

Innovation Strategies of Small and Medium CPA Firms — A Multiple Cases Study

Jen-Yin Yeh and Yu-Wen Sur

Abstract—In recent years the economic environment has changed greatly, including International Financial Reporting Standards (IFRS) adoption, as well as the progress of information technology. The service innovation strategies become more important to the small and medium CPA firms. The purposes of this study is to develop a framework for assessing innovative service strategies and explore how the constructions affect service innovation strategies in small and medium CPA firms. This research is designed as a multiple case study involving six small and medium-sized accounting firms. We formulate research propositions based on the matrix. Our findings show that the Institutional factors, including firm culture as well as the management attitude of CPA, dynamic capabilities and client's requirements affect the service innovation strategies in small and medium accounting firms.

Index Terms—Service innovation, strategy, CPA.

I. INTRODUCTION

Clients are becoming more demanding, with higher expectations for services and value. The top reason clients would consider leaving their CPA firm is if the firm does not regularly adapt to their changing needs. Firms have a significant opportunity to better leverage this relationship by providing existing clients with extended services [1]. A larger CPA firm has greater reputation capital because the aggregate audit revenue of its other audit clients acts as a larger and more effective collateral or security, thus pledging the rendering of a higher quality audit [2]. The Institute of Certified Public Accountants of Singapore is urging small and medium CPA firms to re-strategise their businesses and merge their practices to strengthen their resources and grow [3].

Innovation is an integral asset to the service industry. Service businesses produce innovation originally, and do not depend only on industrial innovation [4]. Service supplier businesses pursue services innovation in order to retain or improve their competitive position in the market place. Services innovation refers to new or considerably changed service concepts or service delivery processes that deliver added value to the client by means of new or improved solutions to a problem [5].

However, all companies can innovate. The important thing is to define the innovation strategy [6]. The organization's strategy is the general direction in which it chooses to move in order to achieve its goals and objectives. Once the organization's mission has been determined, its objectives - desired future positions or "destinations" that it wishes to reach -should be selected [7].

Much of the literature was based on service innovation that is largely driven by technological innovation rather than various forms of soft innovation [8], [9]. This article addresses many of these deficiencies by: (a) providing an alternate conceptualization of what constitutes the innovative service strategies (b) analyzing six case studies to gain additional insights (c) presenting and discussing innovative service of small and medium CPA firms. Limitations of the study and suggested avenues for research are presented.

II. THEORETICAL FRAMEWORK

A. Innovation Strategy

Innovation strategy designates to what degree and in what way a firm uses innovation to perform its business strategy and to develop its performance [10]. Goldstein *et al.* [11] suggest that the service concept integrates the how and what of service design while keeping both the customers' needs and strategic intent of the firm in mind. A new or considerably changed service concept, client interaction channel, service delivery system or technological concept that individually, but most likely in combination can lead to one or more renewed service functions that are new to the firm changes the service/goods offered on the market. This however requires structurally new technological or human capabilities of the service organization [12].

B. Institutional Theory

According to Boyne and Meier [13], a turbulent external environment, compounded by internal organizational change, is widely believed to have damaging effects on public service performance. Innovations were considered to be responses to environmental change or means of bringing about change in an organization. Organizations can cope with environmental changes and uncertainties not only by applying- new technology, but also by successfully integrating technical or administrative changes into their organizational structure that improves the level of achievement of their goals [14].

Institutional theorists have directed attention to the importance of symbolic aspects of organizations and their environments. The institutional approach emphasizes the importance of institutions, as well as such related phenomena

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as rules, habits, routines, norms and culture [15]. Oliver [16] identified three major sources of pressure on institutionalized norms or practices: functional, political, and social. Functional pressures for deinstitutionalization are those that arise from perceived problems in performance levels or the perceived utility associated with institutionalized practices. Institutional theory is particularly relevant for analyzing organizations that are confronted with uncertainties and, as a result, compete for political and institutional legitimacy and market position [17].

