general. Furthermore, the article by Rai is dated back to 2009 and although there is no new literature covering the subject, the outsourcing industry may have evolved since.

An article by Elliot Hannon in Time Magazine highlights the issue of safety for offshore workers. Within the last year, a 30-year-old woman was raped going home late at night from her job at an Indian outsourcing company. The same article states that New Delhi police are now placing requirements outsourcing companies to arrange transport for employees to and from work (www.time.com, 2011).

2.3.14 Time difference

The study has discussed many negative aspects relating to the geographical location of India. However, the very location offers the UK an overnight service due to the time difference of five and a half hours. Therefore, any job sent at close of business (GMT) will be received in India five and half hours before the offices in the UK open for business. For example if a client requires an urgent piece of work for the following day, whilst UK offices are closed the Indian outsourcing team can complete the work and return it to the UK by the following morning.

2.3.15 Economy

Overby (2013) is one of the many opponents of offshore outsourcing and highlights the negative economic impacts of jobs going abroad. Dr Richard Sykes, chair of an Outsourcing Group, disagrees that offshore outsourcing is damaging the economy and describes the UK as a prime location for off-shoring. He adds that more of the world offshore to the UK, than the UK does to other parts of the world (Lomas, 2013).

Christopher Koch, executive editor at CIO has highlighted an interesting point made by vice president of Nasscom Sunil Mehta in his article '*The Politics Behind Offshore Outsourcing*'. Mehta argues that the many sceptics of offshore outsourcing ignore the large benefits that it brings to the economy. He estimated that in 2004, U.S. companies will save up to \$11 billion by outsourcing to India and that India will purchase \$3 billion in high-tech imports from the United States in that time (www.cio.com, 2003). Although this article is dated back to 2003, it illustrates that whilst American jobs were sent to offshore locations the economy benefited from costs savings of \$11 billion and exports of \$3 billion. A report released by Oxford Economics Research in 2012 reveals that the outsourcing sector currently generates 8% of overall GDP for the UK. This is the same figure as the entire finance sector (www.computing.co.uk, 2013).

Off-shoring domestic jobs has not been very popular and therefore foreign companies will need to be aware of adverse customer reaction (IAOP; 2010) as contributing to rising unemployment figures may attract adverse publicity (Calvert; 2004).

It is not very likely that SME's will be affected by a customer reaction opposing outsourcing, nor will the small quantities they outsource be considered as damaging to the economy.

2.4 Summary of Literature Review

It has been established that there a number of advantages in offshore outsourcing other than the obvious cost saving. Geographical issues such as natural disasters may affect the offshore provider's ability to supply a service. Employee morale or loss of control may affect the running of the business back in the UK. Objective 1, identify the advantages and disadvantages of offshore outsourcing has been fulfilled.

There appears to be no prior research or supportive literature available specifically exploring how SME's perceive the risks associated with offshore outsourcing. From the research, it has been difficult to ascertain the market perception of outsourcing, in fact there may be a number of firms that are unaware that outsourcing is available for smaller companies.

3.0 Methodology

Following a critical review of literature related to offshore outsourcing, this section of the study will explore the various philosophies, approaches and strategies that have been applied to the study.

3.1 Deductive & Inductive Approaches

An inductive approach leads to the formulation of a theory being built from the observations in the critical literature review (Trochim, 2006), whereas a deductive approach involves developing a theory and testing the hypothesis using a research strategy (Saunders et al, 2007). An inductive approach compared to a deductive approach has both advantages and disadvantages. Flexibility is a key asset and it will help to identify alternative theories and permit changes as the research progresses. An inductive approach also allows the researcher to be part of the research. The disadvantages include a protracted research period and a risk of the research yielding no useful data pattern or theories (Altinay et al, 2007). Both methods were used during the study.

Although the subject of offshore outsourcing has been covered in detail for larger companies, literature relating to SME's is limited. Creswell (1994) as cited in Saunders (2007) suggests that new topics with minimum existing literature should be researched inductively, analysing and reflecting upon the theoretical themes the data is suggesting.

Therefore, the initial literature review was conducted using an inductive approach, assisting the researcher to acquire an understanding of the advantages and disadvantages in relation to offshore outsourcing as per objective one. Furthermore, the inductive approach encouraged the researcher to be involved in the research bestowing a greater awareness of the research background.

Objective two proposed to gain an understanding of how SME's in the UK perceive risk in relation to offshore outsourcing. Due to the lack of existing literature covering the subject, the researcher again used an inductive approach.

Objective three employed a case study method that involved interviewing three offshore service providers. Using a deductive approach the perceived risks ascertained from objective two supported the development of a hypothesis, which was then tested during the interviews.

3.2 Research Philosophy and Approach

Research philosophies can influence the manner in which the research process is approached. The philosophy of interpretivism requires an open mind and a focus on understanding as oppose to explaining (Kasi, 2009). The ability of the researcher to enter the world of the research subject and fully appreciate their outlook on the given situation is crucial to the approach (Saunders et al, 2007). The research conducted in this study was based around the perception and behaviour of people. Therefore, the philosophical stance of interpretivism was adopted for objective two of the study.

The principles of positivism draw on existing theory to develop a hypothesis that will then be tested. In order to follow a positivist approach, a theory must exist. Due to the lack of literature surrounding the subject, a positivism approach was not suitable until a hypothesis could be developed. As discussed earlier, the offshore service providers were interviewed with a view to test a hypothesis that had been developed using the findings of objective two. Therefore, the philosophical stance of positivism was adopted for objective three of the study.

4.0 Research Purpose

Research projects can be divided into three categories, namely, exploratory, descriptive and explanatory research.

4.1 Exploratory Studies

Exploratory studies can be likened to investigatory projects and are useful when there is little or no information surrounding a subject area. The researcher is given an opportunity to gain a greater understanding of the subject (McNabb, 2008), and in comparison to other study methods this research design is less structured and has fewer guidelines (Richey & Klein, 2007). Adams and Schvaneveldt (1991) as cited in Saunders et al (2007) explain that this type of study initially focuses on a broad subject and will become progressively narrower as the research develops.

Whilst Richey & Klein (2007) consider the research gathered from exploratory studies as qualitative, McNabb (2008) believes the research can be either qualitative, quantitative or a combination of both. He adds that the research may arise from primary or secondary sources, both of which hold similar validity when using the exploratory study method.

Saunders et al (2007) discuss the possibility of new insights leading to a change in direction. The original subject area selected for this study was outsourcing accounting services; however the aims and objectives were broad and scattered. Consideration was given to various issues and an exploratory study method was adopted to gain a better understanding of the subject area. It soon became apparent that literature relating to SME's within the industry was limited. The exploratory study method was employed to develop the aims and objectives of the study. Furthermore, the findings established the advantages and disadvantages of outsourcing accounting services to an offshore provider as per objective one.

4.2 Descriptive studies

Descriptive studies build a picture of a situation aiming to identify and describe (McGivern, 2008). Porte (2010, p.38) defines the study method as '*the portrayal of an accurate profile of persons, events or situations*'. Typically involving large samples, descriptive studies enable opinions and attitudes to be measured (McNabb, 2008). Therefore, the method was ideal for objective two, determining how SME's perceive the risks in relation to offshore outsourcing accounting services.

The research was obtained by way of questionnaires in the form of quantitative data. The research method of surveying is a suitable for descriptive studies (Richey & Klein, 2007). Details of survey based research will be discussed further in section 5.

4.3 Cross-Sectional Design

Descriptive studies may follow either a cross-sectional design or a longitudinal design. A cross-sectional design provides a snapshot of the research study at a given point in time (McNabb, 2008). It provides a good overall picture of the position and in essence a current market view. This method is preferred by market researchers. However, its very simplicity brings about its major drawback as no time sequence can be formed (Swartjes, 2013). In relation to this study, the drawback will prevent the researcher from calculating whether the perception of outsourcing is improving or gradually worsening.

4.4 Longitudinal Studies

Longitudinal studies involve a sample, which is studied over period ranging from months to years (Nargundkar, 2008). A study of this type is intended to identify and measure the change in subject responses over the relevant period (McNabb, 2008). Cost and time are the obvious disadvantages of this approach and for that reason, a longitudinal method will not be employed for the research.

4.5 Explanatory Studies

Explanatory studies attempt to clarify the 'why' and 'how' of the relationship between two aspects of a phenomenon (Kumar, 2010). The study method can be used to develop propositions and hypotheses to conduct further research and gain a greater understanding of the issue (McGivern, 2008).

Whereas the exploratory and descriptive methods followed an inductive approach allowing the researcher to formulate a theory based on observations in the critical literature (Trochim, 2006), the explanatory study adopted a deductive approach that involved the testing of a particular theory by developing a hypothesis.

The descriptive study was beneficial for ascertaining how the risks in relation to offshore outsourcing were perceived. Using the perceptions, a hypothesis was developed and the explanatory method analysed there validity. A case study of three offshore service providers was conducted and primary research was collected via qualitative interview.

5.0 Research Strategy

A mixed method research design was used during the study and a combination of qualitative and quantitative data was collected.

The first objective of the study was to establish the advantages and disadvantages of outsourcing accounting services to an offshore provider. An exploratory study method was employed and the literature review produced qualitative data as secondary research. This provided the researcher with a broad overview of the advantages and disadvantages of outsourcing. Although the findings related to outsourcing in general and certain issues were not relevant to SME's.

Porte (2010, p.38) defines descriptive research methods as '*portraying an accurate profile of the situation*'. Using this method the study proposed to gain an understanding of how SME's perceive the risks in relation to offshore outsourcing (Objective two). Using the secondary data obtained through the exploratory study (Creswell & Clark, 2010), a questionnaire was developed to acquire primary research in the form of quantitative data.

Whilst the first objective provided a basic insight into the advantages and disadvantages of outsourcing, the second objective ascertained the perceived risks of offshore outsourcing. Using these perceptions the third objective was satisfied using a mixed method research design to support the development of a hypothesis, which was then tested using an explanatory method. A case study of three offshore service providers was conducted and primary research was collected via qualitative interviews.

For the final objective, the study will draw upon the research to make a conclusion.

5.1 Questionnaire

A questionnaire is a "general term to include all techniques of data collection in which each person is asked to respond to the same set of questions in a predetermined order" (Saunders; 2009, p.360). Questionnaires fall into the category of descriptive studies following a cross-sectional design (McNabb, 2008), as they provide a snapshot of how things are at a moment in time (Denscombe, 2007). Questionnaires can assist in identifying and describing the variability in different phenomena (Saunders et al, 2007).

To identify how SME's perceive the risks in relation to offshore outsourcing, a questionnaire was designed to obtain quantitative primary research. Questionnaires

facilitate the collection of vast data from a sizeable population and allow easy comparison (Saunders et al, 2007). The collection of the data is also highly economical as opposed to obtaining the data by way of personal interview.

5.1.1 Sample Size

For the purpose of this study it was not possible to collect data from every SME's in the country, therefore a method of sampling was employed (Saunders et al, 2007). An increased sample size will provide a more accurate representation of the population. Gravetter & Forzano (2011) consider a sample size of 25 – 30 adequate for most situations.

Postal questionnaires sent out without establishing prior contact are likely to receive a 20% response (Denscombe, 2007). Therefore, for a minimum sample size of 30, at least 150 postal questionnaires must be distributed.

5.1.2 Sampling Technique

There are various types of sampling techniques available to researchers. Probability sampling is a technique of sampling that employs arbitrary selection. In order to have a random selection method a procedure must be in place to insure that the entire population has an equal probability of being chosen (Gravetter & Forzano, 2011). To achieve probability sampling there are a number methods that can be used. This study adopted systematic sampling, a technique that involves the researcher utilising a fraction method. For instance, the sampling fraction for a sample of 10 from a population of 100 is 1/10; therefore the selection procedure would entail every tenth subject being included in the sample (Thomas, 2003).

A list of 1000 SME's was acquired from an article in the Telegraph (2011). In line with a systematic sampling method, we used the fraction of 150/1000 or 1/6 to randomly select 150 companies. Therefore, every 6th company was selected to be included in the sample.

5.1.3 Pilot Testing

Prior to being distributed the questionnaires were subjected to pilot testing using five SME's. Saunders et al (2007) state the procedure can help refine the questionnaire should any concerns surrounding the answering or recording of the questions arise. The

procedure also allows the validity and reliability to be assessed. The testing identified no major concerns; however, positive comments included professional presentation.

5.1.4 Distribution

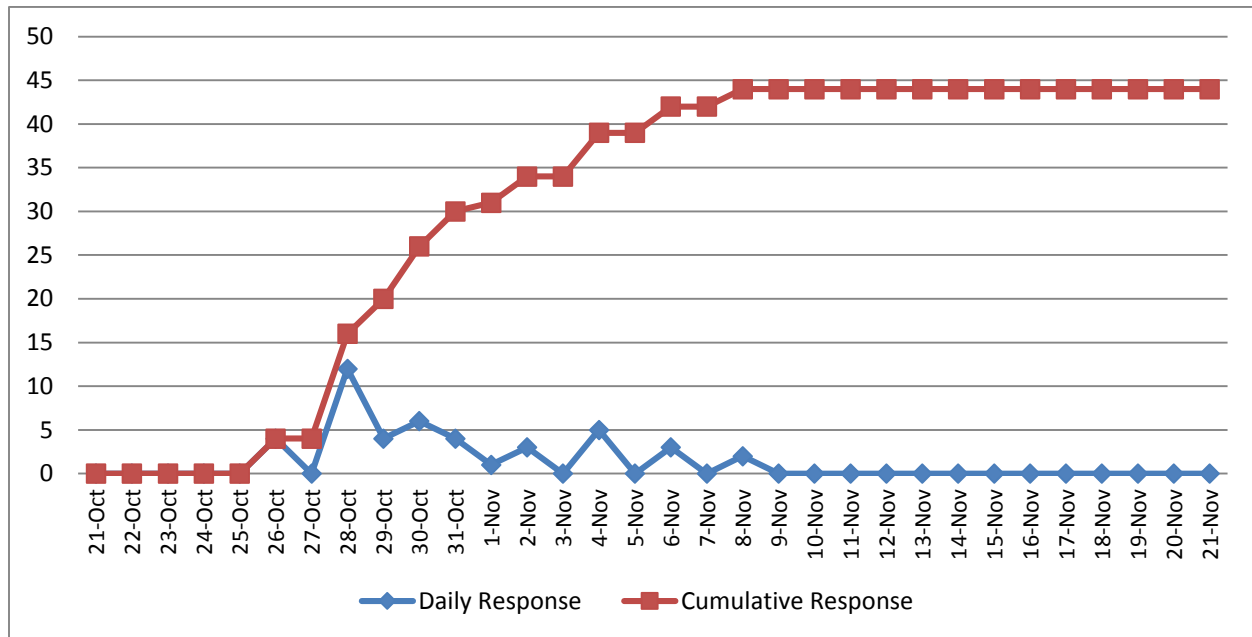
The questionnaires were distributed by post and were sent out without any prior notification. Denscombe (2007) refers to this as a cold questionnaires and explains that when sent by post, a 20% response rate can be expected. As a result, a questionnaire of this form requires a mass mailing list to counteract the low response rate. A sample size of 150 was selected as discussed in section 5.1.1.

