North American Accounting Studies
Vol. 4, No. 1
2021
PP 34-50

Is Public Accounting Eating Its Seed Corn? An Assessment of the Outsourcing of Tax Work

Timothy J. Fogarty, Case Western Reserve University
R. Drew Sellers, Kent State University
Dave Jones, Temple University

Abstract

For many years, public accounting firms have sent much of their tax compliance work to overseas centers for assembly and initial processing. This has achieved labor cost savings for the firms and is made possible by digital data conversion and the belief that the work itself has been commodified. Relocating the work that used to be done by US tax staff may have had some dysfunctional long-term consequences including inhibiting US staff skill and expertise development. This paper offers the data created by 27 interviews with US tax professionals to inform this domain. We also consider possible solutions suggested by the participants in this community of practice.

Introduction

The migration of manufacturing jobs from the US to foreign countries is a very familiar story, and a seemingly inevitable result of global capitalism. With transportation costs less consequential, corporations move work so as to reduce labor costs. Less familiar to many is the replication of this logic for the service economy, especially in its professionalized segments. Once information is digitized, it can be sent across the world where it can be organized and decisions can be made upon it. Assuming negligible losses in quality, cost savings can be attained by no longer relying upon high-cost US labor.

Taxation services have for several decades constituted one of the major lines of business for public accounting firms. Whereas only publicly traded corporations need annual audits, all corporations are required to comply with the tax law in the US. This obligation also exists for individuals and non-corporate entities. Assistance with these matters, that seemingly become inexorably more complex over time, constitutes a profitable endeavor for those with the requisite expertise.

The tax work done by public accounting firms is traditionally divided into compliance and planning objectives although these realms are not mutually exclusive. The former is designed to assist taxpayers with their current regulatory responsibilities. This may involve multiple filings with state, national and foreign governments, all of whom have claims against the income and assets of clients. The latter involve structuring future transactions so as to reduce tax liabilities in the future. Although both areas can be intricate and complex, tax planning is usually the high margin, high-value added service.

In a professional services firm, labor costs represent the lion’s share of all costs. Savings in this arena directly translate into improvements of a firm profitability. When no alternative to expensive US labor was available, firms had to absorb their consequences, which were most apparent in the situation of lower level staff who had not yet reached productivity levels that would justify their expense. Here, firms could philosophically reason that they were investing in the people who would eventually become the very talented generators of future profits.

Two simultaneous developments created an alternative for public accounting firms. The emergence of an educated, English-language speaking workforce outside of the US willing to perform sophisticated "white collar" work for less money was the first of these events. Mostly located in India, a population of individuals proved adept at transferring information firm source documents to US tax return categories. The second critical development was the emergence of the internet, which has destroyed the advantage of location. All the information necessary to fill in tax returns could be digitized and transmitted to India where it would be assembled into a compliable tax return and transmitted back to the US. For these purposes, Indian staff did not have to have deep expertise but only enough to perform the time consuming work for this compliance task. If cost savings could be realized without a diminishment of quality, "outsourcing" tax work appeared to be a "no brainer."

Anecdotal accounts offered by tax partners typically remember high levels of learning in their early years as they devoted themselves to low-level compliance work. This poses the basic question of possible learning losses for today's young tax staff in an outsourced environment. Albeit straight-forward, such a question possesses underlying layers of complexity about learning, technology and practice management.

In order to approach the study of this matter without reductionism, we conducted interviews of practitioners at various stages of their careers. We used a grounded theory approach to allow the dimensionality of the inquiry to emerge. This technique allows us to more faithfully represent that which is important to the community of practice while still achieving the necessary critical distance from it.

The balance of this paper is divided into five subsequent sections. The first provides a brief literature review of the general phenomenon. The second details the method used to conduct the interviews and reduce them to useable data. The third and longest section offers the results that were interpreted. This material is sub-divided into themes of related ideas. The fourth section includes firm responses to the novel problem that have been identified. The paper concludes with a discussion that develops larger issues.

Literature Review

One could reasonably argue that there is no academic literature that would contextualize the current study. For the most part, the organization of public accounting firms have been taken for granted. This neglect denies us a suitable base point from which we could argue that change is occurring. However, various threads of arguments about public accounting in general and its tax practice in particular can be extended for this purpose. Although outsourcing appears as a topic with some degree of regularity in the accounting literature most of the coverage could be called practitioner journalism. However, outsourcing's treatment there reveals much about the recent history of the profession.

Not long ago, outsourcing meant a much different phenomenon than it does today. Slightly before the turn of the 21st century, outsourcing referred to the corporate trend to shed their internal audit functions and purchase these services from public accounting firms. Many writers during this era worried about the conflict of interests that this seemingly created for public accounting when they also provided the external audit. Rittenberg and Covaleski (2001) provide a review of the theoretical literature.

The meaning of outsourcing shifted following the audit crisis of faith that precipitated the Sarbanes Oxley Act in 2002. Public accounting firms, no longer able to grow without boundaries, sought to make their core business lines more profitable. Accordingly, they began to distribute more routine elements of their work for clients to overseas entities. This strategy mimicked trends that had been followed for some time by their corporate clientele (see Renner and Teffe, 1998). Many wrote pieces that chronicled the extent that audit and tax work was being sent abroad. Early examples of this work simultaneously saw it as quite problematic (e.g., Brody, Miller and Rolleri 2004), but yet hailed its onset as both revolutionary and inevitable (Robertson et al. 2004). Measures of what type of work is being shipped out are still being taken (e.g., Duncan et al. 2018).

For some time, the motives for outsourcing served as the focus of inquiry. While many saw labor cost savings as obvious (e.g., Brody et al. 2004), others were fascinated by the initial movement in that direction (see Blashovich and Mintchik, 2011). The most exhaustive evolution of outsourcing motives was offered by Lacity et al. (2011), some of which were posed as excellent opportunities for future research.