C. Resources Theories

A firm's capabilities based on other strategy types can be critical to ongoing success [18]. Szeto [19] defines innovation capacity as a continuous improvement of capabilities and resources that an enterprise possesses in order to explore and exploit opportunities for developing new products to meet market needs. According to organizational theory, the market-oriented organizational culture grounded resource-based view (RBV) is considered an important resource in organizational performance [20]. RBV regards resources as the ultimate source of performance differentials between firms [21], [22]. Resources can be defined as "all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness" [22] (p. 101). Kandampully [23] examines the factors underlying the growth of services, and emerging views on what constitutes a "resource" for service organizations. The study identifies that technology, knowledge and networks are examined as interdependent factors.

Based on a review of the literature on institutional theory and resource-based view theory, three factors: (1) Institutional environment (2) Core Resources are identified as the main reasons that could affect the innovation strategies of small medium CPA firms.

III. METH

A. Case Study Method

The research involved a series of case studies on small medium CPA firms in Taiwan. Louis [24] and, Firestone and Herriot [25] described qualitative research as often using multi-site, multi-case designs. Having multiple sites and cases increases the scope of the study and the degrees of freedom. The aim is to increase generalizability, thus providing a measure of reassurance that the events and processes described are not wholly idiosyncratic [26]. The emphasis tends to be placed on qualitative methodologies where the aim is to pursue fine-grained research using case study analyses. Comparison is restricted across cases of analysis because of the uniqueness of strategy to the organization, environment, and temporal circumstance [27].

B. Sample Set

Six small medium CPA firms were approached. Firms were approached via their leading CPA as to their willingness to

participate in the study. An information sheet was sent to the CPA with a follow-up phone call. If they agreed to participate, a consent form was faxed to them for completion before the interview.

C. Data Collection

The primary means of data collection was via interviews. A semi-structured interview is a useful device for focusing responses and ensuring some degree of comparability between respondents [28]. Interviews were tape recorded and transcribed verbatim. Interviews lasted 90 to 120 minutes. Participants were asked to review their transcriptions from the interviews in order to verify content. Follow-up by telephone or e-mail was used to clarify ambiguities or discrepancies, or to confirm information.

D. Coding and Data Analysis

After the interviews, coding process was designed to uncover meaningful information in the case companies. The themes were summarized into a matrix for the purpose of intermediate qualitative data analysis [26] on the basis of the research framework described above. Data was analyzed and proposed relationships were obtained using methods for building theory from case studies [29].

IV. RESULTS

A. Case Background

As is shown in Table I, most case firms have been established for more 20 years. Some of them (A, B) are comparatively traditional. They focus on old customers and mainly provide tax and book keeping service for traditional business.

- Basically 90 percent of our customers are old clients. Our exploitation on new customers is limited. (B)
- Because of the high risks, we do not accept the listed company. (A)

TABLE I: CASE BACKGROUND

CAP Firm	Established Years	Target Market
A	30	Customers from the old generation Focus on tax service
B	30	customers from the old generation
C	20	Traditional industries in south Taiwan
D	40	Traditional industries in south Taiwan Construction industry
E	10	Auditing and Tax service Hi-Tec Industry
F	35	Auditing and Tax service

B. External Environment — IFRS and Competition

As countries around the world line up to convert to International Financial Reporting Standards (IFRS) over the coming years, many businesses will already be planning on how to manage their own conversion processes [30]. In Taiwan, All Taiwanese listed companies are required to prepare their consolidated financial statements in accordance with Taiwan-IFRS starting from January 1, 2013. Following IFRS conversion process, accounting firms will also find a

new source of revenue through the education and training of audit clients, and through new clients in the areas of tax, risk management, consulting, and traditional accounting convergence. However, only large CPA firms take advantage of this trend

- To Big CPA Firms, IFRS has a large advantage to them, allowing them to increase business. We can't compete with the Big four. They are ruthless spenders. They spent millions on IFRS and sent employees overseas for training. The question is why they would spend so much money, because they have many listed company customers. (D).
- I don't worry about IFRS right now. My clients are not the listed companies. (A, C)

During the economic downturn, the rise of market competition is the rivalry among CAP firms. Lower prices necessitate a shift in pricing strategy for many firms.

- Big 4 offer competitive prices for extending market sharing. (D,E, F)

C. Core Resources

As is shown in Table II, close relationship with customers, low fees and extra services are the critical resources.