Consideration was given to acquiring an email list of senior staff at the selected SME's, however Saunders et al (2007) suggest that some internet users frequently change their internet service providers, together with their email address. Consequently, the sampling frame may not be accurate.

The title of the study together with the University of Nottingham logo was made visible to add interest and to set questionnaire apart. Dillman (2000), as cited by Saunders et al (2007), suggested that the inclusion of these key features could help generate a higher response rate. A stamped self-addressed envelope was also attached to further increase the response rate.

De Vaus (2001) states that a questionnaire should be kept as short as possible to keep the interest of the sample whilst achieving the research objectives. The questionnaire was therefore formulated with a maximum of ten questions.

Figure 2 illustrates the daily and total number of questionnaire responses. The questionnaires were posted on 21st October 2013 and the base of the questionnaire requested a reply by 21st October 2013. Out of 150 questionnaires sent, 44 responses were received giving a 29% response rate. All of the responses were worthy of inclusion into the study.

Figure 2 Daily and Cumulative Questionnaires Returned

5.1.5 Ethics

A consent form was not sent out with the questionnaires as the process aimed to provide anonymity. The questionnaire was accompanied by a covering letter explaining the purpose of the study and that participation was voluntary. The procedure for withdrawing at a later date was also explained together with details of compliance of the Data Protection Act (1998) and the principles of the Economic and Social Research Council's framework.

No payment or reward was offered to any participant and a copy of the covering letter and questionnaire can be found in Appendix 3 & 4. The contents of the questionnaire are further discussed in Section 6.

5.2 Case Study

The qualitative interviews of three offshore outsourcing service providers yielded additional primary research. Kahn & Cannell (1957) define qualitative interviews as ‘a purposeful discussion between two or more people’ (Roettgers, 2011).

5.2.1 Sample Size

As discussed in the literature review, India is the market leader for the outsourcing industry and has therefore been selected as the offshore destination for the case study. Although larger sample sizes will yield greater accuracy, due to the issue of time and expense, a sample size of three Indian offshore providers was considered adequate.

5.2.2 Sampling Technique

The sample was selected using a simple random sampling method. This entailed a population list of 30 offshore providers being generated and numbered from 1 to 30 in sequence. The corresponding numbers were placed into a pot and three numbers were picked out at random. The companies with matching numbers were selected to be in the sample.

5.2.3 Method

The quantitative data received through questionnaires was analysed and provided an overview of how SME’s perceive the risks of offshore outsourcing. The concerns were identified and a hypothesis was developed. Using explanatory research methods, the study intended to test the hypothesis by conducting qualitative interviews with offshore service providers.

5.2.4 Purpose

The interviews were designed to ascertain whether issues such as data protection or terrorism provided a real threat to an outsourcing operation. If such issues did exist, what preventative measures outsourcing vendors had in place. The findings will be classified as primary research (Saunders et al, 2007).

5.2.5 Interview Technique

The interview process followed a semi-structured interview approach, whereby entailed the researcher prepares a list of themes or questions to be covered (Saunders et al, 2007). Saunders et al continue by saying that semi-structured interviews can be beneficial when exploring issues that have materialized from earlier questionnaires, furthermore the interview style is compatible with the explanatory study method. Mukherjee (2003) explains that semi-structured interviews provide flexibility whilst ensuring that all relevant issues are addressed. The points identified by Saunders et al and Mukherjee substantiate the reasoning behind the selection of the semi-structured interview technique.

An interview schedule was prepared which included all topics to be covered (appendix 5). The interview was conducted using open questions to avoid any form of bias (Saunders et al, 2007), which was followed by probing questions to explore the responses. Cousin (2009) describes probing as a useful tool to manage the interview and extends the definition to prolonged silences that encourage answers to be more comprehensive. Closed questions were also used to obtain information on unresolved issues.

5.2.6 Delivery Method

The interview was conducted over the telephone as the participating companies were based overseas and face to face interviews were not feasible (Saunders et al, 2007). At the end of the interviews, the participating companies were thanked for their contribution and informed on how to gain access to a copy of the interview transcript. A copy of the interview transcripts can be found in appendix 6. The interview questions are further discussed in Section 7.

5.2.7 Ethics

A consent form was obtained from all participating companies despite the process providing anonymity. The consent form was accompanied by a covering letter that highlighted the objectives of the study and details as to how these objectives will be achieved. The interviewees were made aware that participation was voluntary and reminded of the procedure to withdraw at a later date. Details of compliance with the Data Protection Act (1998) and principles of the Economic and Social Research Council's framework were also made clear. No payment or reward was offered.

6.0 Data Analysis

The primary research findings, obtained by way of questionnaires and interviews, will be presented and analysed in this section.

A descriptive research method was adopted to better understand how SME's currently perceive the risks in relation to outsourcing accounting services (Objective two). A questionnaire strategy yielded quantitative data, which has been summarised and presented using methods of descriptive statistics and graphical illustrations where applicable. An in-depth analysis with interpretations of the results will be given in the format of a narrative account (Robson, 2002).

The first seven questions were designed to acquire direct responses enabling information relating to general characteristics of the participants and the firm to be obtained. Questions eight & nine sought to identify the respondent's awareness of offshore outsourcing, whilst question ten attempts to ascertain the respondent's perception.

6.1 Questionnaire

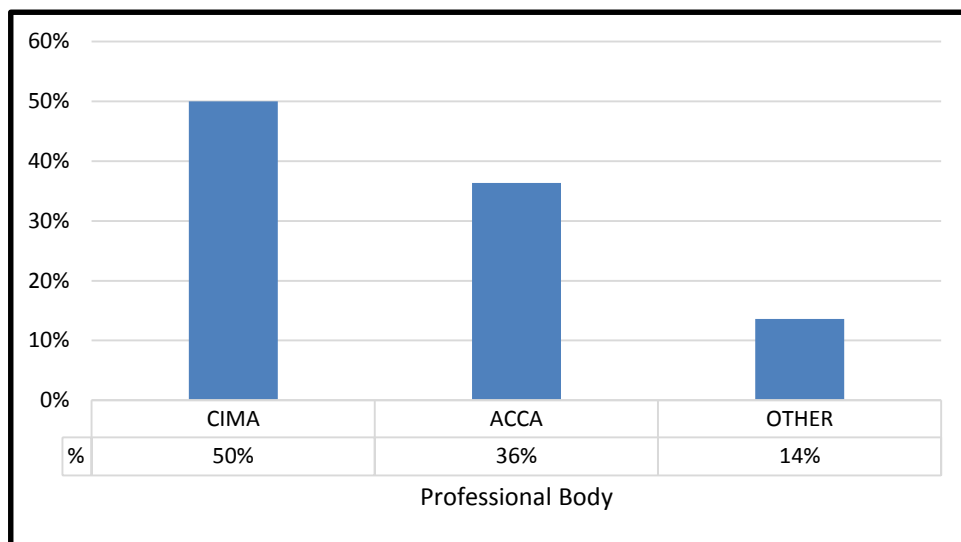
The first seven questions have been summarised to illustrate the general characteristics of the participants involved. For a more detailed description of the first seven questions please refer to Appendix 7.

6.1.1 Question 1 - Professional Body of Respondent

Question 1 seeks to establish the participant's affiliation with a professional accounting body. Essentially, the first question aimed to explore whether membership to a particular professional body had a bearing on an individual's perception towards offshore outsourcing.

Figure 3 illustrates that half of all respondents were registered members of CIMA, whilst 36% belong to ACCA and 14% belong to other bodies.

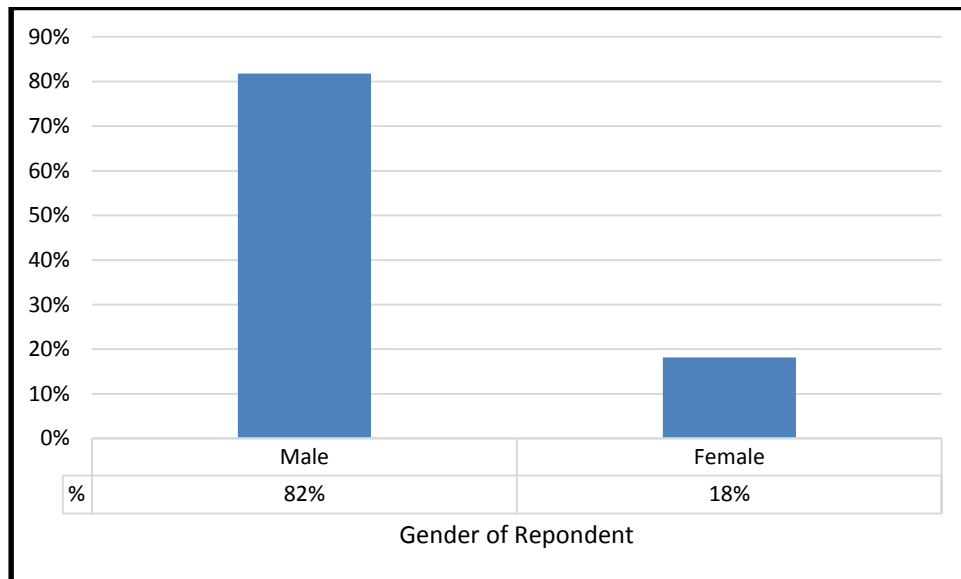
Figure 3 Professional Body of Respondent



6.1.2 Question 2 - Gender of Respondent

Question 2 seeks to establish the gender of participants, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and their gender. The majority of the sample consisted of male respondents with a female population less than one fifth.

Figure 4 **Gender of Respondent**



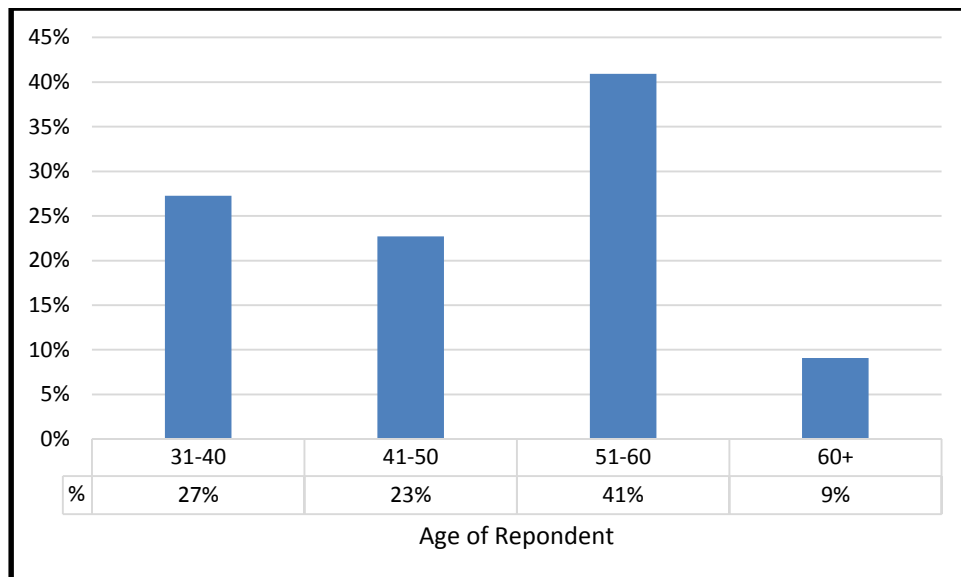
6.1.3 Question 3 - Age of Respondent

Question 3 seeks to establish the age group of participants, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and their age.

The most popular age group for respondents was between 51 and 60 years (41%) whilst the two groups between 31 and 50 years shared exactly half the sample population. Only 9% were over aged 60 and not a single respondent was aged 30 or under.

The average age for respondents was calculated at 48 years (Appendix 8). This suggests that the questionnaires were completed by individuals holding a position of seniority within the company, as opposed to office juniors or personal assistants, thereby enhancing the credibility of the research.

Figure 5 Age of Respondent

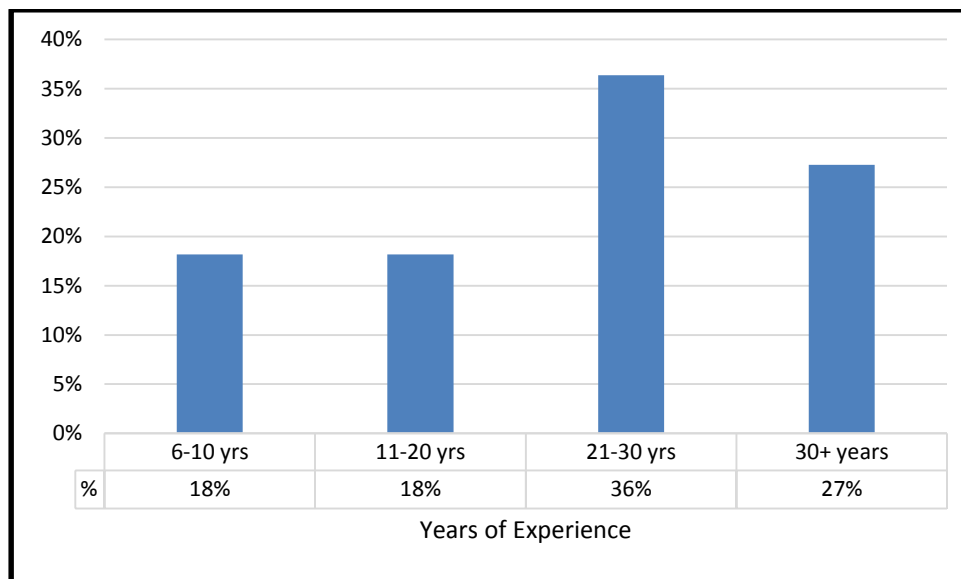


6.1.4 Question 4 - Experience of Respondent

Question 4 seeks to establish the years of accounting experience for the participants, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and the number of years they have spent within the industry.

There were no participants with experience of less than 6 years, whilst over 60% had at least 21 years' experience. The data revealed the average years of experience as 23 years (Appendix 8) and again enhanced the credibility of the study by suggesting that the respondents held a position of seniority within the company.