The next wave of work on outsourcing pertained to its execution. Concerns about costs and the security of proprietary information (Brody et al. 2004) gradually were displaced by more practical ideas about how it could be done technically (e.g., VanBeesten, 2002). Larsen, Manning and Pedersen (2013) offered an academic effort to predict when costs would be higher. Only Kuruvilla and Ranganathan (2010) evaluate execution from the perspective of the foreign partner. Interestingly, Bals, Kirchoff and Foerstl (2016) look at the converse problem of firms that now wish to reverse their past outsourcing commitments.

With outsourcing as a part of common experience, some studies have evaluated its impact. Interestingly, no estimation of actual cost saving seems to have been performed. Mintz's (2004) suggestion of damage to the US economy has also not been empirically quantified. Farrell, Kaka and Sturze (2005) provide some evidence about changes made in host countries to accommodate outsourcing demands (see also Kesavan, Mascarenhas and Bernacchi 2013). Other studies used a broader conception of impact to consider how outsourcing changed perceptions of quality (Didia, Mayse and Randle 2018), legal defensibility (Lyubimou, Arnold and Sutton 2012) and the demand for lower fees (Chan and Moser, 2015).

Larsen et al. (2013) suggest that "hidden costs" might exist for firms that engage in outsourcing. These are defined as adjustments that the firm has had to make to the existence of outsourcing. A previous paper specifically attuned to accounting functions hinted at these possibilities (Smith, Morris and Ezzamel 2005). More recently, Downey (2018) posits that outsourcing in public accounting may change how US employees experience psychologically meaning through the dimensions of their work.

Although several pieces in this literature address tax work or include tax work in their scope, hardly any of it directly is about the work of tax professionals. What we do know comes from the perspective of tax clients. For example, Dunbar and Phillips (2001) evaluate the outsourcing of corporate tax planning work to public accounting firms. This work is built upon by Robinson, Sikes and Weaver (2010) who demonstrate a profitable return to a focus on tax planning by corporations.

In sum, the literature lacks a close look at the outsourcing of tax work from the perspective of public accounting firms. This paper picks up on the idea that distinct "hidden costs" embedded in this practice strategy may exist.

Method

Interviews of tax professionals were conducted in 2017 and 2018, using a mixture of face-to-face and phone contacts. For these purposes, a sample of individuals associated with

"Big Four" firms and other firms were sought. The latter constituted what is typically called "Tier 2" firms, a term meant to imply the large national firms other than the four largest ones. The use of interviews as an accounting research technique is well recognized. Dai, Free and Gendron (2019) analyze 639 such studies published in accounting journals over a 15-year period. Interview data collection should be thought of as a subset of the qualitative work that also figures prominently in this discipline (Bedard and Gendron, 2005). Interviews are used whenever research seeks to discover the motivations and thought processes of participants in situations where no archival data exists, and surveys would not be sufficiently nuanced.

We sought two distinct types of people within these firms. The first, and most obvious type, was higher experienced individuals usually at the partner level whose primary practice area was taxation. These individuals either took part in, or where proximate to, the decision to send compliance work offshore. Such individuals were also valuable because they were, for the most part, trained as new recruits at a time when offshore delegation was not done. The second group were junior tax staff with less than five years of work experience. These people were best able to report on the nature of their work when routine offshoring is practiced around them.

The authors first used their personal networks to identify appropriate candidates. From there, an iterative "snowball" approach was taken to expand the interviewee set, with past interviewees suggesting others. This ended when, in the authors' view, theoretical saturation had been achieved (Strauss and Corbin 1998). The group of interviewees comprised 16 staff members (five of which were Seniors), ten partners and one senior manager. Eleven of the 27 persons interviewed were female. The staff members had an average of three years' experience, ranging from a high of five years to a low of two years. The partners and senior manager ranged from 20 to 35 years' experience, averaging 28.6 years. Of the 27 people interviewed, 15 were employed by the Big Four accounting firms. Six of the 10 partners and senior manager were members of the Big Four. The rest of the people were employed by the other national firms (10 people) or by a regional firm (one person).

Interviews were designed as semi-structured experiences. Following Maxwell (2005), the general plan to solicit information was informed by the interviewee's personal "prior-life" practice experience. Each interview began by soliciting the interviewee's story of their career. This broad tableau of events invariably opened a natural opportunity to engage the topics that were directly relevant to this research. An attempt to employ the active and empathic listening recommended by Kvale (2008) was made.

Interviews were recorded with the consent of the interviewee. Written transcripts of the conversations were then produced. This material was thematically coded following open-coding suggestions in Strauss and Corbin (1998). In that these themes were not imposed upon the data, but instead emerged from the data, a grounded theory approach was taken. After the recorded interviews were transcribed, they were input into NVivo 12, the latest version of the software of choice for qualitative researchers in accounting (Dai et al. 2019). This allowed node dimensions to be extracted that suggested an approach to analyzing the data. This process was reviewed by a second researcher. Using this information, the researchers reviewed the raw material. Following Boyatzis (1998), efforts were made to recognize codable moments in the transcripts and then to code them consistently.

Results

This paper does not purport to provide a full descriptive accounting about the outsourcing of tax work. In a relatively short period of time after the internet made the transmission of data possibly, all the major firms (Big Four and beyond) entered into contracts with foreign shared data centers to prepare the returns for the public accounting firm's cliental. Work done by these centers would be reviewed by the US firm, but would first have been aggregated from raw data by non-employees of the firm that had been trained for the work. Clients were informed in engagement letters that the outsourcing of their information would be done. The findings that follow are organized by themes identified in the data analysis.

Outsourcing in General

The obviousness of the discrepancy between the cost of US tax staff and outsourced labor does not need to be belabored. For interviewees, their situation was an environmental fact where nature or origins did not have to be explored or questioned. The economic case that work should be sent to those willing to do it for less compensation was taken-for-granted by all.