- We develop a close relationship with our customers in order to understand our customer requirements (F)
- My staff can handle basic demands of customers, but customers prefer talking to the CPA directly. (A).
- The brand image cannot compete with the Big Four, so our main focus is on customer service. (D)
- Big 4 also offer competitive prices, but they will charge for extra constant service. We provide extra service for free. (D)

The small and medium CPA firms try to satisfy their clients and to offer them more valuable and cheaper service than the big firms. Close relationship with customers, low fees and extra services are core resources of small medium-sized CPA firms for continued operation and survival.

TABLE II: CORE RESOURCE

CAP Firm	Core Resources
A	Old generation Network, close relationship with customers
B	Old generation Network, Low Fee, close relationship with customers
C	Law Knowledge, close relationship with customers
D	Specific Industry Expertise, Good Service, close relationship with customers
E	Specific Industry Expertise, Good Service, close relationship with customers, Flexibility and efficiency
F	Law Knowledge & Specific Industry Expertise, close relationship with customers

D. Technology Capabilities

Computing auditing and information system are new technologies used by these firms. Firms E developed an ERP system for Taiwan Enterprise that entry China market. Some firms (A, C, D) utilize accounting information system to make changes to the internal affairs and save time. However, some auditing services cannot be provided by system.

- Auditing should be done by labor. But we save time on tax

service and bookkeeping needs with the information system. (D)

The internet is the new interface between the case firms and its clients. Firm C and D send every month's information to the customers by email. Firm B believed they took advantage of the easily accessible technology to create better relationships with their customers.

E. Service Concept

As is shown in Table III, the service concept defines the how and the what of service design, and helps mediate between customer needs and an organization's strategic intent [31]. Most case firms defined their service designs were to meet customer requirements. They provided current clients with extended services like law knowledge, valuation and tax planning. Moreover, the Chinese market offers great business opportunities due to its rapid economic growth and huge market. Following their clients, case firms (C, D, E) entered China market.

TABLE III: SERVICE CONCEPT

CPA Firm	Service concept
A	A new market (non-profit organization)
A.C.D.E.F	Providing current clients with extended services: Law knowledge (C, F), Business and Intangible assets valuation (E) Tax planning (A) China market (C, D, E)
A.B.C.D.E.F	Meet customer requirements

V. DISCUSSIONS

A. Firm Culture

It is an interesting finding that some old small to mid-size CPA firms in Taiwan were succeeded by younger generation of owners. Like SMEs, the owner/entrepreneur has a larger direct influence on employees, as compared to managers of large organizations. Firms are used to doing workflow the way they have always done it and focus on tax service. Successful and flourishing corporations will master the art of change: creating a new climate encouraging new procedures and possibilities, anticipating and responding to external pressures, and being responsive to new ideas from inside the organization [32]. With small business clients adopting software applications, some case firms are increasingly hard-pressed to make sense of it all. Some sample firms are mobilizing in an organized way to exceed client expectations and provide the value. Some firms keep the old operation process. Firm's culture as well as the CPA's managerial attitude towards risk plays an important role in driving service development. Firms with different kinds of governance structures and organizational capabilities pursue these innovation strategies to varying degrees in different institutional environments [33].

Proposition 1. Firm's culture is likely to have a positive impact on service innovation strategy of small and medium CPA Firms.

Proposition 2. Managerial attitude is likely to have a positive impact on service innovation strategy of small and medium CPA Firms.

B. Dynamic Capabilities

Dynamic capabilities are the skills, procedures, organizational structures, and decision rules that firms utilize to create and capture value [34]. A firm's ability to develop superior new service offerings, and possess the quality of innovation depends significantly on fostering a corporate environment that encourages and supports creative effort [35]. Some researchers suggest a link between entrepreneurship, dynamic capabilities and innovation [36]-[38]. While small and medium-sized CPA firms can enjoy a number of behavioral advantages over their larger CAP firms, they can also suffer from a number of mainly material disadvantages: less necessary inputs of time, people, and finance in the creation of new services. The speed of technology evolution has been overwhelming. Technology facilitates the maintenance of networks with customers and partners inside and outside the firm, small and medium-sized firms have to invest in the hardware, the software and the training to keep up with this evolution.

