

CLOUD ACCOUNTING - A NEW PLAYER IN THE ECONOMIC CONTEXT

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Abstract: The economic context that we are witnessing today is increasingly dynamic and competitive. Because of the need for efficiency and performance, every domain has adopted some form of information technology. One of the most innovative IT tools, brought forward in the last decade, is cloud computing. This new business model has been embraced by various economic entities thanks to its multiple benefits. On the other hand, the accounting sector has continuously adapted to the economic context and the need to present a real-time overview of a business has found an ally in cloud technologies. Therefore, the cloud accounting paradigm has emerged as a reasonable consequence in such a challenging field. In this paper, we argue the meaning and value of cloud accounting solutions in an ever-changing environment. Through a theoretical study, we have underlined both the usefulness of cloud-based accounting software and some of its downsides according to the accounting professionals.

Keywords: cloud computing, cloud accounting, accounting software, cloud-based application, cloud technology

Introduction

Change is one of the few certainties in life. Especially in our global economy, adapting to the ever-changing environment is critical. According to Charles Darwin's theory presented in his work, *On the Origin of Species*, "it is not the strongest of the species that survives, nor the most intelligent, but the one that is most adaptable to change." The need to adapt is especially led by the irreversible and fulminant expansion of technology. Individuals, companies and countries alike are compelled to keep the pace with this accelerated growth of modern information technology. Because this rhythm is unlikely to slow down, people have to stay in touch with the latest developments in the IT domain and be ready to use them in their best interest. Over the past decade, the digital revolution has reshaped our world, more than anyone could have imagined. The rise of the internet could be considered the advancement that had the biggest impact on almost every area, even for our every-day lives. In just a few years, the internet has become a large-scale "product", an asset that everyone could afford. We could now say for sure that our current society is greatly dependent on internet-based solutions and world-wide collaboration is essential. Such IT developments are continuously changing the way that we access resources and services and how we share knowledge and experiences. Furthermore, this trend is very likely to go on in the foreseeable future. As we move forward into the 21st century, existing technologies will definitely transform or converge, and even if we cannot accurately predict the future, we should realize that all change requires the ability to adapt and to consciously evolve.

The Cloud Phenomenon

The most significant progress noted after the emergence of the internet has been cloud computing. This paradigm, that is very useful especially for organisations, involves the delivering of computer infrastructure or software that are accessed as a service over the Internet. Companies have the possibility to benefit from high-end technology with low costs and only pay a monthly subscription fee, depending on consumption, instead of massively investing in hardware and software resources. In today's competitive marketplace, customer experience is fundamental, and cloud computing is a proven mean to ensure a high level of service. "Clouds" are remodelling the way that people and institutions collaborate, communicate, share and store information and the manner that they obtain IT resources or services for their personal or professional use. On the other hand, we are witnessing an impressive spread of cloud-based technology in almost every domain, and we can notice an increasingly blurring line between IT and economics, in particular. The cloud phenomenon is rapidly conquering the business field, as proven by the remarks of many professionals. Andrew Flanagan, the managing director of Digita (part of the Tax & Accounting business of Thomson Reuters), predicted that *"it seems inevitable that virtually all software and data will eventually be 'in the cloud', mirroring the move from paper to electronic data and working over the past few years."*

Nowadays, organisations from all domains and countries are using a large spectrum of cloud-based resources that are provided "as a service" rather than "as a product". All kinds of resources (software, computing power or data storage) are available online from fixed or mobile devices. Our current business world is gradually moving into an online environment as the cloud paradigm is consistently evolving, expanding and merging with various domains and professions. The accounting field has proven to be receptive towards cloud-based solutions and has already begun to exploit them. Cloud solutions for bookkeeping were among the first applications that were available as online services and could make accountants' job easier. In fact, accounting applications are some of the most complex among all types of business software. Financial software can ensure different functionalities for specific markets, thus meeting distinct needs and budgets for entities of all forms and sizes. Cloud-based software is especially useful for the accounting domain because today's financial managers are demanding efficient, affordable, and easy-to-use software, that is not only meant for executing repetitive financial tasks and issuing accurate reports, but it is also able to adapt according to future business requirements and technology trends. Besides gathering and processing accounting data, a valuable accounting application should also permit professionals to transpose financial data into relevant business information, and therefore contribute to the decision-making process. That is why most accounting software users have shown interest in the latest IT innovations that have "invaded" the business landscape.

In 2013, ACCA (the Association of Chartered Certified Accountants - the global body for professional accountants) and IMA (Institute of Management Accountants - the association for accountants and financial professionals in business) published a study¹ on the

¹ *Digital Darwinism: thriving in the face of technology change*, ACCA – IMA Report, 2013, available online at: <http://www.accaglobal.com/>

most promising technology trends that will greatly transform the accounting world over the next 5 to 10 years and beyond. The report was based upon the findings of over 2.100 experts in the accounting and technology domains, academics and members of the two associations that developed the research. According to the survey, at a global level, 81% of the respondents were expecting technology trends to reshape the accounting area “to some extent” (24%) or “to a great extent” (57%) over the next decade and 18% predicted “a total transformation” (Figure 1). An interesting fact is that only 1% of the respondents did not believe that IT innovations would affect the accounting profession. These figures prove that IT tools cannot be ignored and people are obviously aware of this reality.