Figure 6 Experience of Respondent



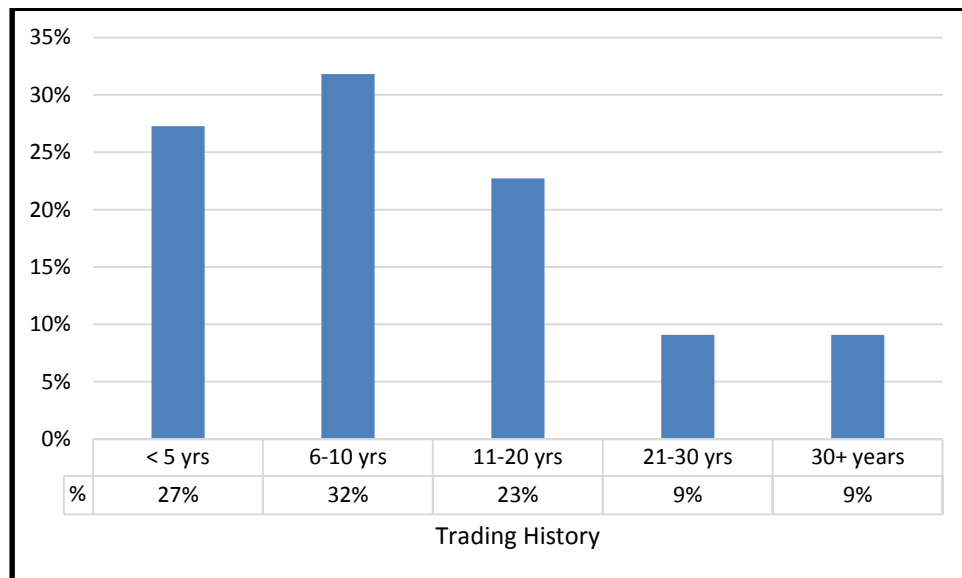
6.1.5 Question 5 - Trading History

Question 5 seeks to establish the trading history of SME's, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and the number of years their firm had been trading.

The responses varied in relation to trading history, with periods fluctuating from less than 5 years to over 30 years. The variable data adds value to the study by suggesting that the questionnaires were completed by a range of firms.

The data revealed an average trading history of 13 years (Appendix 8).

Figure 7 Trading History



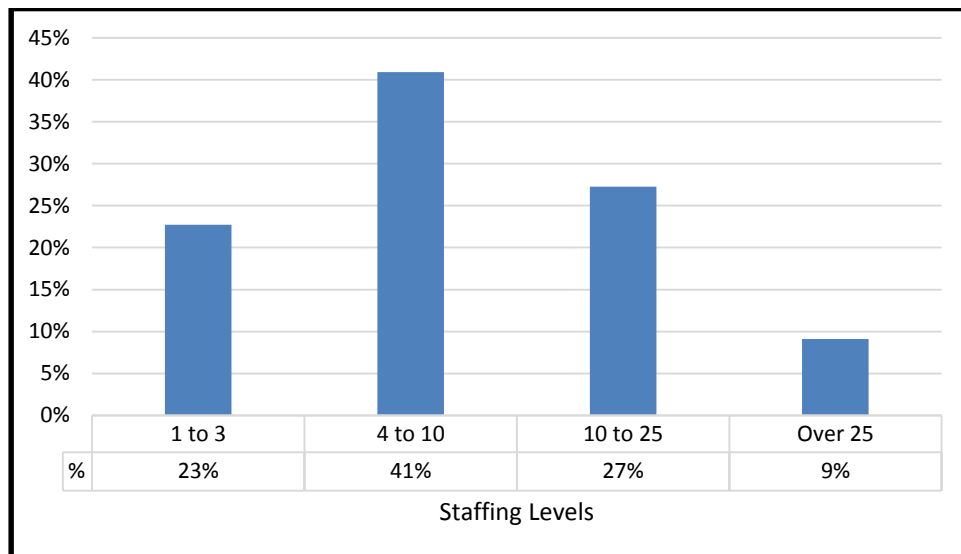
6.1.6 Question 6 – Number of Employees

Question 6 seeks to establish the staffing levels of SME's, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and the staff levels of the firm.

Over 90% of respondents belong to companies with staffing levels of less than 25 employees. This strengthens the assertion that the data obtained reflects the perception of smaller firms. The varying results add further value to the study by suggesting that the questionnaires were completed by a range of practices with varied business models.

The data revealed an average staffing level of 5 employees (Appendix 8).

Figure 8 Staffing Levels



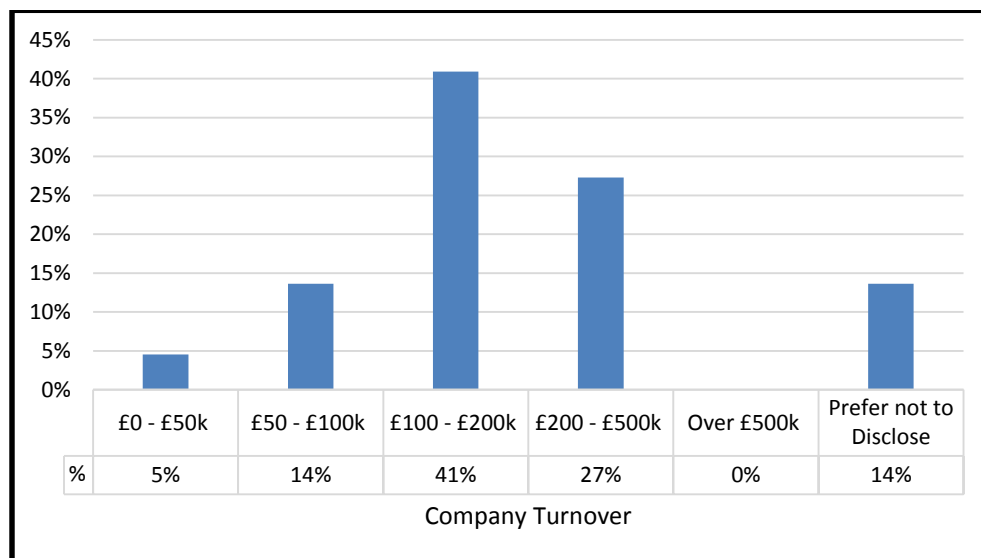
6.1.7 Question 7 - Turnover

Question 7 seeks to establish the turnover of SME's involved, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and the company turnover.

Less than 20% of respondents belong to companies with turnover less than £100k, whilst 14% preferred not to disclose turnover figures. The most popular turnover bracket was £100k to £200k (41%) with just over a quarter of respondents belong to companies with turnover between £200k and £500k. There were no respondents with turnover in excess of £500k.

This again suggests that the perception is of smaller firms and further increases the credibility of the data acquired. The data revealed an average turnover of £194737 (Appendix 8).

Figure 9 Turnover

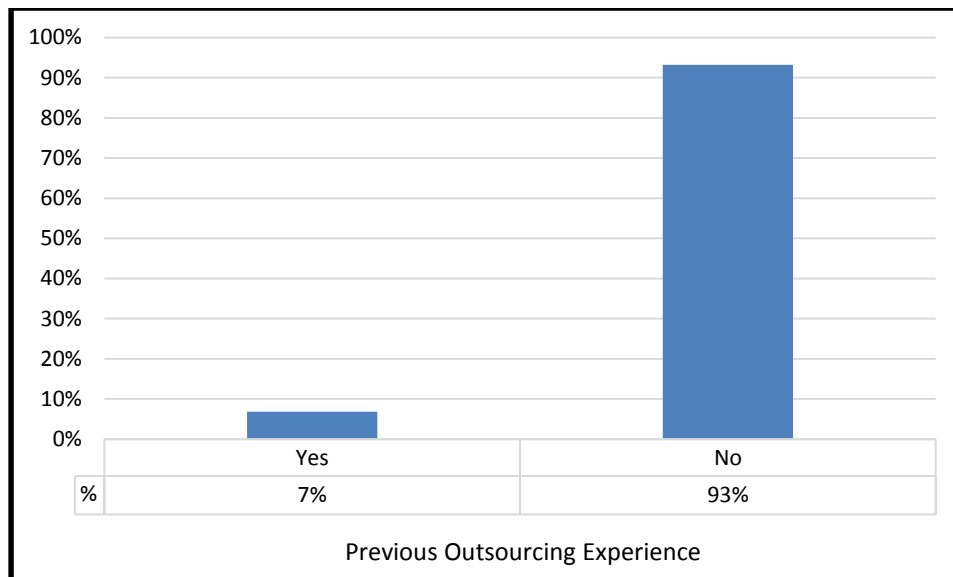


6.1.8 Question 8 - Previous Outsourcing Experience

Question 8 establishes which of the responding companies had previous accounting outsourcing experience. Over 90% of responding companies have not attempted to outsource any accounting.

This question was followed by another question, subject to the answer. Those respondents that answered yes to having previous outsourcing experience, were asked to rate the overall success of the project. Consequently, those respondents that answered no were asked if they would consider outsourcing basic accounting practices.

Figure 10 Previous Outsourcing Experience



6.1.9 Question 8a – Success of Outsourcing Project

Question 8a seeks to establish how the companies that have previous outsourcing experience appraise the overall success of the project. The 7% of companies that have previous outsourcing experience consisted of a mere three companies. Due to this limited population analysis will be very difficult and any conclusion drawn could be inaccurate. Further research is required in relation to the success of outsourcing operations.

6.1.10 Question 8b - Would you Consider Outsourcing?

Question 8b seeks to establish whether the companies with no experience of outsourcing would consider outsourcing basic accounting practices. Of the 93% of companies that had no experience of outsourcing basic accounting practices, 85% stated they would not consider outsourcing, with only 15% open to the concept.

6.1.11 Question 9 - Awareness of Offshore Outsourcing Opportunities

Objective two requires the identification of how SME's perceive the risks in relation to offshore outsourcing. Apprehension towards outsourcing could be a possible hypothesis or alternatively it could be a lack of awareness. The study will endeavour to understand reasoning behind this phenomenon.

Question 9 seeks to establish whether UK firms are aware of the outsourcing opportunities available to smaller firms.

Figure 11 Awareness of Offshore Outsourcing Opportunities

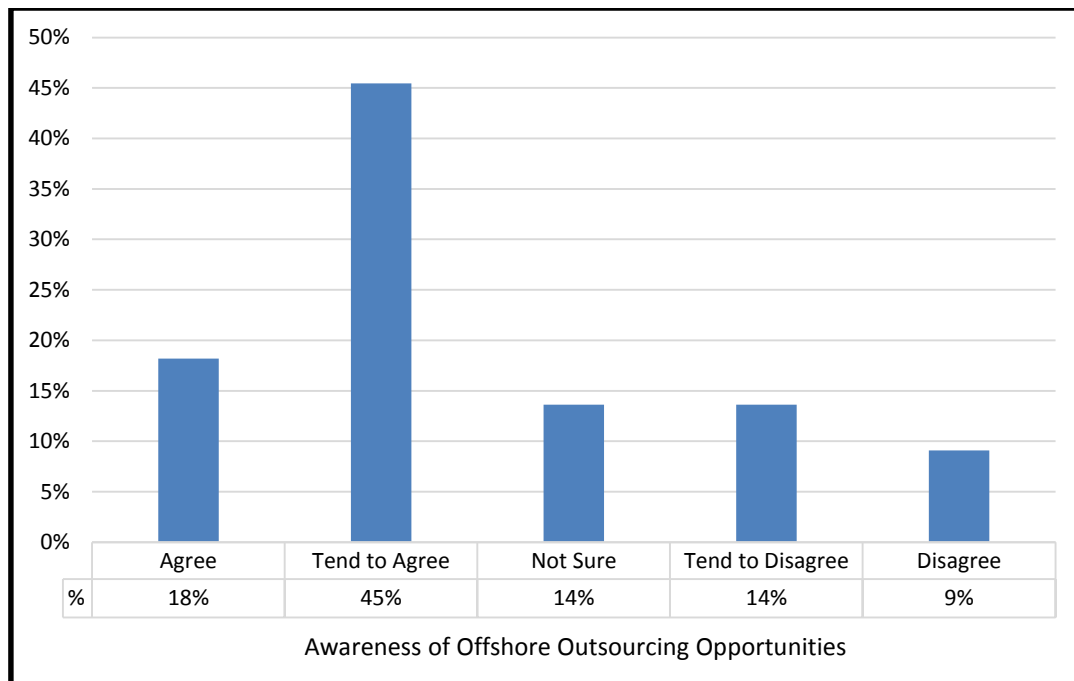


Figure 11 illustrates that over 60% of respondents agree or tend to agree with the statement that they are aware of the offshore outsourcing opportunities available to them, with less than a quarter disagreeing in some form. The results suggest that most respondents were aware of the current outsourcing industry and services available. The suggestion of companies not outsourcing work due to a lack of awareness, as suggested in section 6.1.10, is proved incorrect.

6.1.12 Question 10a - Issues with Language Barrier

Question 10 was designed to identify how the participants would respond to a variety of outsourcing risks. These risks were originally identified and documented during the exploratory literature review. Furthermore they were included in the questionnaires and each participant was asked to select a response in line with their perception.

Question 10a establishes whether UK SME's consider the language barrier to be an issue when outsourcing to an offshore location. Language issues received a contradicting appraisal during the literature review. Esteemed author Mark Kobayashi-Hillary (2005) advocated the quality of English language amongst the Indian workforce, whilst an online article in Outsource Magazine argued that heavy use of acronyms, local jargon and the high tempo of speech made Indian English incomprehensible to Westerners (www.outsourcemagazine.co.uk, 2013).

Figure 12 Issues with Language Barrier

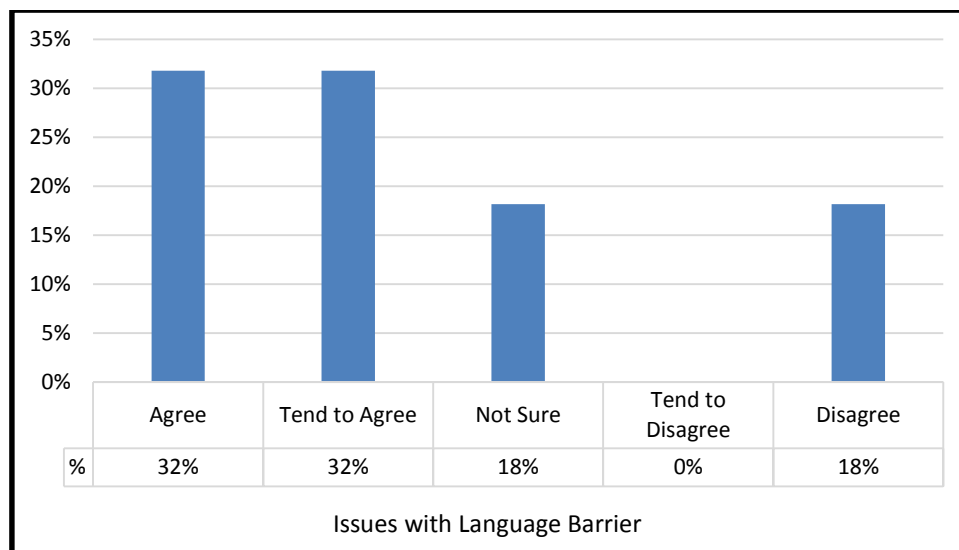


Figure 12 illustrates that over 60% of respondents perceive the language barrier as a problematic issue for outsourcing, with less than one fifth disagreeing in some form. The results suggest that most respondents consider outsourcing workers to have substandard English language skills.

Despite India investing significant amounts of money in education and Indian universities (www.grasshopper.com, 2013) and India being on the verge of becoming the world's largest English speaking nation (Plunkett, 2009), the results suggest that the language barrier will act as a deterrent for most companies considering outsourcing opportunities.