Given the cost arbitrage between these markets, interviewees spoke of changes they have observed that would increase the magnitude of outsourcing. As one said:

> "They are constantly looking at anywhere where there is opportunities to shift hours, to shift them and grow as a service center" (Interview 21, Partner).

Several individuals envisioned a day when all compliance work would be outsourced, or that only very small engagements would remain. Others saw this scope of outsourced work expanding:

> "You actually have people in India and Argentina who are preparing returns and reviewing returns and signing returns. So, they're essentially doing a lot of the work that we're doing in the US" (Interview 15, Staff).

Correspondingly, the number of service centers were said to be increasing and their geographic diversity growing. This fact was not met with alarm by the interviewees.

Both internal and external forces were identified as the drivers of what many called leverage. Several noted the preeminent importance of budgetary targets. Partners are required to be highly conscious about staff utilization, and are sometimes explicitly subjected to offshore leverage metrics. Why this is done is usually attributed to client demands for greater efficiency, essentially requesting to share in the value created by low cost tax work. Some clients directly specify exactly how much they are willing to pay per hour for different types of personnel. Doing everything possible to improve the profitability of jobs was also done by competitors, makes for an even more acceptable argument for outsourcing.

Whereas "taking hours off" US tax staff makes sense for the firm, it adds to problems for US personnel. With a "staff people have a lot less time" environment, there is less meaningful work available at the lowest level. Layoffs in the US have been attributed to "grunt" work being sent to other countries.

Outsourcing and Automation

In many ways, outsourcing is only a manifestation of the more fundamental way that computerization has remade tax practice and the way that people become skilled tax practitioners. Sending work to the other side of the world is a *de facto* recognition that the human capital of tax staff needs to be re-conceptualized.

The automation of tax compliance work was broadly recognized by interviewees as bringing about many desirable outcomes including making difficult calculations instantaneous and correct, offering a common platform with others in the firm, and extending tighter information security. Generic answers to tax research questions can also be developed in short order, allowing the practitioner to appear more intelligent. A bridge to client records can also be forged.

What makes the use of technology somewhat problematic could exist in one interviewee's statement:

> "We're getting to the point where all problems get solved somewhere else where it's not my problem" (Interview 25, Partner).

Instead of asking practitioners to know how to solve problems, modern practice invests in intelligent tools in which solution pathways exist. Tax staff still need to be involved, but in a less personal and less intimate manner than before. Technology enables distance from the actual action to be achieved, and a somewhat hollow mastery to be attained. Software is examined rather than the underlying data. People become quite reliant upon that which they never really understood.

Outsourcing is also a technology of sorts, but not only because it uses encrypted internet transmission and digital data. From the perspective of US tax staff, outsourcing itself is a machine into which new data is entered and tax returns come back.

Focus on Tax Planning

The view of practice prior to outsourcing stressed the functional value of tax expertise to defend the resources of clients from excessive governmental claims. So much effort was needed for compliance work that anything beyond it was ancillary and unplanned. With outsourcing carrying the compliance weight, the tax practitioners interface with the client could be reconfigured. Outsourcing freed tax staff to spend more time in the pursuit of what people often called "client opportunities." One person decoded this term:

> "Frankly, it's to kind of introduce them to selling additional projects" (Interview 21, Partner).

Whereas consulting work of this sort has long since been done by firm partners, the recent novelty is to push career development in this direction much earlier. Interviewees proved that they were attempting to think more of the clients' unique business model and how tax strategies could increase client ROI and other value drivers. Young staff are very aware that the compliance work that is being done elsewhere gets them "in the door" and that the public accounting firm's reputation for impressive tax knowledge exists to get them "out the door" with additional client contracts. Young tax professionals know that well-prepared tax returns are "not how we make our money" and will not by themselves "satisfy our clients." All realize that the action lies elsewhere.

A sea change such as this also alters the nature of the ideal tax staff person. A labor-intensive model has given way to a much smaller body of professionals. Highly competent technical tax experts might not find a home in public accounting if, like this person, they realize:

> "I struggle to like develop the ideas on my own. But, compliance is easier to wrap your head around" (Interview 20, Senior).

Relationships Still Matter

Outsourcing is the result of the belief that the true work of public accounting is relationship management and that such work can be bifurcated from the technical knowledge of taxation. Towards such a goal, the outsourcing of compliance may be the beginning of a more complete severing of other areas within this domain.

Several factors combine to lead public accounting firms in this direction. As put bluntly by one, “relationship doesn’t equal loyalty” (Interview 11, Partner) which was offered to suggest that clients have many situation-specific advisors and consultants, and that no engagement is an annuity in duration. Firms see themselves engaged in constant self-promotion, an effort requiring more and more of the firm’s attention. Part of this effort is selecting staff for eventual elevation to the point of regular client contact. It seems that effective relationship partners, capable of choreographing the dance of narrow experts, are always in short supply. Firms are concerned about the hand-off of clients between engagement partners, as well as staff visibility to keep clients economically and interpersonally satisfied over longer periods. Interviewees spoke at length and with vigor about the characteristics that drive success with clients.

In an outsourced world, being a relationship specialist comes with its dilemmas. As put by one:

> “You don't have a chance to be as hands-on with the data and really understand what it is you're looking at” (Interview 2, Senior).

Furthermore, the articulation of strategy and technique may be jeopardized. To wit:

> “I can walk down the hall and have a conversation with my team and go the client’s to push in these areas. Harder to communicate that to India and to get them to understand it. They tend to be cross the t’s, and dot the i in their [mindset]” (Interview 25, Partner).