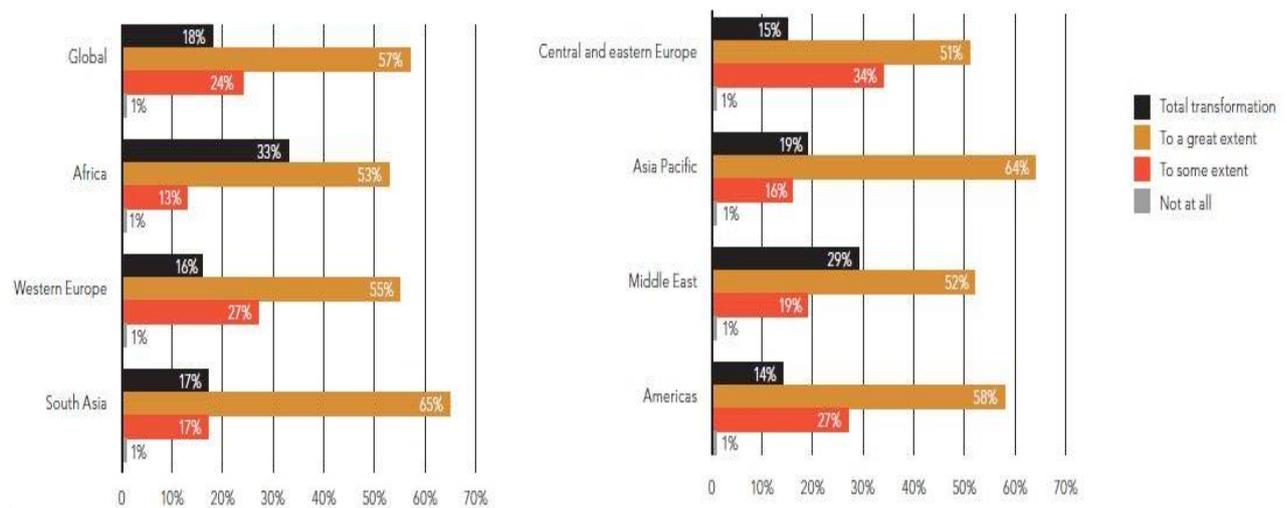


Figure 1. Extent to which developments in technology will transform the way accountants do business over the next 10 years (Source: ACCA-IMA, *Digital Darwinism*, 2013)

According to the same research, the traditional desktop software will no longer be required in the long-run because most applications will be accessible in the cloud by 2020. Cloud-based technology will certainly be a common asset in the economic environment and in our every-day lives.

What does cloud-based accounting software promise?

Organisations are surely becoming more comfortable with cloud solutions and recognize their worth as efficient tools for saving time and money. According to a 2014 global report² on software quality assurance, cloud-based software is increasingly popular and this trend will clearly go on in the foreseeable future. The aforementioned research shows that cloud migration is gaining momentum as 28% of applications are hosted in a cloud infrastructure in 2014, and the share of cloud-based systems is expected to climb to 35% by 2017.

Considering the fact that the accounting department of every organisation is a valuable adviser, it is vital for accountants to keep up with technology trends. That is why

² *World Quality Report 2014-15*, conducted by Capgemini, Sogeti and HP Software, 2014, available online at: www.worldqualityreport.com

cloud computing has become an opportunity to reduce costs and increase productivity for the accounting profession. Cloud accounting is the new economic player that has been proposed for the accounting field. This innovative tool will dramatically enhance the accountants' activity and it can ensure multiple benefits for all business partners, but for the accounting function, in particular. And of course, the 21st century accountant's expectations are directly dependant on the highly dynamic economic reality and context. Nowadays, organisations and accountants alike are demanding personalized cloud-based applications that help them handle sharp competition, which is only a mouse click away. Companies from all over the world are knowingly shifting from their traditional reactive way of doing business to a proactive and collaborative approach. A cloud-based solution can be a wise choice for enterprises dealing with critical issues like managing substantial costs that burden their activity. The main reason for this situation is old technology that is unable to adapt and too expensive to be updated and meet the requirements of today's tech-savvy professionals.

Doing accounting "in the cloud" can ensure various advantages for accountants and the business itself. Due to the way that financial data is being stored (on the provider's servers and not on a local computer) and accessed (over the internet), all involved users are able to access it at any time and regardless of their location. This is in fact, one of the most significant gains provided by cloud accounting because this will improve collaboration and will ensure real-time data update. It is also worth mentioning that users have got restricted and specific access to the cloud solution, thus increasing the application's level of security. The data's increased security is another critical aspect – accounting data stored in the cloud is regularly backed up and closely protected though complex security protocols.