6.1.13 Question 10b - Risks to Security & Confidentiality of Information

Question 10b establishes which firms consider security and confidentiality of information to be an issue when outsourcing to an offshore location. As India does not meet the same legal framework for protecting data as the UK, an issue arises representing a concern for UK companies. India relies entirely on an industry code of practice and currently has no statutory foundation to act a deterrent against data protection offences (Green; 2006).

Figure 13 Risks to Security & Confidentiality of Information

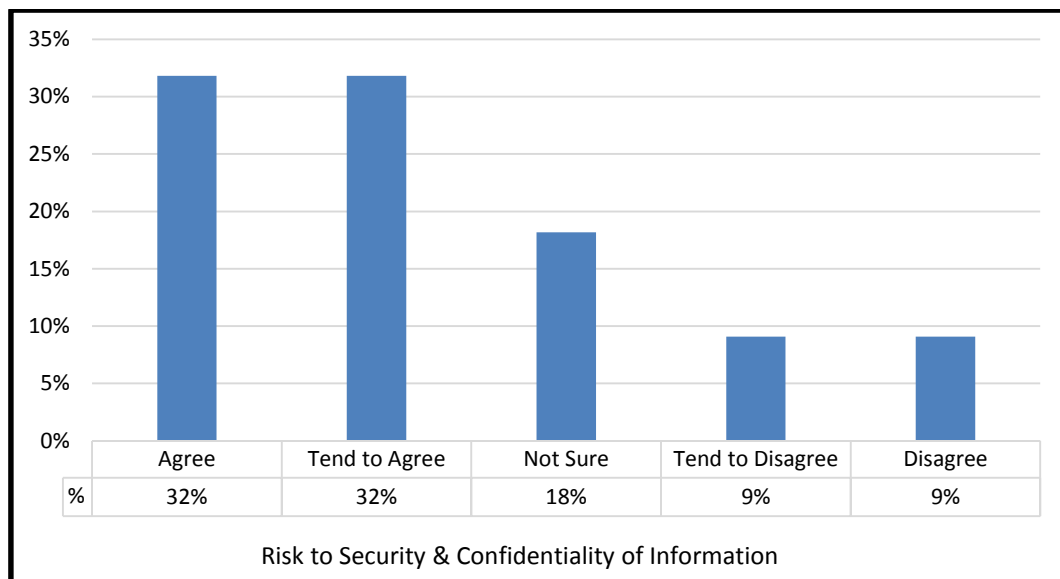


Figure 13 illustrates that over 60% of respondents perceive there to be a risk to security & confidentiality of information when offshore outsourcing, with less than one fifth disagreeing in some form. The results suggest that most respondents are of the opinion that offshore providers are unable to safeguard confidential information.

This coincides with the point raised by Vamsee Tirukklala during literature review. She states that despite Indian companies claiming to be secure, thefts still seem to occur (www.outsourcing-center.com, 2005).

Bridget Treacy, a specialist in data protection law adds that UK companies cannot outsource their compliance obligation and will be held responsible under UK data protection laws (www.silicon.com, 2010). This will no doubt raise apprehension amongst firms considering outsourcing.

6.1.14 Question 10c - Substandard Quality of Work

Question 10c establishes whether UK SME's consider quality of work as an issue when outsourcing to an offshore location.

Hunter (2006) argues that as well as offering low cost labour, India has gained a reputation of being able to provide a high quality service. The earlier example of Indian call centres averaging 7.5 calls per minute, in comparison to just three calls per minute for their American counterparts, supports Hunter's theory of India offering increased efficiency.

Figure 14 Substandard Quality of Work

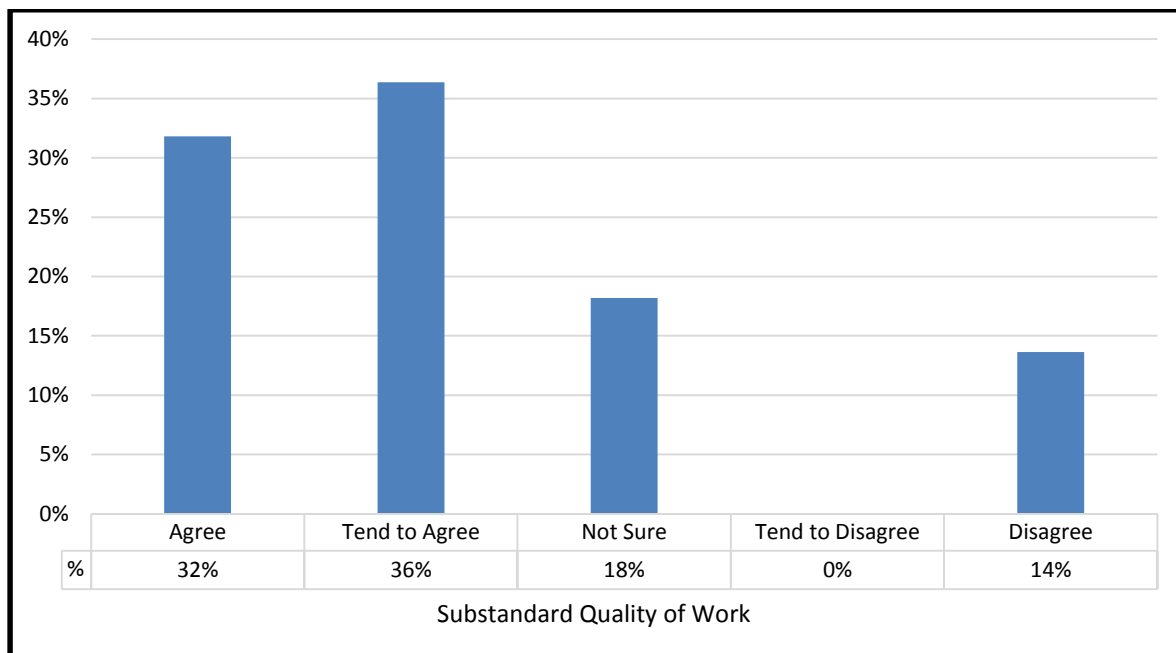


Figure 14 however illustrates that almost 70% of respondents perceive that offshore outsourcing will result in a substandard quality of work, with less than 15% disagreeing in some form. The results suggest that respondents are not confident in the ability of offshore service providers to satisfy the quality of work required.

An argument by Langfield-Smith et al (2000) supports the apprehensive stance made by the respondents. They go on to say that outsourcing can also lead to a loss of control over important functions. For example, if a firm reduced staffing levels and began to outsource all accounts work, they would no longer be able to control the quality of that function.

Rivard & Aubert (2009) agree and add that if the quality of service deteriorated, transposing the decision could create complications.

A theory by Jenster (2005) disagrees with the perception that outsourcing will reduce the quality; in fact on the contrary Jenster's theory in relation to specialisation and the learning curve effect argues that outsourcing will increase quality and efficiency. Jenster explains that specialisation causes an increase in the quantity and quality of tasks being completed when people concentrate on their skill set. The theory suggests that due to accountants from smaller firms undertaking a variety of accounting services, they do not gain the benefit of specialisation. Therefore, if specialisation reduces the time taken to complete a task, a firm may benefit from outsourcing menial tasks, as the time taken to complete these tasks would be reduced. This is supported by call centre example used above.

A point made Kakabadse & Kakabadse (2002) and Weerakkody et al (2003) follows on from Jenster's theory. They suggest the time saved by outsourcing basic tasks will create additional time for focusing on core competencies. By outsourcing menial tasks such as payroll for example, companies can focus their efforts on core business activities.

6.1.15 Question 10d - Disruptions to Service

Question 10d establishes whether UK SME's consider natural disaster, war or terrorism likely to affect the ability of an offshore provider. The geographic location of India increases the countries vulnerability to a natural disaster. Within the last decade India has suffered from floods, earthquakes and Tsunamis, all of which are likely to affect the ability of an offshore service provider. Terrorism also provides a risk to businesses with India experiencing more than 20 confirmed terror attacks in 2008 including the Mumbai attack. Consequently outsourcing customers have highlighted this as a concern (www.ezinearticles.com, 2008).

The conflict with Pakistan over the region of Kashmir has been ongoing since 1947 and the two countries have been to war four times between 1947 and 1999 (Sathasivam; 2005). If the conflict resumed it is highly likely that outsourcing operations would be affected together with India's reputation as a provider (Hunter; 2006).

Figure 15 Disruptions to Service due to Natural Disaster, War or Terrorism

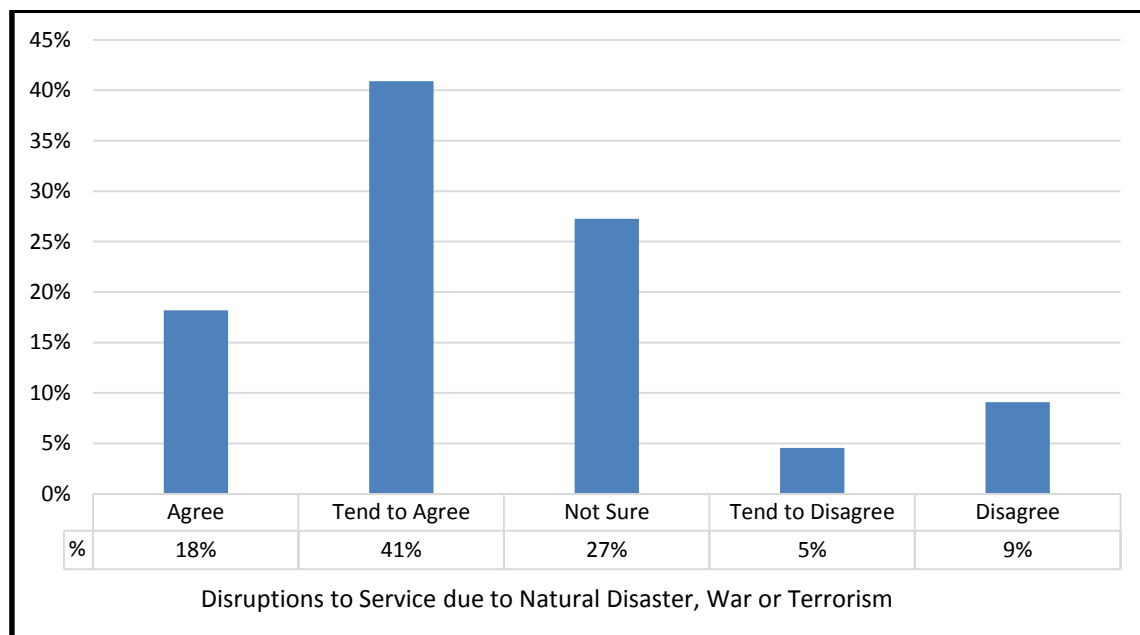


Figure 15 illustrates that almost 60% of respondents perceive that a natural disaster, war or terrorist attack would be likely to disrupt the service offered by an offshore provider. The results suggest that the susceptibility of these events will act as a deterrent.

As discussed earlier in the literature review India suffered an earthquake in 2001 measuring 6.9 on the Richter scale and claiming the lives of almost 20000 people. Kobayashi-Hillary (2005) point corresponds with that of the respondents when he discusses the Indian government's inability to coordinate a relief operation, which was severely criticised at the time. Mumbai was also affected by monsoon floods in 2005 that brought the city to standstill and killed over 1000 people in the region. Airports, rail networks and highways were closed together with all telecoms within the region. Issues like these are likely to raise concerns amongst potential outsourcers and justify the results in Figure 15

The threat of terrorism has also raised concerns over India in recent years. Foreign companies are aware that a potential attack could affect the delivery of any service outsourced. Terrorists targeted the city of Bangalore in 2005, with the Indian government finding evidence to that disrupting the outsourcing industry was the objective of terrorists (www.cio.com, 2006).

Although outsourcing firms are now upgrading their security networks in an effort to protect themselves and the interests of their clients (www.zdnetasia.com, 2008), UK businesses are not convinced.

6.1.16 Question 10e - Mistreatment of Overseas Employees

Question 10e establishes whether firms consider the mistreatment of overseas employees as an issue when outsourcing to an offshore location.

The rapid growth of the outsourcing industry has been held responsible for affecting the health of its workforce, with Indian workers suffering from obesity, sleep disorder, depression and broken relationships (www.silicon.com; 2009). The issue of safety has also been raised following the rape of a women, employed within the outsourcing industry, who was returning home after a nightshift. (www.time.com, 2013).

Figure 16 Mistreatment of Overseas Employees

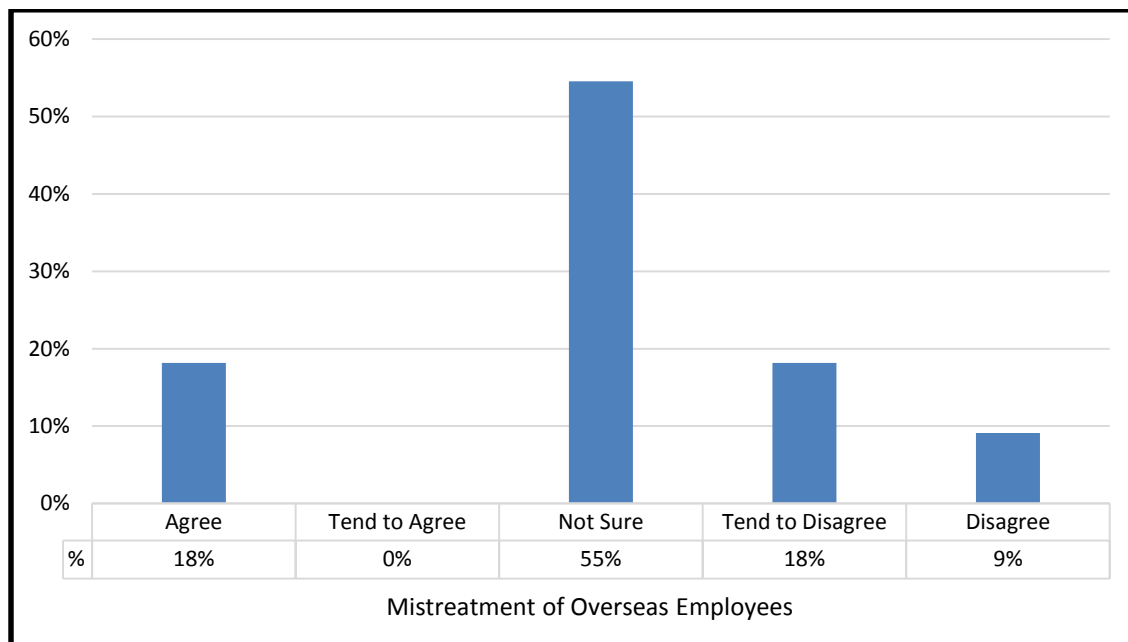


Figure 16 illustrates that over half of the respondents were unsure whether the mistreatment of overseas employees could be an issue. Only 18% indicated any level of concern with 27% disagreeing in some form. The results suggest that most companies are unaware how this variable could affect an outsourcing operation.

Although many authors including Sreenivas (2006), Trippon (2008) and Swaminathan (2009) believe that the workforce in India is highly efficient and motivated, Saritha Rai states the rapid growth of the Indian outsourcing industry is beginning to take its toll on its workers with many developing illnesses. These issues may impede the ability of vendors to provide an efficient service (www.silicon.com; 2009).