Tax returns are apparently not purely mechanical exercises, but instead are almost “works of art” that require customization for the risk tolerance of the client, or, as described by one, exercises in “co-development” When the person doing the pitch is not the person who will fix the inevitable implementation problems, a potential credibility crisis looms. One person mused:

> “That’s not the Ritz-Carlton mentality or any of your top flight service providers, right?” (Interview 25, Partner)

From Preparer to Reviewer

When the outsourcing of compliance work occurs, US tax staff who would ordinary do this work become the reviewers of work done abroad. This assignment is a necessary one in order to keep US staff productively engaged in the work of the firm. Displaced from the work that many previous cohorts of tax professionals had done, novices in the tax department are elevated to the work they would have done only after several years of compliance work.

Senior tax professional believe that much is lost when people have not spent an appropriate period constructing the essential product of the business. The “deep dive” into compliance is useful for several reasons noted by the interviewees. Most importantly, low-level work gave the preparer an intimate feel for where the key numbers come from in source documents and transactions. This conception of genesis gave people an implicit reality check now lacking:

> “It takes a lot to trust, especially when you grew up in an era where we know what this number ought to be, and now they don't. Staff don't know” (Interview 2, Senior).

Anything one has not personally experienced is much more difficult to pick up upon vicariously. Senior tax interviewees are quite concerned that junior staff are being denied the learning that could have been attained if they were required to do the work that is now outsourced.

The deficiency noted above makes US tax staff less capable reviewers of outsourced work product. Senior people openly questioned whether US staff were able to perform effective reviews, more or less agreeing with the following sentiment:

> "If you send it all offshore for preparation you still have to review it. How do you grow the people and their skills so they can review completed returns?" (Interview 19, Partner)

The irony that those doing reviews have much less tax experience than those doing the original work was not lost on the interviewees. Some suggested that tax work is highly nuanced and that the basic information might still be problematic. Several interviewees voiced ideas along these lines.

> "If you don't identify the problem, then you don't solve the problem" (Interview 25, Partner).

Most refused to blame the staff for these lacunae, citing instead the failure to adequately train these individuals. However, one person wondered if young people today would tolerate the learning that necessarily would occur through the endless hands-on repetition of compliance exercises that previous generations now hail as developmentally important.

When people with inadequate experience review tax work from abroad, the reaction "what do I do with this?" suggested by one interviewee is usually not something young staff care to admit. Staff are sometimes forced to take a "big picture" view on it. This may indulge in a debatable assumption that somebody else will bring to the return a more detailed and critical eye. The interviewees made clear that reviewing the work of others is not a good way of learning. Stronger analytic reasoning than people are capable of at this stage of their careers may be necessary. Outsourced work is likely to be technically correct, and might escape the further scrutiny it needs when placed into its correct context.

Not being able to be good reviewers may have more consequences than on the integrity of the work at hand. As tax staff are promoted, they will become seniors and managers also with less foundation than we would like them to have to be able to function as good supervisors for future cohorts. The lack of compliance work provides less of a base for careers in tax to be built upon. Deficiencies in the basics are already showing up in higher ranks as a legacy of many years of outsourcing. Apparently any "deep dive" that will take place, needs to take place early in a career, before managerial responsibilities override technical priorities.

Quality and Quantity

In many ways outsourcing is the poster child for unresolved battles about the identity of the public accounting profession. Through several dimensions, public accounting advocates positions that are fundamentally irreconcilable. Here outsourcing itself inspires ambivalence, and also represents the symbolic tension of other related issues.

Regarding outsourcing, US tax professionals are of two minds. While capturing surplus values between what they pay for and charge for this work, outsourcing represents a production plan that seems unreplaceable. To support this, the official position of every firm is that the quality of outsourced work is the same as that done domestically. One interviewee unequivocally challenged this saying "That's a lie." (Interview 20, Senior). No shortage of aspersions were cast at the offshore service centers from a demeaning of that which they do ("grunt work") to how foreign personnel approach it ("like machines"). One said:

> "They are like mail room clerks, putting things in" (Interview 22, Partner).

Some firms have installed an extra layer of review for outsourced work, but this may be a response to the problems of the first US review as much as to the quality of work being done abroad.

Quality concerns notwithstanding, outsourcing ruptured the synergy that existed in compliance work. Before outsourcing, firms made modest profit on compliance work while using it as an excellent on-the-job training ground for US staff. The latter attribute tended to be forgotten as the firms quantified utilization rates and billable hours. This focus led to the conclusion that compliance work was not sufficiently profitable and paved the way forward toward more outsourcing. One of our interviewees, looking at both sides of compliance work, argued for less outsourcing by saying:

> "Those other activities that generate a lot of value, you can't--it's hard to measure the value, but there's value there. I think we lose sight of that" (Interview 7, Partner).

Computerization is the engine that makes outsourcing possible. Nobody needs to detail the many ways that the computer processing of tax data increases efficiency. It is therefore no surprise how the most important objective for tax staff has become the mastery of the firm's proprietary software. Some interviewees asserted that dysfunctional consequences exist when staff fixate upon their data processing tools. One individual strongly asserted that this development has come at the cost of real thinking by tax people. Other took pleasure in recounting stories of manual "work arounds," and how much can be learned when one does not take computer output as correct without sufficient inquiry.

> "And we questioned every line of that return. Where'd that number come from? I want to understand" (Interview 2, Senior).

Whereas focusing even low level staff on a "consultative mindset" appears to be an unchallengeable strategy to move up the value chain (as it is made possible by outsourcing), it is somewhat undermined by a powerful computerization that frees staff up from the drudgery of knowing how the tax law really works. Whereas outsourcing creates raw material of unknown origin, computer programs process in somewhat unknown ways.