The fact that the cloud application is accessed as a service and it is not bought as a product, will have a great impact³ on the company's expenses. Capital expenditures will be converted into operating costs because entities only pay a monthly fee, depending on their specific demands. This is especially helpful for small and medium sized enterprises that can use advanced software and significant resources that they could not afford otherwise. With flexible cloud-based software, businesses can easily scale up and down and rapidly adapt to the ever-changing economic context.

Undoubtedly, cloud accounting can be an effective option on condition that this solution is carefully evaluated before adopting it. Because the cloud market is very wide, companies have the possibility to choose the best-suited solution to meet their specific activities and goals. According to experts⁴, in order to ensure a successful accounting software selection process, companies should first establish the entity's requirements and needs and afterwards, consider potential cloud solutions. This is the way to notably increase the chances to find the proper cloud accounting solution for each business.

Why should accountants embrace chance?

Just as any other new paradigm, cloud accounting is also facing considerable roadblocks. The lack of knowledge and fear of unknown are probably the most significant obstacles in the adoption of cloud-based applications. "*Nothing in life is to be feared, it is*

³ Halstead M., *How Cloud Accounting Can Help Your Company*, 2014, available online at: <http://www.intelligenthq.com/>

⁴ Osintsev A., *What Organizations Want in Accounting and Financial Software*, Technology Evaluation Centers - Market Survey Report, 2013, available online at: www.technologyevaluation.com

only to be understood. Now is the time to understand more, so that we may fear less.” These words, that reflect our reality so accurately, belong to Marie Curie, the first woman to win a Nobel Prize and the only person to win twice (in 1903 and 1911) in different domains (physics and chemistry). Regardless of the age we live in or the level of knowledge we reached, this quote could be an incentive factor for any progress.

These considerations are especially applicable for the accounting profession, which is uniquely positioned as a valued adviser for every business. The accounting department has always been serving the public interest and that is why accountants should always be aware of the advances and opportunities that can assist and develop the profession and the entire business landscape. Indeed, accounting professionals have brought forward some risks that could be associated with cloud technology. Security issues, the loss of internet connection and therefore, the interruption of the business activity were cited by sceptical practitioners with regard to cloud accounting. Still, all these potential downsides can be mitigated⁵ or even excluded through strict and specific contractual clauses.

Accountants need to be receptive and understand current and upcoming digital technologies, so that they could harness their potential benefits. Neither technology sceptics, nor optimists can predict the future with any degree of certainty. Nevertheless, by staying informed about IT innovations and embracing new technologies as they arise, accountants can help the business grow and maximise the gains promised by the digital era. If we are to experience another progress in accounting, we will have to think outside the box and give technology a chance. A new insight into the future is gradually emerging for the modern accountant – cloud accounting could be the next step in the evolution of the accounting practice. The cloud adoption process is only just beginning. Even if the percent of early adopters is not significant yet, several surveys⁶ have revealed that a meaningful fraction of entities are considering this option. In fact, almost every prediction made by market research companies has shown that cloud-based solutions are definitely mentioned as a top trend in the near future.

Conclusions

There is no doubt that technology is ubiquitous and can bring competitive value. Until now, the IT field has had an essential role in the optimization of almost every activity, it has improved the quality of life, and has greatly influenced the economic sector. The last decade has been significantly marked by the cloud computing paradigm and almost every domain has found a mean to benefit from its use. Inevitably, cloud computing has also reached the accounting field. That is why the accounting world is gradually shifting towards cloud-based solutions. The emergence of cloud accounting has proven to be a new way of doing business. This revolutionary approach to bookkeeping is very promising as there are multiple advantages that accountants have already experienced due to cloud technology.

This theoretical paper presents cloud accounting as a new actor in the business world today. The purpose of the paper is to argue the utility and benefits of these innovative

⁵ Sommer B., *Cloud Accounting Evaluation Guide*, Vital Analysis paper, 2014, available online at: <http://www.financialforce.com/>

⁶ *Cloud Computing - A matter of survival for the accounting industry*, CCH Research Report, 2013, available online at: <http://www.cchifirm.com>

technologies. Therefore, we have focused on the meaning of cloud-based applications for both the accounting profession and for companies, in general. We have come to the conclusion that cloud technology can empower accountants and make their work easier and more effective; businesses can also gain from the use of cloud accounting solutions in areas like security, expenses and collaboration. We would also like to underline that this article is intended to be a platform for stimulating discussion, an overview for a controversial topic, particularly for the accounting field. We did not aim to present an exhaustive or a technical research on the cloud accounting concept. Our approach is rather business oriented, as it is based upon the most relevant and recent reports and studies conducted by specialized research companies and cloud software providers.

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