6.1.17 Comparing the Outsourcing Risks

The data gathered via the questionnaires has so far been presented individually. To compare the perceived outsourcing risks, Figure 17 has combined the data from Questions 10a-10e.

Figure 17 Comparing the Outsourcing Risks

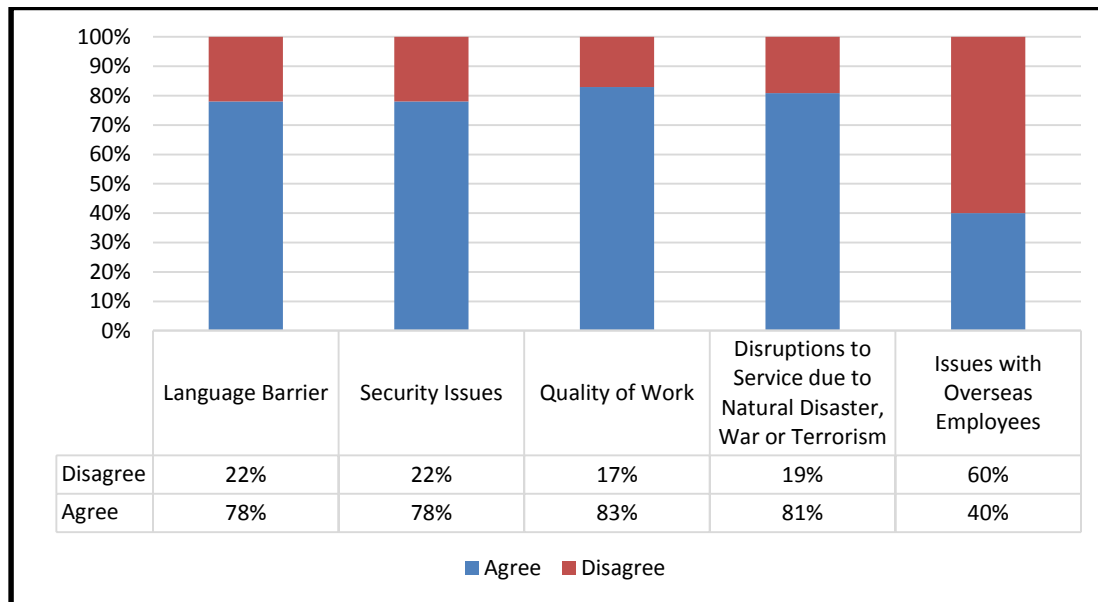


Figure 17 illustrates that the perception of the first four variables are very consistent each of which had no less than three quarters of respondents indicating a level of concern. A mere 40% consider mistreatment of overseas employees to be an issue.

The data in Figure 17 only includes responses that agreed or disagreed in some form. Those that selected the 'not sure' option were omitted.

6.2 Hypothesis

The perceived risks identified in the questionnaires supported the development of the following hypothesis. Question 8 recognises that very few companies have previous experience in outsourcing and further establishes that 85% would not consider the option of outsourcing. Question 9 ascertained that most companies were aware of the outsourcing options available to SME's. Objective two of the study entailed identifying how SME's perceive the risks of offshore outsourcing. The study acknowledges that whilst the majority of companies are aware of outsourcing options, 85% would not consider the option of outsourcing. The results suggest that firms are reluctant on the concept of outsourcing.

Using the initial exploratory literature review the study recognised a common list of factors that can affect an outsourcing project. Question 10 clarified firms perceive these factors in relation to outsourcing.

Respondents consider outsourcing workers to have substandard English language skills, although they do not feel that the welfare of these workers would be likely to affect the provision of services. There is little confidence in the ability of offshore services providers to satisfy the quality of work required and maintain security of confidential information.

Finally the vulnerability of natural disasters, the prospect of war and the threat of terrorism was recognised as a deterrent for firms.

7.0 Interviews

The purpose of objective three was to identify the preventative measures put in place by outsourcing service providers, to reduce the risks identified in this study.

To test the hypothesis developed, primary research was collected by way of qualitative interviews on three offshore services providers from India.

The five topics to covered were, -

- i. Issues with Language Barrier
- ii. Risk to Security & Confidentiality of Information
- iii. Substandard Quality of Work
- iv. Disruptions to Service due to Natural Disaster, War or Terrorism
- v. Mistreatment of Overseas Employees

7.1 Issues with Language Barrier

The hypothesis to be tested suggests that SME's perceive outsourcing workers to substandard English language skills. An article in Outsource magazine agrees that English spoken internationally is very different from the English spoken in India. (www.outsourcemagazine.co.uk, 2013).

The offshore providers that participated in the interviews did not consider the language barrier to be an issue within the industry. In addition, none of the interviewees revealed any experiences of customers raising an issue in relation to a language barrier.

The interviewees claimed that Indian outsourcing workers have an excellent standard of English; furthermore the recruitment of Indian graduates with fluent English is 'very easy'; partly because graduates in India must complete an English course as part of their university education. This coincides with the literature stating that India has invested significant amounts of money in education (www.grasshopper.com. 2013) and the view of outsourcing expert Kobayashi-Hillary (2005) who states that the quality of English language amongst the Indian workforce is excellent.

Objective 3 aims to establish the preventative measures offshore providers have in place to reduce the risks identified. Offshore service providers utilise language training & periodic tests as such a measure.

7.2 Risks to Security & Confidentiality of Information

The hypothesis to be tested suggests that SME's do not consider offshore providers capable of managing the security & confidentiality of information. Vamsee Tirukklala agreed back in 2005, suggesting Indian companies claim to be secure but thefts still seem to occur (Bhaowat, 2005)

The companies that participated in the interviews did not consider security to be an issue and claimed that security was yet to be breached.

The results suggest that service providers are confident with the level of security in place. The preventative measures (Objective 3) service providers have taken to reduce the associated risks include,-

- Restricted entry to workspace
- CCTV coverage
- Monitoring internal emails
- External emails settings invalidated
- Exclusion of USB drives and CDs from the offices
- 24hr Security guards
- Mobiles & other electronic gadgets prohibited
- Initiation of paperless working environment

The measures introduced seem positive and furthermore are supported by the assertion made in literature review, implying the anxiety surrounding data protection has led to Indian vendors implementing very tight security procedures (www.silicon.com, 2010)

7.3 Substandard Quality of Work

The hypothesis to be tested suggests that small UK SME's are not convinced that offshore services providers could supply the quality of work required. This view is shared by online blogger Svetlana Gladkova, who argues that many companies have already had bad experiences with off-shoring to India and the seemingly low prices often resulted in very poor quality (www.profy.com, 2009). Rivard & Aubert (2009) consider the possibility of quality deteriorating over time, in which case transposing an outsourcing decision can be very complex and expensive

The participating companies did not consider the issue relevant as they were confident with the standard of quality offered and none of the interviewees had experienced a situation where a customer had indicated displeasure with the quality of work.

Service providers are using internal controls to uphold a particular standard of quality. One company used a system of regular appraisals to monitor the quality of the work. The participating company claimed the results were positive and illustrated that quality was 'constantly improving'. The data supports the theory of Jenster (2005) who argues that outsourcing will increase quality and efficiency.

Another company was using a quality control system that ensured each project went through three control stages as follows,

Stage 1	Completion of work
Stage 2	Line supervisor conducts quality checks
Stage 3	Senior accountant conducts quality checks

These measures have been implemented to reduce the risks associated with quality of work (Objective 3).

7.4 Disruptions to Service due to Natural Disaster, War or Terrorism

The hypothesis to be tested suggests that the vulnerability of natural disasters, the risk of war and the threat of terrorism, all act as a deterrent for SME's. The literature review uncovered sources to support the apprehensive attitude of companies outsourcing to India. For example,

- I. Issues discussed by Kobayashi-Hillary (2005) highlighting how an earthquake and monsoon floods brought the city of Mumbai to a standstill.
- II. The highly publicised terror attacks in Bangalore and Mumbai (www.cio.com, 2006).
- III. The media publicising that the outsourcing industry was the target of the terrorists (www.cio.com, 2006).
- IV. The historical conflict with Pakistan (Hunter; 2006).

The offshore companies did not consider the issues relevant and were confident with the preventative measures in place. None of the interviewees had experienced a situation where any such incident had affected the service offered by the company.

The preventative measures (Objective 3) consisted of external servers used to back-up client data on a daily basis. An online article discussed in the literature review confirms that offshore providers are backing up client data to an offsite location (www.silicon.com, 2008). However, the same article suggests these offshore companies are setting up command centres that will become active in the event of a terrorist attack and co-ordinate the safety of its employees, assets and operations. None of the interviewees were aware of a contingency plan in place in the event of a terrorist attack. Although all of the participating companies had more than one office and claimed in the event of an incident rendering an office out of commission, an alternative office will be available to continue the supply of the service.

7.5 Mistreatment of Overseas Employees

The hypothesis to be tested suggests that SME's do not consider mistreatment of outsourcing employees to be an issue. In contrast, the literature review discovered an article by Saritha Rai in which she claimed the growth of the outsourcing industry was beginning to take its toll on its workforce and consequently workers were developing illnesses (www.silicon.com; 2009).

The participating companies claimed to be satisfied with level of welfare offered to their employees. Offshore providers have introduced a number preventative measures to reduce the potential risks (Objective 3). For example, one company provided all employees with medical insurance and savings policies. An onsite doctor was also employed and additional benefits included a free dental check-up. All participating companies provided refreshments and healthy snacks at work, along with a daily meal. These measures are likely to counteract the employee welfare issues raised Saritha Rai.

Transportation to and from home is now also being provided by all participating companies. This is most likely in response to an incident where a worker from the outsourcing industry was raped; furthermore it adheres to the stipulation made by New Delhi Police Department (www.time.com, 2013).

A summary of the telephone interviews can be viewed under appendix 6.

8.0 Conclusion

The final objective (4) of the study will relate to drawing conclusions based upon offshore outsourcing and SME's. This section will provide a conclusion for each of the objectives. Limitations of the study, together with recommendations will also be highlighted.

The aim of the study is intended to gain an understanding of how SME's perceived the risks of offshore outsourcing, as well as identifying the advantages and disadvantages. Upon establishing the perceptions, the study aims to explore how the offshore providers manage these risks.

8.1 Objectives One

Objective One was designed to establish and evaluate the advantages and disadvantages of offshore outsourcing for SME's.

The literature review recognised cost savings as the primary motive behind companies' outsourcing their internal operations. However it was argued that the cost of labour in countries like India was on the rise. This was corroborated by figures from the Indian manufacturing industry demonstrating a 20% increase in the average salary for last year.

As well as offering low cost labour, India has gained a reputation of being able to provide a high quality service, although some opponents of outsourcing argue that the seemingly low prices often result in poor quality work.

If the quality of service offered by an offshore provider deteriorated, or the prices were significantly increased, the outsourcing of fundamental business activities could result in difficulties for the firms. Transposing a decision to outsource can create difficulties and a similar situation would arise if an offshore service provider were to cease trading.

Outsourcing has been identified as offering flexibility for companies with varying workload. For example, during a quiet period a company may have more employees than work or alternatively a busy period may result in business being turned away. SME's that struggle to accommodate this variation can utilise the flexible staffing levels that outsourcing has to offer. Furthermore, outsourcing non-core routine tasks has been known to generate additional time for companies to focus their efforts on core competencies.

Outsourcing can affect employee morale and consequently influence productivity, loyalty and trust. Employee morale is only affected if there is a risk of redundancies, therefore utilising outsourcing for an expansion, as opposed to increasing staffing levels, would be unlikely to cause a drop in morale. Expenditure on additional assets would also be avoided, improving firm liquidity.

India has invested significant amounts of money in education and Indian universities currently offer some of the most comprehensive curriculums available. The combination of India's growing population, together with the widespread education of the English language, India is not far from becoming the world's largest English speaking nation. Opponents of outsourcing argue that English spoken internationally is very different from the English spoken in India and the heavy use of acronyms, local jargon and high tempo of speech can make Indian English incomprehensible to Westerners.

The risk of natural disaster is another factor likely to hinder the attractiveness of India as an offshore destination. India has endured a number of natural disasters that brought parts of the country to a standstill. The threat of terrorism has also raised concerns over India in recent years with India experiencing more than 20 confirmed terror attacks in 2008. The literature review found that foreign companies were concerned with how potential attacks could affect the delivery of any service outsourced. India's historical conflict with Pakistan is another factor that could affect outsourcing operations.

It has been established that the geographical location of India brings forth a number of disadvantages. However the very location offers the UK an overnight service due to the +05.30 hour time difference. Therefore any job sent at close of business (GMT) will be received in India five and half hours before the offices in the UK open for business, enabling work to be completed when UK offices are closed.

Data protection produces further issues, as India does not meet the same legal framework for protecting data as the UK. India relies entirely on an industry code of practice with no statutory foundation to act a deterrent against data protection offences. The literature review discovered conflicting opinions concerning the ability of outsourcing service providers to protect security and confidentiality of information.

Although the general workforce in India is considered to highly efficient and motivated the Indian outsourcing industry has experienced a number of issues. There have been reports of workers suffering from health issues arising from long hours, tight deadlines and disrupted eating and sleep patterns.

The literature review found many opponents of offshore outsourcing that believe jobs going abroad will damage the economy. In contrast, others argue that the positive effect of GDP neutralises the negative impact.

8.2 Objective Two

Objective two identified how SME's perceive the risks in relation to offshore outsourcing.

The study concludes that whilst most SME's do not have previous outsourcing experience, the vast majority would not consider the option of outsourcing. The study considered the possibility that the perception was based on a lack of awareness, although however the data suggested the most SME's were fully aware of the outsourcing options available them.

SME's consider outsourcing workers to have poor English language skills, although they do not feel that the welfare of these workers would be likely to affect the provision of a service. Firms are not very confident in the ability of offshore services providers to supply that quality of work required, nor do they consider them capable of managing the security of confidential information. The vulnerability of natural disasters, the prospect of war and the threat of terrorism will act as a deterrent for UK companies.

8.3 Objective Three

Objective three explored the preventative measures outsourcing service providers have in place to reduce the risks identified in objective two, namely,

- i. Issues with Language Barrier
- ii. Risk to Security & Confidentiality of Information
- iii. Substandard Quality of Work
- iv. Disruptions to Service due to Natural Disaster, War or Terrorism
- v. Mistreatment of Overseas Employees

The study concluded that offshore providers were using language training with a combination of written and verbal tests, as a preventative measure against the risks associated with the language barrier

To prevent breaches in security, offshore providers have implemented very tight safeguards. Measures include access being restricted to the workplace that is covered by

CCTV and has 24 hour security guards. Mobile phones and other electronic gadgets, in addition to CD's and USB sticks, have been prohibited. Internal emails are monitored and external email settings have been invalidated. Security was further enhanced with the introduction of a paperless working environment, prohibiting workers from making notes on paper.

Service providers utilise internal controls as a precaution against poor quality. An example includes a system of regular appraisals monitoring the quality of the work completed. Another company described a three stage quality control process.