The Bigger Picture

More generally, pressures to maximize short run profits in public accounting have lead to many changes that parallel outsourcing. One recently retired partner was thankful for his career in a kinder, gentler system, saying of the current firm:

> "It could have been a factory, except people got to wear nicer clothes, and it had brighter lights. It was about efficiency. Nothing to take away from their career or what they've accomplished. This isn't some hierarchy of being, but it looked at though it was efficiency and production, data gathering" (Interview 15, Partner).

Maximizing profits often gives short shift to staff development since that has little immediate return, and is difficult to quantify its value-added over a longer time horizon. This firm's preference is opposed by one partner who also stares at the bottom line but sees this:

> "And if that [outsourcing less work] means partners make less money, then you know what, partners make less money because that's okay, and it's the right answer for the practice and for the business in the long term" (Interview 7, Partner).

In an automated and outsourced world, that is not a popular belief.

Tax staff live in an outsourced world, although they do not control it. Outsourcing is hardly a novel practice development, and so they are as likely to note small reductions in its use, as they are to see its advance. When junior staff consider outsourcing, they do not see heightened competition from unseen others with similar talents. The acceptance that these people have can be observed in the language that they use to refer to foreign service centers, calling it "our global talent hub" and being quick to insist that these remote individuals are "part of the team." Staff think that it is splendid that work ordered one day from unseen "high volume staff" can be done the next, merely by exploiting the large time difference between the US and India. Young tax professionals insist that the service centers facilitate the rapid completion of projects, enabling more projects to be done. "You get to try a new project" seems to be the prevailing preference. Tax staff also believe that time freed up by outsourced work allows them to see the "whole scope" of the engagement, and that adequate learning can be done when reviewing work that one has never performed.

Senior tax personnel offer sufficiently opposing ideas to make one wonder how correct the junior people can be. Speaking of their US staff, one notes:

> "I know we've taken a bunch of their hours or something elsewhere, and yet, we're now seeing, religiously, the underutilized group of people are those group of people" (Interview 25, Partner).

Outsourcing selectively and strategically also comes at the cost identified by this person:

> "You get the ability to work start to finish on something, and you're not necessarily sending one part over to the service center and actually knowing what you're doing" (Interview 23, Staff).

Another person joins in that sentiment, suggesting that learning "full circle" is the best way to "dig into the details." However, staffing opportunities are skewed in an outsourced world, as observed by a junior person:

> "It's weirdly sometimes easier to get consulting work than it is compliance work" (Interview 20, Senior).

Senior people also bemoan what they see as ancillaries to outsourcing processes, such as the progressively more thinly sliced specializations among junior people, the decline of the client service orientation, and the over-dependence on more senior reviewers to catch mistakes that are made in an effort to do a larger volume of work. As put summarily by one "efficiency, at what cost?"

Solutions to the Outsourcing Problem

For many who take issue with outsourcing, the remedy is apparent. Young tax staff must do more compliance work. This is seen as a pathway to developing important skills and obtaining the breadth of experience that is needed. What is seen as valuable by advocates for a return of sorts to older processes, in most general terms, exists in the personal engagement with the work in its most elementary form. One person extolled the virtues of practice and repetition. Another suggested that learners "sit and stare" until pivotal tax relationships become apparent.

Cutting back on outsourcing presented itself as necessary to allowing US tax staff more compliance experiences. At least one firm has done just that, but for others intra-firm political battles are necessary to win engagement work for US staff that would otherwise be outsourced. The idea that effective reviewers and consultants cannot bypass compliance as a fundamental building block of development has not yet been accepted. Some suggest that the reform of current practices need to go deeper. One said that was necessary was to:

> "Not rely on technology as much and force ourselves to really use Excel or manual input or whatever to force us to learn what we're doing" (Interview 2, Senior).

Another person wanted to prevent staff from premature and ill-considered specialization. In sum, well-rounded tax professionals needed basic skills and hands-on readiness to more completely take ownership of their work. This conception of the ideal practitioner begins with unquestionable compliance expertise.

Outsourcing works because of the belief that compliance work is a commodity that might as well be done by the lowest cost providers. US tax staff further this belief by their attitudes toward tax research. Interviewees in more junior ranks acknowledged the ample resources for research by using key word searches on generic search engines. One captured the general belief "The world's at your fingers on the internet" (Interview 15, Staff). Another contributed the necessary corollary belief "A lot of times, they (staff) get to the right answer despite themselves." More often, staff does not see the need for research or does not have time for it. This indifference was well expressed this way:

> "As far as the different things that go on the return and adjustments that come up, probably just go through the motions of doing them. It doesn't become something you care or learn about until it becomes a problem—" (Interview 2, Senior).

Creating the incentive to do more research would differentiate US tax staff from the foreign service center. Whereas the personnel trained by service centers are merely following the instructions for the forms, those able to do research could bring a new value added to the work. This prospect is expressed as follows:

> "There is gray in tax. Frankly, sometimes where there is gray in tax, that's where the opportunities are" (Interview 21, Partner).

Transitioning to a more research-ready tax staff would require more than just motivation. US tax staff seems rather poorly trained in the fundamental of the research process. As put by one, sounding like an undergraduate student:

> "It's almost overwhelming, at times, to know where to start" (Interview 12, Staff).

Tax professionals need to demonstrate that they are not flummoxed by open-ended questions, but instead are willing to embrace the value of digging around the vast corpus of tax knowledge.

Some senior leaders believe that outsourcing is either functioning as intended, or can be intelligently reformed. Much of these positions relate to more conscious and selective use of this practice. This notion is best put by this quote:

> "…if it's a consolidated return I'll take the more difficult subsidiary and have it prepared here in the US and maybe the rest of them be prepared over in India because our staff need that experience" (Interview 7, Partner).

In the sorting process, interviewees more regularly dismissed the amount of learning that could be obtained from some compliance work, and therefore did not regret sending it abroad. For example, many clients have tax returns with a high degree of similarity from year to year, therefore presenting less of an obstacle to sensible delegation:

> "I think if they're put on a lot of smaller clients that and they're tax work that doesn't have much going on they might not grow very much, especially if it's like the same things year over year" (Interview 1, Senior).