Proposition 3. The technology ability is likely to have a positive impact on innovation strategy of small and medium CPA Firms.

Personal skills such as experience or extensive customer contact become appropriate when describing the efficiency of a service company [39]. Small and medium-sized firms are capitalizing on emerging opportunities with extra clients. More than tax services such as IFRS and ERP need to be developed in CPA firms. They need to do that in order to advise them on things other than taxes or routine accounting issues. It is evident from the case study findings the staffs of some case firms are traditional accounts with less emerging opportunity ability. As Firm B said "It's not just about technology. It's about people issues". Miles [40] state that knowledge intensive organizations, whose professionals often generate solutions for clients that are ad hoc and highly customized. Their innovations typically rely on employees' professional skills. Training staffs and hiring the right people are related to the service innovation of small and medium CPA Firms.

Proposition 4. The staffing strategy is likely to have a positive impact on service innovation strategy of small and medium CPA Firms

C. Customer Orientation

Innovation does not benefit the firm unless it manifests superior value in the customer-driven marketplace. Moreover, this study argues that service innovation results only when a firm is able to focus its entire energies to think on behalf of the customer [41] As CPA Trendlines [3] reported more than any other requirement, clients are increasingly demanding from their CPA firms a deeper and more profound understanding of the clients own business. A more marked-oriented firm is more likely to consider innovation, which ultimately leads to superior firm performance [42] [43]. Following their customer, small and medium CPA firms start their law and tax services in China. Another issue is IFRS. For some case firms (A, B, C), IFRS is not relevant to their business. Their innovations are ad hoc and highly customized.

"IFRS for public companies has overshadowed the needs of private companies. We work primarily with private and family-owned business clients." (C)

Services are characterized either by very close customer contacts or by the integration of external factors in the production process. Especially the process orientation of most services requires close contact to customers and can be seen as a success factor for service companies [44, p. B520].

Proposition 5. The Customer Orientation is likely to have a positive impact on service innovation strategy of small and medium CPA Firms.

VI. CONCLUSIONS

Christensen [45] defines a disruptive innovation as a product or service designed for a new set of customers. Lack of resources, small and medium CPA firms quit from disruptive and choose sustaining innovation. They don't offer much new core benefit or a new delivery benefit that revolutionizes customers' access to the core benefit. This study identifies some key drivers of service innovation strategy: firm's culture, managerial attitude, the technology ability, the staffing strategy, and customer orientation. The results provide strong support for the resource dependency theory and argue that Institutional factors also play an important role in the development of service innovation. Both the capability to scan the external environment for technology and the capability to integrate new technology are related to the innovation activities [46].

The results of this study suggest that the small and medium-sized CPA firms should focus on their niche markets and effectively use their core resources to fit in with the changing environment. In addition to traditional accounting, auditing and tax services, the small and medium-sized CPA firms should provide the services that their competitors do not provide. Monitoring competitor's strategies either to follow or create differentiation in areas such as image, quality, design, time, and price, is another source of developing new services [47].

This research has some limitations in line with previous studies in the literature. First, this research was based on small and medium CPA firms, and design of research, analysis, results and interpretation were realised by taking into account characteristics of small and medium CPA firms. Findings of this research could be a guide to studies that will be made in other service industry. But the validity of the findings for other sectors could be provided by researches that will be made on related sectors. Second, Future research can use an action-based methodology on understanding the causal dynamics of particular settings.

In order for small and medium-sized enterprises to survive, the fundamental objective is to get rid of the idea that only large organisations are capable of carrying out innovative activities [48]. Many small businesses now compete on line, whether they are ready or not. CPA firms must be ready to help them do so. They need to move traditional transactional client accounting services up to a transformational service and provide higher-value advisory services. However, it is not just about the technology. There are so many different aspects to

it. A new service concept should include not only information on the service system but also a solution to problems of customers to meet the requirements. An industry's competitive dynamics, and how a firm competes within it, has a great influence on the firm's strategic decisions [49].

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