To counteract the risk of natural disasters, possibility of war and the threat of terrorism offshore providers were using external servers to back up client data on a daily basis. The literature review acknowledged that a number of offshore providers have established command centres which will become active in the event of a terrorist attack and co-ordinate the safety of its employees, assets and operations. However none of the interviewees were aware of a contingency plan in place in the event of a terrorist attack. Although all of the participating companies had more than one office and claimed in the event of an incident rendering an office unusable, an alternative office will be available to continue the supply of the service.

Offshore providers have introduced a number preventative measures to reduce the potential associated risks with the mistreatment staff. The companies were providing refreshments and healthy snacks at work along with a daily meal. These measures are likely to counteract the issues raised by Saritha Rai relating to employee welfare. An onsite doctor and free dental check-ups were also made available.

Companies are also providing transportation to and from home for all employees to increase safety.

8.4 Objective Four

On final note the study can conclude that offshore outsourcing can produce a number of variables, which can provide both advantages and disadvantages. Each of these variables must be considered in relation to the firm and their industry.

SME's appear to be uninterested in the opportunity of offshore outsourcing and have indicated concerns with various issues. Outsourcing service providers appear to have taken the necessary preventative measures to eliminate the identified risks, however the market perception remains negative.

8.5 Limitations

There are a number of factors that could limit the findings in the study. For example, with the global recession affecting commerce within the UK, SME's may be delaying the consideration of outsourcing options. The cross-sectional study design provided further a limitation as the method provides a snapshot of the current perception. A longitudinal design would have involved a study over a greater period of time, thereby measuring the change in perception during the period of the recession. Although disregarded due to constraints on time and cost, this method would have revealed whether confidence was increasing or worsening.

Other limitations include the lack of literature surrounding offshore outsourcing for SME's, which may be the foundation for the inaccurate perception. The offshore providers also disclosed a series of preventative measures to reduce the risks associated to outsourcing. The efficiency of these measures is yet to be validated. Consideration should also be given to the service providers' subjective the opinion.

The sample for data collection via questionnaires was selected from an online article, which may not show a true representation of SME's.

8.6 Recommendations

Further research is recommended as qualitative interviews with a sample of SME's, conducted using a longitudinal design, would help identify the deeper issues causing the negative perceptions towards offshore outsourcing. A thorough physical inspection of preventative measures introduced by offshore providers would increase value to the subject area.

Question 8a of the questionnaires intended to establish how SME's with previous outsourcing experience appraised the overall process. Although some responding companies confirmed having previous outsourcing experience, the sample consisted of a small population and an accurate analysis became near impossible. Further research establishing the success of outsourcing projects for SME's also is recommended.

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11 Appendices

11.1 Appendix 1 – Types of Outsourcing

Business Process Outsourcing

Business process outsourcing (BPO) involves operations and responsibilities of specific business processes being contracted to a third-party service provider. BPO typically includes internal business functions such as payroll, human resources, accounting, customer services and call centres. (www.business-outsourcing.co.uk, 2013).

BPO is not limited to a specific business process, in fact it can comprise business processes from any business function (Weth; 2007, p.6)

Information Technology Outsourcing

Information Technology Outsourcing (ITO) involves sub-contracting certain information technology functions to external companies, instead of keeping those functions in-house.

Bainbridge (2007, p.327) explains that ITO can range from a simple contract involving the running of a client's computer, to a far more advance deal where the contractor takes complete responsibility for all of the clients information technology operations.

The most popular IT functions to outsource include data centre operations, disaster recovery and e-commerce systems. According to recent survey conducted by the Gartner Group the use of IT outsourcing is likely to grow. The survey found that 85% of companies plan to increase or maintain their spending with offshore service providers when the economy stabilises. (www.itmanagement.earthweb.com, 2010)

Legal Process Outsourcing

Legal process outsourcing (LPO) has been defined as the acquisition of legal support services from an external legal service provider. (www.manthanlegal.com, 2013)

Legal process outsourcing (LPO) has become a growing industry with functions like filing affidavits and patent applications being subcontracted to outsourcing service providers. (www.technicalservicesatseymourhunter.com, 2013)

Knowledge Process Outsourcing

Knowledge process outsourcing (KPO) is an extension of Business Processing Outsourcing (www.kposervice.com, 2013). However whereas BPO is associated with low level menial tasks, KPO entails highly specialised work (www.kpoexperts.com, 2013)

KPO involves the offshore outsourcing of 'high-end' processes that require specialist expertise. Examples of these processes include research and development, insurance underwriting and risk assessment, financial analysis, data mining, investment research, statistical analysis, engineering and design, animation, graphics simulation, medical services, clinical trials, and many more (www.mondaq.com, 2010)

11.2 Appendix 2 – Plus HR Costing Example

Table 1 Example of Internal HR Department (Costs over a three year period)

Description	3 Year Cost	Notes
HR Manager	£144,400	£40k salary plus benefits & NIC
Part-time HR Administrator	£50,400	£24k salary plus benefits & NIC
Part-time Payroll Administrator	£50,400	£14k salary plus benefits & NIC
Recruitment	£23,400	Based on recruiting once over 3 yrs
Temp Staff	£9,000	To cover holidays and sickness
Training & Professional Memberships	£14,000	
Office space and PCs	£25,000	Based on three employees
HR and Payroll system licence	£10,000	An up-to-date HR & payroll system
System implementation and customisation	£10,000	
System annual maintenance / support fees	£6,000	
Server, hosting & IT support for system	£18,000	
Total	£364,200	

(www.plushr.com, 2013)

Table 2 Example of Outsourcing HR Department (Costs over a three year period)

Description	3 Year Cost
HR Management	£90,000
HR, Health & Safety and Benefits Administration	£39,000
Web-based HR System with employee / manager self-service and workflows	£15,000
Payroll	£18,000
Total	£162,000

(www.plushr.com, 2013)

Based on the examples above the total savings over a three year period for a company with 100 employees would be,

In-house costs	£364,200
Outsourced costs	<u>£162,000</u>
Total savings	<u>£202,200</u>

11.3 Appendix 3 – Letter sent with Questionnaires

Name

Address

Re: Dissertation Case Study

Dear Sir/Madam,

I am an MBA student at the University of Nottingham, currently in my final year. As part of my course I am conducting a piece of research titled 'Outsourcing Accounting Services'. The study will examine the current market awareness of offshore outsourcing opportunities available to small and medium sized enterprises, as well as the associated advantages and disadvantages.

I have attached a questionnaire that will form part of my research. I would be grateful if you could spend a few minutes to complete the questionnaire. The process is voluntary and you are free to refuse to answer any questions.

Once the research has been gathered and the study complete, I will prepare the final report. Please note that your company name would remain anonymous throughout the report and you would have the right to withdraw from the study at any point, up until 10th December 2013. If you wish to receive a copy of the report or you wish to withdraw from the study, please contact me using the above details, quoting the unique reference number on the questionnaire.

I can confirm that I shall be only person to have access to the raw data. Furthermore I shall comply with the Data Protection Act (1998) and the Economic and Social Research Council's Framework. A self-addressed envelope has been enclosed for your convenience.

I would like to take this opportunity to thank you for your time. I look forward to hearing from you.

Yours faithfully,

Kam Aujla

11.3 Appendix 4 – Questionnaire

Offshore Outsourcing Accounting Services: Questionnaire



To be completed by finance department

Please tick the appropriate box where required:

1. Are you a chartered accountant?
 - a. If so, which professional body are you a member of?

<input type="checkbox"/> ICAEW	<input type="checkbox"/> ACCA	<input type="checkbox"/> CIMA
<input type="checkbox"/> ICAS	<input type="checkbox"/> CIPFA	<input type="checkbox"/> Other (please specify)
2. What is your gender?

<input type="checkbox"/> Male	<input type="checkbox"/> Female	<input type="checkbox"/> Prefer not to disclose
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3. How old are you?

<input type="checkbox"/> 30 or under	<input type="checkbox"/> 31 – 40	<input type="checkbox"/> 41 - 50
<input type="checkbox"/> 51 - 60	<input type="checkbox"/> 60+	<input type="checkbox"/> Prefer not to disclose
4. How many years of finance experience do you have?

<input type="checkbox"/> 0 – 5 years	<input type="checkbox"/> 6 – 10 years	<input type="checkbox"/> 11 – 20 years
<input type="checkbox"/> 21 – 30 years	<input type="checkbox"/> 30+ years	<input type="checkbox"/> Prefer not to disclose
5. How many years has your company been trading?

<input type="checkbox"/> 0 – 5 years	<input type="checkbox"/> 6 – 10 years	<input type="checkbox"/> 11 – 20 years
<input type="checkbox"/> 21 – 30 years	<input type="checkbox"/> 30+ years	<input type="checkbox"/> Prefer not to disclose
6. How many staff does your company currently employ?

<input type="checkbox"/> 1 – 3	<input type="checkbox"/> 4 – 10
<input type="checkbox"/> 10 – 25	<input type="checkbox"/> Over 26
7. What is your current company turnover?

<input type="checkbox"/> Up to £50k	<input type="checkbox"/> £50k – £100k	<input type="checkbox"/> £100k – £200k
<input type="checkbox"/> £200k – £500k	<input type="checkbox"/> Over £500k	<input type="checkbox"/> Prefer not to disclose
8. Has your company ever outsourced basic accounting practices?

<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Prefer not to disclose
------------------------------	-----------------------------	---

- a. If yes, how would you rate the success of the overall process?
- | | | |
|---|---|-----------------------------------|
| <input type="checkbox"/> Very effective | <input type="checkbox"/> Effective | <input type="checkbox"/> Not sure |
| <input type="checkbox"/> Ineffective | <input type="checkbox"/> Very ineffective | <input type="checkbox"/> N/A |
- b. If no, would you consider the option of outsourcing basic accounting practices?
- | | | |
|------------------------------|-----------------------------|---|
| <input type="checkbox"/> Yes | <input type="checkbox"/> No | <input type="checkbox"/> Prefer not to disclose |
|------------------------------|-----------------------------|---|

For the following statements please tick the box that matches your view most closely,

9. I am fully aware of all offshore outsourcing options available to your practice?

Agree	tend to agree	Not sure	Tend to disagree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

10. Which of the following negative perceptions do you associate with offshore outsourcing?

- a. Issues with the language barrier

Agree	tend to agree	Not sure	Tend to disagree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- b. Risk to the security and confidentiality of client information

Agree	tend to agree	Not sure	Tend to disagree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- c. Quality of work

Agree	tend to agree	Not sure	Tend to disagree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- d. Disruptions due to natural disaster, war or terrorism

Agree	tend to agree	Not sure	Tend to disagree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

- e. Issues with mistreatment of overseas employees

Agree	tend to agree	Not sure	Tend to disagree	Disagree
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please use the box below to talk about your views on offshore outsourcing alongside any other comments you may have.

A large, empty rectangular box with a thin black border, intended for the respondent to write their views on offshore outsourcing and any other comments.

Thank you for taking the time to complete this questionnaire.

11.5 Appendix 5 – Interview Schedule

Interview # ?

Topics to be covered include;

- 1. Issues with Language Barrier**

- 2. Risk to Security & Confidentiality of Information**

- 3. Substandard Quality of Work**

- 4. Disruptions to Service due to Natural Disaster, War or Terrorism**

- 5. Mistreatment of Overseas Employees**

11.6 Appendix 6 – Interview Transcripts

Interview # 1

Date: 27.11.13

Topics to be covered include;

1. *Issues with Language Barrier*
2. *Risk to Security & Confidentiality of Information*
3. *Substandard Quality of Work*
4. *Disruptions to Service due to Natural Disaster, War or Terrorism*
5. *Mistreatment of Overseas Employees*

Issues with Language Barrier

Interviewer *Do you consider the language barrier to be an issue when outsourcing?*

Interviewee *I do not consider the language barrier to be an issue within the accounting outsourcing industry, as the recruitment process specifies excellent English language skills....rigorous tests are carried out to examine the written and verbal skills of the employee. All employees must have at least a university degree to work in the industry, with some staff having master and even MBA's. Generally, finding staff with fluent English is very easy in India.*

Interviewer Are there any requirements for university graduates to have a standard of English?

Interviewee Yes, every graduate must complete an English course as part of the degree.... and most standard degrees must be completed in the English language.

Interviewer Do you offer any training courses to staff?

Interviewee Yes, internal language training is offered all year round... this includes verbal and writing skills. External training is offered once a year and is designed to improve the weaknesses in staff.

Interviewer Have you experienced any issues from customers in relation to language barrier?

Interviewee No..... not to my knowledge

Risk to Security & Confidentiality of Information

Interviewer *Do you consider Security & Confidentiality of Information to be an issue when outsourcing?*

Interviewee *No.... we are a UK registered company and follow the data protection laws. The entire industry has increased security measures to reduce customer concern.*

Interviewer *What security measures has your company taken?*

Interviewee *We have restricted entry onto the work-floor, which is covered by camera. Internal emails are also monitored and workers are not allowed to send external emails. Printouts cannot be taken home and the use of USB drives and CDs has been stopped.*

Interviewer Have you experienced any issues from customers in relation to Security?

Interviewee No

Substandard Quality of Work

Interviewer *Do you consider Quality of Work to be an issue when outsourcing?*

Interviewee *No.... Clients have always given us positive feedback in relation to quality and we have high retention rate... so we must be keeping our customers happy. Our standard of service is appraised on regular basis and results have shown that we are constantly improving.*

Interviewer Have you experienced any issues from customers in relation to quality?

Interviewee No... during my seven years with the company I cannot recall a single incident.

Disruptions to Service due to Natural Disaster, War or Terrorism

Interviewer *Do you consider Disruptions to Service due to Natural Disaster, War or Terrorism, to be an issue when outsourcing?*

Interviewee No..... we back up data on a daily basis to an external server... in the event on an incident the client's data is safe.

Interviewer Would your company be able to continue providing an efficient service in the event of an incident.

Interviewee Well we have two offices 100 kilometres apart.....if office affected by an incident we can transfer all operations to the second office.

Interviewer Do you have a contingency plan in the event of terrorist act?

Interviewee No...we have not felt the need to do so.

Interviewer Have you experienced any disruptions so far?

Interviewee No... so far our service has been unaffected.

Mistreatment of Overseas Employees

Interviewer *Do you consider Mistreatment of Overseas Employees to be an issue when outsourcing?*

Interviewee No.....our employees are very well looked after. We provide refreshments onsite and one meal is provided daily. Transportation is also arranged to and from work for employees. This is provided free of charge by the company.

Interviewer Have you experienced any issue so far?

Interviewee No.... internal surveys suggest that our employees are very happy

11.6.2 Interview Transcript

Interview # 2

Date: 27.11.13

Topics to be covered include;

1. *Issues with Language Barrier*
2. *Risk to Security & Confidentiality of Information*
3. *Substandard Quality of Work*
4. *Disruptions to Service due to Natural Disaster, War or Terrorism*
5. *Mistreatment of Overseas Employees*

Issues with Language Barrier

Interviewer *Do you consider the language barrier to be an issue when outsourcing?*

Interviewee No.... the standard of English in this part of India is very good. All of our employees must speak very fluent English.