Interviewees were more focused on getting the proper reviewer for the outsourced work, extending the belief that much learning occurs when a person is offered the correct amount of complexity for that person.

In addition to the nature of the tax return, interviewees also considered who the client was in their outsourcing decisions. Some clients were more likely to demand a "tax expert who they could have personal contact with." The extent of outsourcing has to also be diminished by the desire to allow some US staff to "grow up on a client." This required a more robust opportunity to see the full cycle of the work done for one client than would be possible with intermittent outsourcing.

Senior tax professionals who critique outsourcing because it undermines the development of foundational knowledge may be wishing for the return of a bygone era. Outsourcing makes much more sense as part of a firm's portfolio of talent when deep specialization is the primary model for the organizational structure of the tax business.

For the most part, young tax people want to become experts in narrow slices of the tax law favoring areas such as international and state and local taxation. Reasons vary from more lucrative labor market opportunities to the interpersonal joy of being a "go-to person" within the firm. Those that feel the pressure to declare specialties but are not ready to do so, are chagrined to admit their simultaneous need for "balance" and "learning." These people are the real victims of outsourcing. Public accounting firms need to decide how much it values them as long term investments.

Descriptions of the work process indicate how profound specialization has become. For example, taking on broader-based responsibility has become the less preferred path:

> "Maybe you would do more work on a transaction cost prep project if we didn't have the transaction cost team now" (Interview 24, Senior).

The engagement team's job has been reconfigured into teeing up exposure areas for the specialist who delivers the key value-added components. Young staff reported on the firm's strong push to get them involved in specialty groups, and even to plant the same seed with interns.

In the firm of the future, success for clients will involve a more intricate orchestration of talent. Firms with broad and deep reservoirs of talent that are well-networked to those that identify needs, make not personally knowing the basics more acceptable. As one said:

> "…that's okay for what they want to accomplish because they want more big-ticket tax consulting work" (Interview 18, Partner).

The hope of outsourcing was that the first step of US tax careers could be skipped and that more responsibility could be pushed down the ranks faster. This would function well if outsourced work was truly rote and did not present difficult issues for the junior tax staff doing the first round of reviews. However, interviewees reported that due to inadequacies of these reviews, unresolved issues tend to just bubble up to the next level, consuming more of the time of partners and higher-level staff. While some of this might be attributed to heightened tax law complexity and a stronger firm endorsement of specialization, interviewees cited the inexcusable laziness of believing someone else will do it and of not including needed documentation. Rather than just fix the problems, some senior personnel have re-imagined their jobs, now that what should have been a superficial review needs to be more substantive. They have been pulled back into training, sometimes deploying Socratic methods in one-on-one guidance sessions. With some degree of ire, one person summarized this situation as follows.

> "I think it's going to be a lot of questioning coming from the top. What does this number mean? Where did you get it from? Why is it here? How did you come to this adjustment? I feel like that's the only way that's going to force the staff to really not just take whatever they get and spit it back to me and say, okay, here it is" (Interview 2, Senior).

Although most people see outsourcing as a necessary and irreversible fact of modern tax practice, some are less accepting. Although many people view outsourcing as an imperfect solution that can be made better, others see it as fundamentally wrong. Opponents made more of the cultural differences that they think can never be overcome. Here, even supporters recognize that there are unrecognized difficulties that require extraordinary investments such as sending US staff abroad to remediate communication issues. This process is elaborated by one:

> "Definitely need about six weeks to really build those relationships and to really teach them and for them to really get comfortable to ask you questions, as well" (Interview 4, Staff).

Only one person expanded the cultural concern to geopolitical levels, discussing client fear of data security.

Extreme outsourcing skeptics were more likely to pose more totalistic or philosophic objections. Starting with the inexorable growth of tax law complexity, total input control was necessary for any semblance of output quality control:

> "So, I don't necessarily have control of the input. I only see what comes out, and at that point have to determine if it's garbage, like you said, or if it's good data, good numbers" (Interview 2, Senior).

For others, outsourcing is the slippery slope of diminished professionalism in that it denotes an abdication of personal responsibility, and a disinclination of problem solving and critical thinking both in the US and at the service centers. Pertaining to the latter, one person said:

> "It's hard to get them to ask the right questions, or like they kind of are just more like the back end of things, inputting all the numbers and all that stuff. But, they don't actually try to think critically like the US does. So, that's what I was there trying to help them with, just try to get the wheels spinning in their heads to ask the right questions and being able to communicate better with the US" (Interview 4, Staff).

In addition to the labor cost savings, outsourcing is premised on the ability to re-direct US tax staff toward higher value-added consultative tax services. For some, this is a simple as "you can take those hours and redeploy them in some more tax consulting projects." (Interview 25, Partner). The prospect that this could be done continues to fuel the effort. One senior interviewee reported mixed results, suggesting the substitution or re-direction of US staff may be more complex an objective. In addition to the prospect of insufficient staff development, captured nicely by "how can you consult when you don't understand the meat of what you're talking about? And that meat is what's getting sent out" (Interviewee 2, Senior), success may require inculcating among clients the belief that the tax consultant has answers and appreciates the client's desires and business model. Building the consultative mindset on a thinner expertise foundation is believed to be possible. Comments like: "Well, they have to learn differently," (Interview 21, Partner) suggests that the firms have not exactly figured how to achieve the desired result.

Some believe that outsourcing is a known waystation toward artificial intelligence (AI). One interviewee called the tax laws "a beautiful candidate" for such, despite the lack of any real influence of AI as of this time. While no one can estimate when AI will arrive in this application, a progressive reduction of total human hours on tax work is the direction it seeks. One person saw it clearly as a situation where people would be reduced to question answerers. The machine would identify novel opportunities that arose based on those answers.