Interviewer Do you require all applicants to have a university degree when apply for a job?

Interviewee Yes, all employees must have a degree and supervisor must have a masters.

Interviewer Do you offer any training courses to staff?

Interviewee Employees are given training at least once a month, which is followed a written and oral exam.

Interviewer Have you experienced any issues from customers in relation to language issues?

Interviewee No

Risk to Security & Confidentiality of Information

Interviewer *Do you consider Security & Confidentiality of Information to be an issue when outsourcing?*

Interviewee *No.... our security is very tight. We also have an office in London and comply with the data protection laws of the UK.*

Interviewer *What security measures has your company taken?*

Interviewee *We have a 24hr security guard and restricted access to the office area. No mobiles or other electronic gadgets are allowed and we work in a paperless in environment.*

Interviewer *What do you mean by 'paperless in environment'?*

Interviewee *All workings and notes must be made on the computer.... we do not allow staff to makes notes on paper. We have also prohibited the use of USB and CD's within the office.*

Interviewer *Have you experienced any issues from customers in relation to Security?*

Interviewee *No*

Substandard Quality of Work

Interviewer *Do you consider Quality of Work to be an issue when outsourcing?*

Interviewee *before sending work back to the client we have a three stages quality control process. 1st the employee completes the work, 2nd the supervisor will check the work, finally, a senior accountant with at least 15 years' experience will ensure that the quality is up to standard. This senior accounting will interact with the client.*

Interviewer *Have you experienced any issues from customers in relation to quality?*

Interviewee *No*

Disruptions to Service due to Natural Disaster, War or Terrorism

Interviewer *Do you consider Disruptions to Service due to Natural Disaster, War or Terrorism, to be an issue when outsourcing?*

Interviewee Data is backed up onto a server in America.....in event of an incident the data will be emailed automatically to the clients email address.

Interviewer Would your company be able to continue providing an efficient service in the event of an incident.

Interviewee We have two offices based in India and operations can run from locations.

Interviewer Do you have a contingency plan in the event of terrorist act?

Interviewee No...

Interviewer *What security measures do you have in place?*

Interviewee Well we have a 24hr security guard, identity guards to prevent unauthorised access and an alarm in the event of an incident.

Interviewer Have you experienced any disruptions so far?

Interviewee No.

Mistreatment of Overseas Employees

Interviewer *Do you consider Mistreatment of Overseas Employees to be an issue when outsourcing?*

Interviewee We do our best to look after of staff. We offer a medical policy, insurance policy and savings policy. We have a doctor on site and recently all employees were offered a free dental check-up.

Interviewer **Do you provide meals on site?**

Interviewee We have an onsite canteen for staff. Coffee, tea and snacks are provide free of charge to all staff.

Interviewer How long is the working day?

Interviewee Employees work nine hours per day from which they can take one hour for lunch.

Interviewer Do you provide transportation to staff?

Interviewee Yes....transportation is provide by the company. Employees are collected from and dropped off after the shift

Interviewer Have you experienced any issue so far?

Interviewee No.... internal surveys suggest that our employees are very happy

11.6.3 Interview Transcript

Interview # 3

Date: 27.11.13

Topics to be covered include;

1. *Issues with Language Barrier*
2. *Risk to Security & Confidentiality of Information*
3. *Substandard Quality of Work*
4. *Disruptions to Service due to Natural Disaster, War or Terrorism*
5. *Mistreatment of Overseas Employees*

Issues with Language Barrier

Interviewer *Do you consider the language barrier to be an issue when outsourcing?*

Interviewee No.... the standard of English in this part of India is very good. All of our employees must speak very fluent English.

Interviewer Do you require all applicants to have a university degree when apply for a job?

Interviewee Yes, all employees must have a degree and supervisor must have a masters.

Interviewer Do you offer any training courses to staff?

Interviewee Employees are given training at least once a month, which is followed a written and oral exam.

Interviewer Have you experienced any issues from customers in relation to language issues?

Interviewee No

Risk to Security & Confidentiality of Information

Interviewer *Do you consider Security & Confidentiality of Information to be an issue when outsourcing?*

Interviewee *No.... our security is very tight. We also have an office in London and comply with the data protection laws of the UK.*

Interviewer *What security measures has your company taken?*

Interviewee *We have a 24hr security guard and restricted access to the office area. No mobiles or other electronic gadgets are allowed and we work in a paperless in environment.*

Interviewer *What do you mean by 'paperless in environment'?*

Interviewee All workings and notes must be made on the computer.... we do not allow staff to makes notes on paper. We have also prohibited the use of USB and CD's within the office.

Interviewer Have you experienced any issues from customers in relation to Security?

Interviewee No

Substandard Quality of Work

Interviewer *Do you consider Quality of Work to be an issue when outsourcing?*

Interviewee *before sending work back to the client we have a three stages quality control process. 1st the employee completes the work, 2nd the supervisor will check the work, finally, a senior accountant with at least 15 years' experience will ensure that the quality is up to standard. This senior accounting will interact with the client.*

Interviewer Have you experienced any issues from customers in relation to quality?

Interviewee No

Disruptions to Service due to Natural Disaster, War or Terrorism

Interviewer *Do you consider Disruptions to Service due to Natural Disaster, War or Terrorism, to be an issue when outsourcing?*

Interviewee Data is backed up onto a server in America.....in event of an incident the data will be emailed automatically to the clients email address.

Interviewer Would your company be able to continue providing an efficient service in the event of an incident.

Interviewee We have two offices based in India and operations can run from locations.

Interviewer Do you have a contingency plan in the event of terrorist act?

Interviewee No

Interviewer *What security measures do you have in place?*

Interviewee Well we have a 24hr security guard, identity guards to prevent unauthorised access and an alarm in the event of an incident.

Interviewer Have you experienced any disruptions so far?

Interviewee No.

Mistreatment of Overseas Employees

Interviewer *Do you consider Mistreatment of Overseas Employees to be an issue when outsourcing?*

Interviewee We do our best to look after of staff. We offer a medical policy, insurance policy and savings policy. We have a doctor on site and recently all employees were offered a free dental check up.

Interviewer **Do you provide meals on site?**

Interviewee We have an onsite canteen for staff. Coffee, tea and snacks are provide free of charge to all staff.

Interviewer How long is the working day?

Interviewee Employees work nine hours per day from which they can take one hour for lunch.

Interviewer Do you provide transportation to staff?

Interviewee Yes....transportation is provided by the company. Employees are collected from and dropped off after the shift

Interviewer Have you experienced any issue so far?

Interviewee No.... internal surveys suggest that our employees are very happy

11.7 Appendix 7 – Questions (1-8)

Question 1

Question 1 seeks to establish the participant's affiliation with a professional accounting body. Essentially, the first question aimed to explore whether membership to a particular professional body had a bearing on an individual's perception towards offshore outsourcing.

Figure 18 Professional Body of Respondent

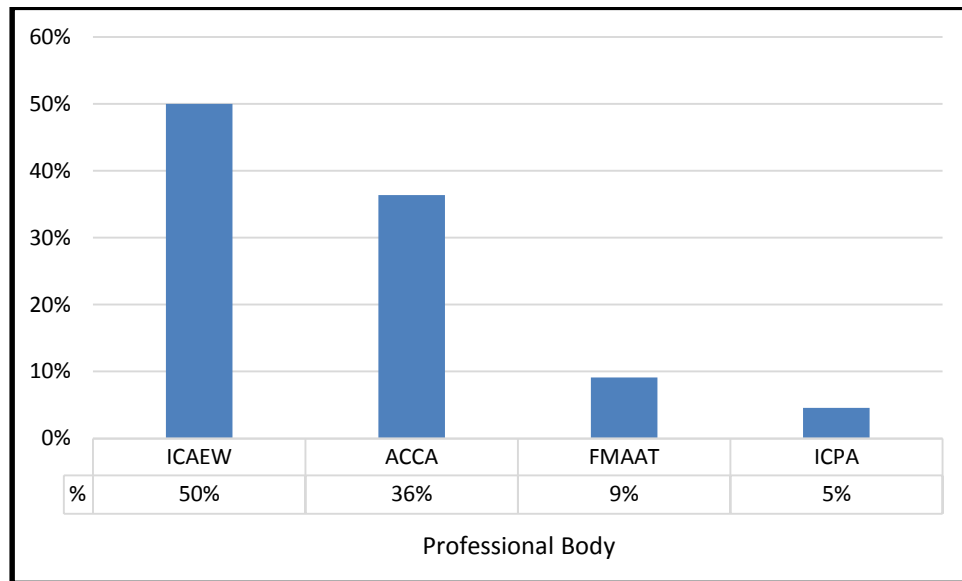


Figure 18 illustrates that half of all respondents were registered members of ICAEW, whilst 36% belong to ACCA. FMAAT and ICPA accumulated 14% between them.

Question 2

Question 2 seeks to establish the gender of participants, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and their gender.

Figure 19 Gender of Respondent

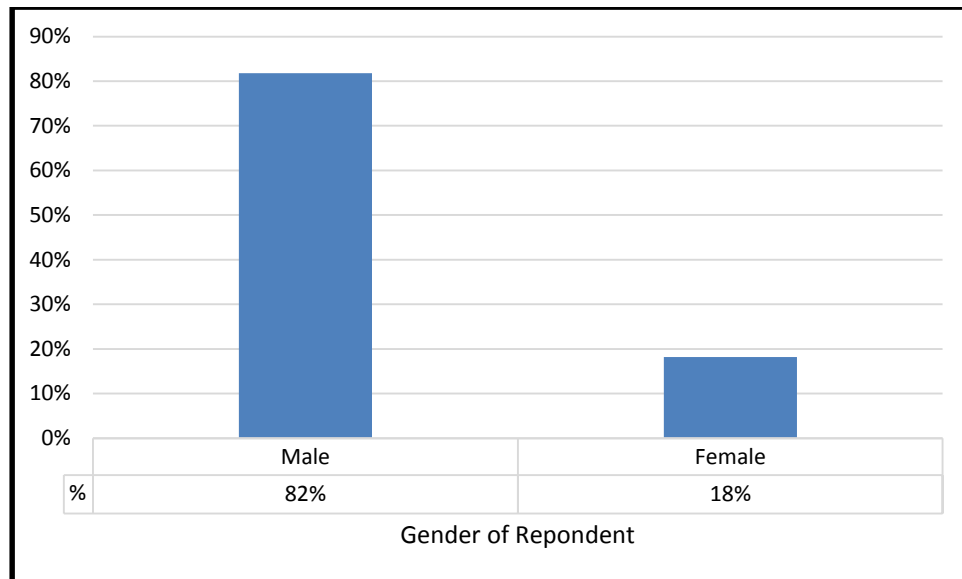


Figure 19 illustrates that the majority of the sample consisted of male respondents, with a female population less than one fifth. The contrast in gender may affect the validity of any correlation detected.

Question 3

Question 3 seeks to establish the age group of participants, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and their age.

Figure 20 Age of Respondent

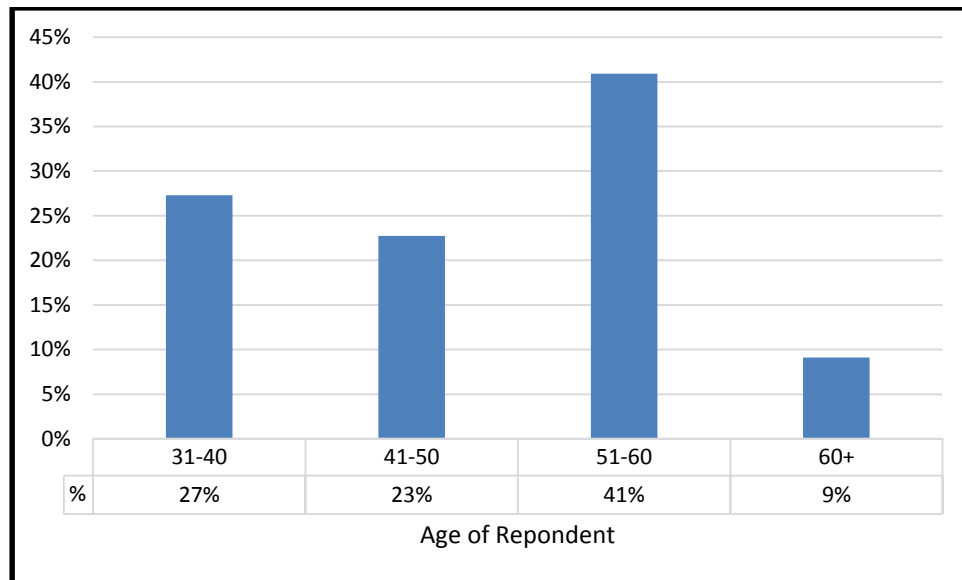


Figure 20 illustrates that the most popular age group for respondents was between 51 and 60, whilst the groups between 31 and 50 shared exactly half the sample population. Only 9% were over 60 and not a single respondent was aged between 30 or under.

The average is calculated at 48 years and suggests that the questionnaires were completed by an individual holding a position of seniority within the company, as opposed to office junior or personal assistant. As a result the credibility of the research is likely to be enhanced.

Question 4

Question 4 seeks to establish the years of accounting experience for the participants, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and the number of years they have spent within the industry.

Figure 21 Experience of Respondent

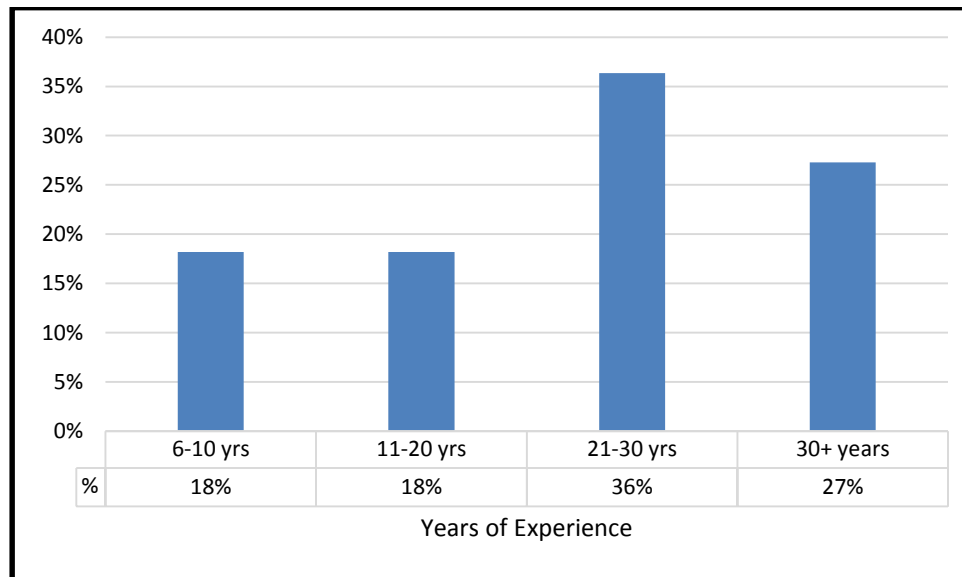


Figure 21 illustrates the how there are diverse levels of experience between the respondents; whilst it should be noted that there were no participants with experience of less than 6 years.