In that outsourcing creates constraints on the work that an individual is expected to do, several interviewees suggested rotation of personnel as a redress. Several firms have seen advantage in bringing service center employees (usually in India) to the US, and sending US personnel to India. Rotation was viewed as advantageous in its fostering of team work and the development of comparable practices. One firm believes in having Indian personnel spend up to two years in the US, visiting several offices. More interviewees commentary concerned the travel of US people to India. Some of this was done by higher level people in training modalities. Satisfaction along these lines tended to be reported:

> "I actually sat down one-on-one and trained them and tried to get that face to face time. So, it was a really enlightening experience" (Interview 4, Staff).

Young US tax personnel also made trips to get acquainted with service center employees. These assignments were of varying durations, and often included the payment of incremental living expenses.

Rotational practices also abound for US tax staff so as to mitigate against premature specialization. However, these efforts provide only limited tastes of other specialties, rather than a feel for general client service. Furthermore, rotation does not involve the compliance work that has been relocated offshore.

Discussion

Technology has enabled the disruption of tax practice with the feasibility of shifting compliance work to offshore service centers. This has been occurring in the "Big Four" practice sector for many years, and has more recently become routine for smaller firms. This paper has documented the reasons for the development and its potential consequences by tapping into the wisdom of practitioners. This approach leverages the observation made by Orr (2016) that technical knowledge is primarily stored in the minds of experts and made accessible through oral inquiry

This paper has made inquiries of practitioners pertaining to the outsourcing of tax work for their clients. All indications suggest that this was done for economic reasons exploiting persistent wage rate differentials between the US and other nations such as India. Ironically, whereas first-mover firms may have obtained an advantage by outsourcing, the practice is now so widespread that only a disadvantage could be produced for a firm if it were halted. However, in discussions with tax practitioners, negative consequences directly or indirectly connected to outsourcing were identified.

The most robust idea offered by this paper is that US tax staff, denied the compliance work that has been outsourced, may have limited their learning of the tax law. By not investing in what would be considered foundational work, younger tax professions may be less able to function effectively at higher levels as their career progresses. This was asserted by several senior tax people. However, this finding cannot be offered as a discovered truth since it depends upon comparisons across time and technological states. With more confidence, we can offer the conclusion that how people learn the tax law they need to know has changed over time. The superior learning primarily by doing has been disrupted by outsourcing.

Outsourcing requires the consent of clients. The knowledge that this practice is being done may put downward pressure on fees paid to public accounting firms, as clients insist on sharing the realized savings. More importantly, outsourcing might degrade the regard in which this work is held by clients. Knowing that the work can be adequately performed by those with less formal education and client experience may be inconsistent with the professional light within which US accountants would prefer to bask. Tax work is more likely to be seen as a commercial commodity when it does not require the attention of those whose lifestyles and educations we respect. Thus, we problematize the social capital of accountants.

Outsourcing highlights the divide between compliance and consulting work in the tax domain. By sending the former abroad, US public accounting firms are attempting to maximize their attention on the latter. This paper fundamentally pertains to the question of whether this can be done well. Perhaps tax consulting has become more autonomous from compliance than we suspect.

The outsourcing issue is very much a technological question. A certain technological capability is needed to effectuate efficient outsourcing. Of greater importance might be the larger inquiry into how technology is changing tax practice. Although this paper does not squarely address the technological means by which young practitioners learn the tax trade, that concern was never too far away. Outsourcing shows how technology states are intertwined with contractual relationship in collective efforts to comply with the tax law and avoid overpayments to government. As presaged by the prospects of artificial intelligence, technology might also preempt outsourcing.

While the forward march of technology appears inexorable, less predictable is the specific timing and impact of such progress. Major simplifications of the tax code would ease the programming burden for AI developers, but most tax people see this as politically quite unlikely. Clients also must be brought along. Major resistance among smaller and less sophisticated clients in expected in that "just transitioning them that's gonna be the big challenge" (Interview 20, Senior). But, comfort is taken that cost declines should be inevitable. The price points where adoption will be more justifiable, even by small clients, will be approached. At the same time, interviewees are sanguine that AI will not make public accounting superfluous, primarily because clients do not want to focus on taxation, and do not want to build out their tax departments with more people.

Even if outsourcing is only a temporary solution, its staff training imperative is more consistent with that required in a more fully AI driven world. The old idea of large staffs learning inefficiently by doing, and waiting for sudden epiphanies, is dead. The development of tax professionals going forward will require more trust that what you did not do, or do not even fully understand, has been put correctly into place, and can be built upon by others.

This paper mostly deals with the functional issues presented by outsourcing. Of equal concern might be the rupture that the practice could cause in the social organization of the firm. Outsourcing, and the technological environment that facilitates it, makes tax practice for staff qualitatively different than it was for current partners. Only with great difficulty can the accounting firm still be described as a community of practitioners, wherein knowledge and identity are passed down through the generations. The traditions of socialization and trust formation are at risk, presenting unknown consequences in the future.

Although the purpose of this paper was to report on the general attitudes of the tax practitioner community, and not necessarily divisions within it, the interview data does reveal an interesting generational split. For the most part, the senior leadership group tends to be highly conscious of the problematic nature of outsourcing, and to a lesser extent, the imperfect ways their firms have for its accommodation. Younger tax professionals, with less range in their perceptions, accept outsourcing as part of "the way things are done." As the latter group replace the former group, they will become more convinced of that which they take for granted. This projected future will serve to exacerbate the tensions that this paper has identified.