More than 60% had at least 21 years' experience and the data revealed the average years of experience as 23 years. This again adds value to the study by suggesting that the questionnaires were completed by an individual holding a position of seniority within the company.

Question 5

Question 5 seeks to establish the trading history of the accounting firm, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and the number of years their firm had been trading.

Figure 22 Trading History of Accounting Firm

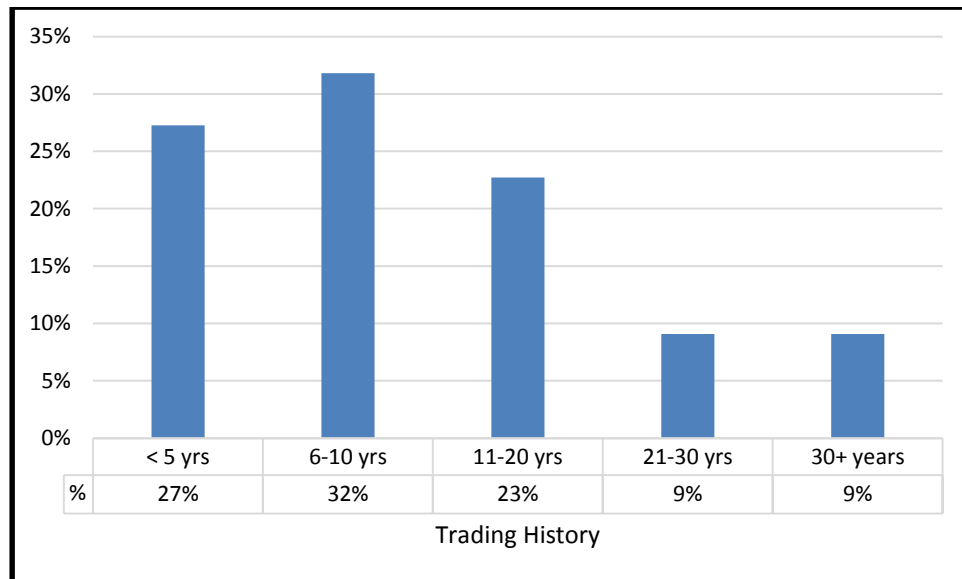


Figure 22 illustrates varied levels of trading history throughout the participants, with a time period fluctuating from less than 5 years to over 30 years. The variable data adds value to the study by suggesting that the questionnaires were completed by a range of practices.

The data revealed an average trading history of 13 years.

Question 6

Question 6 seeks to establish the accounting firms staffing levels, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and the staff levels of the firm.

Figure 23 Staffing Levels of SME's

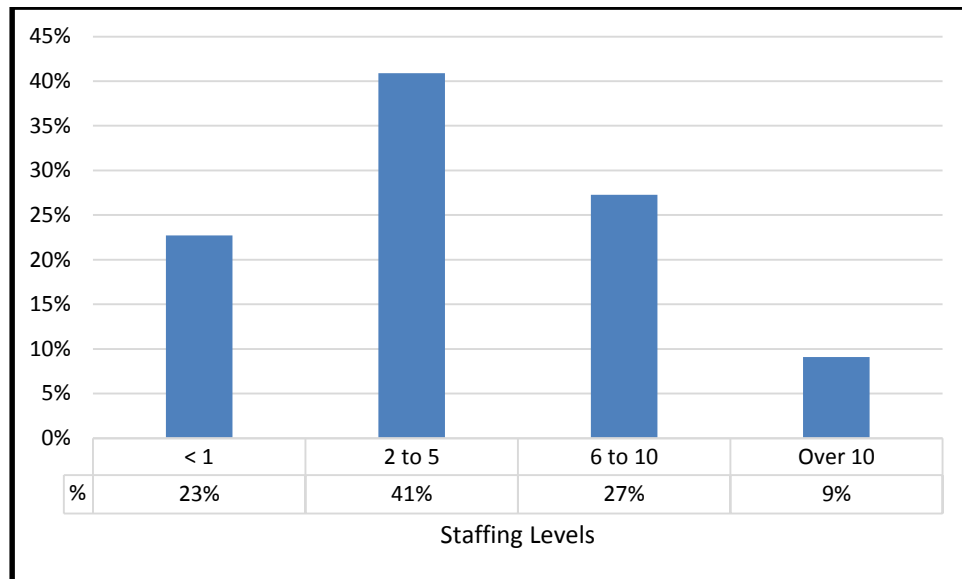


Figure 23 illustrates the staffing levels for the companies involved in the questionnaires. Over 90% of respondents belong to companies with less than 10 employees. This strengthens the assertion that the data obtained reflects the perception of smaller firms. The varying results add further value to the study by suggesting that the questionnaires were completed by a range of practices, with varied business models.

The data revealed an average staffing level of 5 employees.

Question 7

Question 7 seeks to establish turnover of the accounting firms involved, hoping to ascertain whether there was a correlation between an individual's perception of offshore outsourcing and the company turnover.

Figure 24 Turnover of SME's

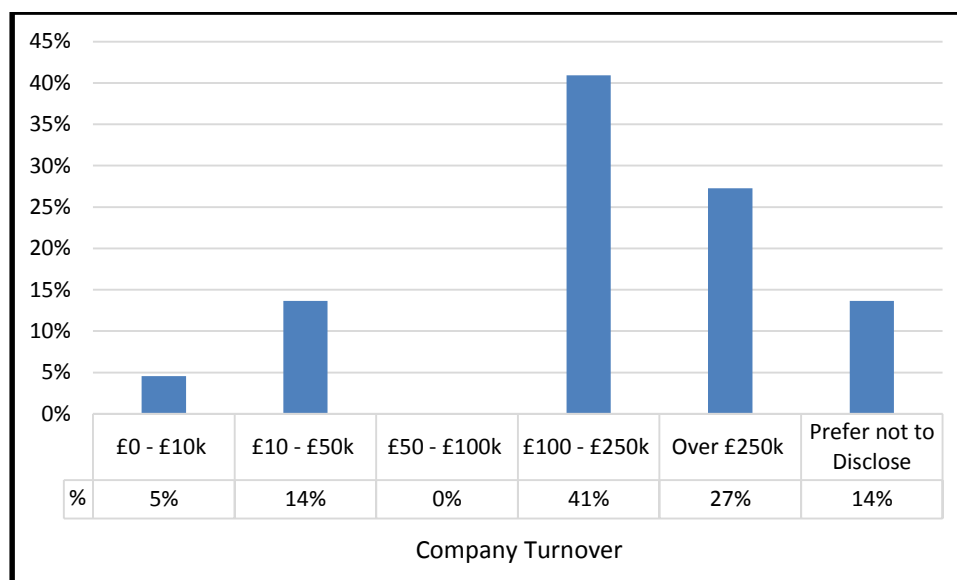


Figure 24 illustrates the turnover for the companies involved in the questionnaires. Less than 20% of respondents belong to companies with turnover less than £100k, whilst 14% preferred not to disclose turnover figures. The most popular turnover bracket was £100k to £250k, reaching the 41% figure.

Less than quarter of respondents belong to companies with turnover in excess of £250k. This again suggests the perception is that of smaller firms, further increasing the credibility of the data acquired. The data revealed an average turnover of £86k.

Question 8

Question 8 seeks to establish which of the responding companies had previous outsourcing experience relating to basic accounting practices. This question carried a follow on question depending on the answer. Those respondents that answered yes to having previous outsourcing experience, were asked to rate the overall success of the project. Consequently, those respondents that answered no were asked if they would consider outsourcing basic accounting practices.

Figure 25 Previous Outsourcing Experience

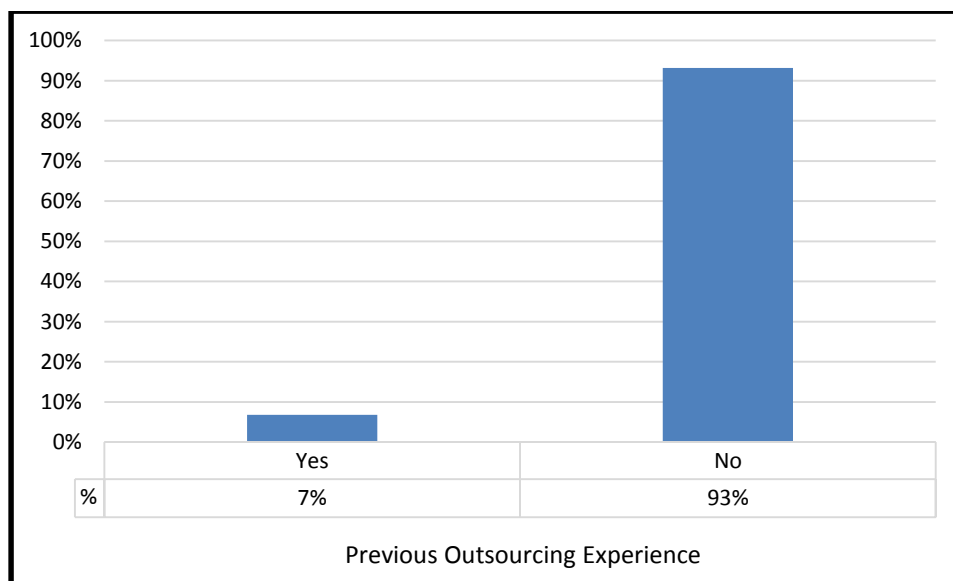


Figure 25 illustrates that 93% of responding companies have not attempted to outsource any basic accounting practices.

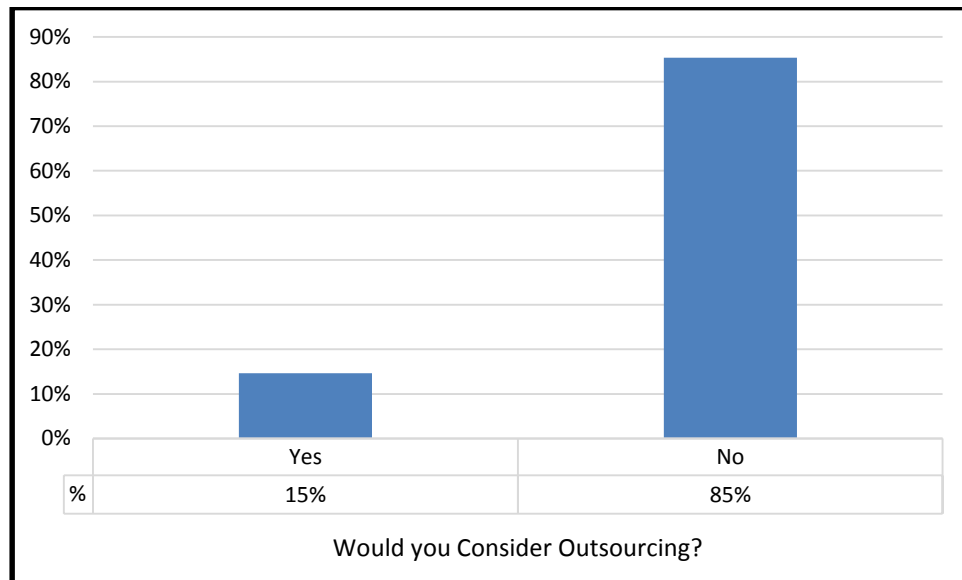
Question 8a

Question 8a seeks to establish how the companies that have previous outsourcing experience appraise the overall success of the project. The 7% of companies that have previous outsourcing experience consisted of a mere three companies. Due to this limited population analysis will be very difficult and any conclusion drawn could be inaccurate. Further research is required in relation to the success of outsourcing operations.

Question 8b

Question 8b seeks to establish whether the companies with no experience within the outsourcing industry would consider outsourcing basic accounting practices.

Figure 26 **Would you Consider Outsourcing?**



Of the 93% of companies that had no experience of outsourcing basic accounting practices, 85% stated they would not consider outsourcing, with only 15% open to the concept. Objective two involves the recognition of the current perception of smaller accountancy firms in the UK, towards offshore outsourcing. Apprehension towards outsourcing could be a possible hypothesis or alternatively it could be a lack of awareness. The study will endeavour to understand reasoning behind this phenomenon.

11.8 Appendix 8 – Averages

Average Age Calculation

Age Group	Averaging Figure	Responses %	Calculation
<30	25	0%	$25 \times 0\% = 0$
31-40	35	27%	$35 \times 27\% = 10$
41-50	45	23%	$45 \times 23\% = 10$
51-60	55	41%	$55 \times 41\% = 23$
60+	65	9%	$65 \times 9\% = 6$
			<u>48 yrs</u>

Average Experience calculation

Experience	Averaging Figure	Responses %	Calculation
6-10	7.5	18%	$7.5 \times 18\% = 1$
10-20	15	18%	$15 \times 18\% = 3$
21-30	25	36%	$25 \times 36\% = 9$
30+	35	27%	$35 \times 27\% = 10$
			<u>23 yrs</u>

Average Trading History

Trading History	Averaging Figure	Responses %	Calculation
< 5	2.5	27%	$2.5 \times 27\% = 2$
6-10	7.5	32%	$7.5 \times 32\% = 2$
10-20	15	23%	$15 \times 23\% = 3$
21-30	25	9%	$25 \times 9\% = 2$
30+	35	9%	$35 \times 9\% = 3$
			<u>13 yrs</u>

Average staffing levels

Staff	Averaging Figure	Responses %	Calculation
< 1	0.5	23%	$0.5 \times 23\% = 0.23$
2-5	3.5	41%	$3.5 \times 41\% = 1.43$
6-10	7.5	27%	$7.5 \times 27\% = 2.05$
Over 10	13	9%	$13 \times 9\% = 1.18$
			<u>4.89</u>

Average turnover levels

Turnover	Averaging Figure	Original Responses	Adjustment*	Adjusted Responses	Calculation
£0 - £50k	25k	5%	x 100/86	5.26%	25k x 5% = 1.32
£50 - £100k	75k	14%	x 100/86	15.79%	75k x 15% = 11.84
£100 - £200k	150k	41%	x 100/86	47.37%	150k x 47% = 71.05
£200 - £500k	350k	27%	x 100/86	31.58%	350k x 31% = 110.52
Over £500k	n/a	0%	x 100/86	0%	N/A
		86%		100%	194.74

**Adjustment made to account for 14% of respondents that preferred not disclose turnover figures*

11.9 Appendix 9 – Debrief Letter

SME Name
SME Address

Re : Debrief

Dear

Thank you for participating in the study of 'Outsourcing Accounting Services'. Your time and effort has been greatly appreciated and your support was invaluable towards the study.

I would like to take this opportunity to remind you that participation was voluntary and you have the right to withdraw up until 10th December 2013. I have attached a copy of the report for your perusal.

Both the Data Protection Act (1998) and the principles of the Economic and Social Research Council's framework have been complied with throughout the study.

If you have queries or concern please do not hesitate to contact me

Yours Sincerely

Kam Aujla