The results support the conclusion that we are witnessing what could be called the commodification of the tax professional. We began the project convinced that a study of how people come to learn about taxation was a central question. However, the advance of software with capabilities approaching artificial intelligence was so salient that one could say that the initial question has become less consequential. That we will need some very smart people with high quality knowledge of the tax law and its entire nuance remains true today, but the progress of transferring that ability to "the machine" is afoot. What we expect of the machine operators that most tax people will become, might be less.

This paper has several known limitations. The inductive approach of grounded theory is constrained by the available evidence. A different set of interviews might have produced a consequential collection of additional ideas about outsourcing. Our sample was limited to US partners and staff of major firms primarily from the Midwest and Northeast. Coding of qualitative data is a judgmental process and potentially subject to individual bias. In order to mitigate this risk, the interviews were reviewed and coded by multiple authors. The paper also is strictly limited to public accounting practices in the US. Although the cliental have global business, only their US tax liabilities are at issue in this research.

References

Bals, L., Kirchoff, J. F., and Foerstl, K. 2016. Exploring the reshoring and insourcing decision making process: toward an agenda for future research. *Operations Management Research*, *9*(3-4): 102-116.

Bédard, J., and Gendron, Y. 2004. Qualitative research on accounting: some thoughts on what occurs behind the scene. In *The Real Life Guide to Accounting Research,* C. Humphrey and B. Lee (eds.) London: Elsevier, pp. 191-206.

Blaskovich, J., and Mintchik, N. 2011. Information technology outsourcing: A taxonomy of prior studies and directions for future research. *Journal of Information Systems*, *25*(1): 1-36.

Boyatzis, R. E. 1998. *Transforming qualitative information: Thematic analysis and code development*. Thousand Oaks CA; Sage.

Brody, R. G., Miller, M. J., and Rolleri, M. J. 2004. Outsourcing income tax returns to India: Legal, ethical, and professional issues. *The CPA Journal*, *74*(12): 12.

Chan, E. W., and Moser, D. V. 2015. *Client management's perceptions of audit offshoring and the related audit quality tradeoff*. Working paper, The University of Texas at Austin and University of Pittsburgh.

Dai, N. T., Free, C. and Gendron, Y. 2019. Interview-based research in accounting 2000–2014: Informal norms, translation and vibrancy. *Management Accounting Research*, *42*, 26-38.

Didia, L. N., Mayse, A. L., and Randle, E. C. 2018. The effects of outsourcing and offshoring of independent audit procedures on bank loan officers' perceptions of financial statement reliability and loan decisions. *Journal of Accounting & Finance,* 18(3): 105-130.

Downey, D. H. 2018. An exploration of offshoring in audit practice and the potential consequences of associated work "redesign" on auditor performance. *Auditing: A Journal of Practice & Theory*, *37*(2): 197-223.

Dunbar, A. E., and Phillips, J. D. 2001. The outsourcing of corporate tax function activities. *Journal of the American Taxation Association*, *23*(2): 35-49.

Duncan, K., Hasso, T., and Kercher, K. 2018. Offshoring of audit work in Australia: Survey evidence. Unpublished paper available at SSRN 3131524.

Farrell, D., Kaka, N., and Sturze, S. 2005. Ensuring India's offshoring future. *McKinsey Quarterly*, *31*: 92-103.

Kesavan, R., Mascarenhas, O. A., and Bernacchi, M. D. 2013. Outsourcing services to India: A review and new evidences. *International Management Review*, *9*(2): 36-44.

Kuruvilla, S., and Ranganathan, A. 2010. Globalisation and outsourcing: confronting new human resource challenges in India's business process outsourcing industry. *Industrial Relations Journal*, *41*(2): 136-153.

Kvale, S. 2008. *Doing interviews*. Thousand Oaks CA: Sage Publications.

Lacity, M. C., Solomon, S., Yan, A., and Willcocks, L. P. 2011. Business process outsourcing studies: a critical review and research directions. *Journal of information technology*,

26(4): 221-258.
Larsen, M. M., Manning, S., and Pedersen, T. 2013. Uncovering the hidden costs of offshoring: The interplay of complexity, organizational design, and experience. *Strategic Management Journal*, *34*(5): 533-552.
Lyubimov, A., Arnold, V., and Sutton, S. G. 2012. An examination of the legal liability associated with outsourcing and offshoring audit procedures. *Auditing: A Journal of Practice & Theory*, *32*(2): 97-118.
Maxwell, J. 2005. *Qualitative Research Design: An Interactive Approach*. 2nd edition. Thousand Oaks, CA: Sage Publications.
Mintz, S. 2004. The ethical dilemmas of outsourcing. *The CPA Journal*, *74*(3): 6-7.
Orr, J. E. 2016. *Talking about machines: An ethnography of a modern job*. Cornell University Press.
Renner, C. J., and Tebbe, D. 1998. Who is outsourcing and why? *Strategic Finance*, *80*(1): 45-48.
Rittenberg, L., and Covaleski, M. A. 2001. Internalization versus externalization of the internal audit function: an examination of professional and organizational imperatives. *Accounting, Organizations and Society*, *26*(7-8): 617-641.
Robertson, J., Stone, D., Niederwanger, L., Grocki, M., Martin, E. and Smith, E. 2004. The coming accounting revolution: Offshore outsourcing of tax return preparation. *The CPA Journal*, *75*(6): 54-58.
Robinson, J. R., Sikes, S. A., and Weaver, C. D. 2010. Performance measurement of corporate tax departments. *The Accounting Review*, *85*(3): 1035-1064.
Smith, J. A., Morris, J., and Ezzamel, M. 2005. Organisational change, outsourcing and the impact on management accounting. *The British Accounting Review*, *37*(4): 415-441.
Strauss, A., and Corbin, J. 1998. *Basics of qualitative research*. *2nd Edition*. Thousand Oaks CA: Sage Publications.
Van Beesten, M. 2002. Implementing tax outsourcing on a global basis. *International Tax Review*, (5): 41-44.