

New Service Development in Small and Medium Accounting Practice Firms. The Italian Case

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Abstract

Small and Medium Accounting Practice Firms (SMPs) have been recognized as a core element for fostering SMEs in order to keep their business economically and financially sustainable. Environmental change is pushing SMPs to innovate their services due to SMEs new needs and competitive challenge. Unfortunately, new service development has been recognized as a research field that requires specific approaches, also distinguishing between different service sectors. In order to fill this gap this paper analyzes the case of Innovation in Small Accounting Practice Firms. According to Resource-Based View using the Intellectual Capital framework, human capital, relational capital and structural capital are key factors for fostering innovation as well as strategic intent. Indeed, strategy is about the effort spent on being different, using internal and external resources. Thus, we analyze the role of intellectual capital and strategy intent on new service development. In order to test our model a questionnaire has been developed and provided in the North East of Italy to a sample of 11.267 small and medium accounting firms obtaining 2.266 responses and 961 completely filled forms. A logistic regression model was used to test our hypothesis considering the role of the SMPs' size as a control variable. Results show how relational capital and human capital are key factors for fostering new service development. However if these variables are key elements in order to provide key sources for developing new service, the strategy intent operates as a prerequisite. Indeed using the Treacy and Wiersema model we found that firms which carried out a service leadership strategy have a greater probability of developing new service than firms that compete following a cost leadership strategy..

Key Words: Intellectual Capital, Strategy, New Service Development, Innovation, LOGIT

1. Introduction

Literature recognizes the increasing role of product innovation for fostering firms competitive advantage (Leitner, 2011) especially for Small and Medium Enterprises (SMEs). Due to their dimension SMEs usually use external firms for assisting them with accounting problems (Døving and Gooderham, 2008). Indeed, according to European Federation for Accountants and Auditors, Small and Medium-sized accounting Practices (SMPs) are European SMEs' most important business advisors, since they support entrepreneurs keeping their grow economically and financially sustainable. Moreover, because of the expanded role beyond standard accounting services, SMPs have been recognized as multidisciplinary practices (Frank et al., 2001; Greenwood et al., 2002) whose service portfolio role has been enlarged overtime because of the changing needs in their clients. Consequentially, SMPs have been pushed towards an increasing competition and an enlarged pressure on fees (N. Marriott and P. Marriott, 2000). Thus, the ability to manage new service development seems to be necessary for surviving. Unfortunately innovation in service industries seems to be an under-investigated topic (Ettlie and Rosenthal, 2011) especially since it has been written that it could require a specific theoretical approach "that demands distinctive theories of management" (Von Nordenflycht, 2010, p.155). Indeed, literature on product innovation recognizes that the ability to innovate is related to the capacity of creating a process that fosters intellectual capital (Leitner, 2011), but unfortunately only a few studies verify this linkage empirically (Aramburu and Sáenz, 2011; Leitner, 2011) and even fewer studies focuses on professional service business. Moreover, as recognized by Valencia et al., we assume that organizational culture is a key element for fostering or inhibiting innovation (Valencia et al., 2010). Indeed, intellectual capital gives the knowledge and offers a way for providing new services to firm's clients in an easier way. For shaping a new service that could foster SPMs competitive advantage these opportunities

need to be followed by some form of strategic decision (Døving and Gooderham, 2008; Grant, 1996). In the following section we are going to introduce a brief literature review in order to recognize the role of Intellectual Capital and Strategy for developing new services and we draw our hypothesis. Moreover, we are going to illustrate the methodology used showing major results obtained and to offer a conclusion paragraph.

2. Literature review and theoretical framework

There is little understanding on how service companies develop their innovation processes (Ettlie and Rosenthal, 2011; Schleimer and Shulman, 2011). Indeed, it has been recognized that literature on product innovation does not fit, or at least not always, the specific context of service business (Zomerdijk and Voss, 2011). and Small and Medium-sized accounting Practices have been identified as a specific element in the service business (Jay and Schaper, 2003; Robson and Bennett, 2001). Indeed, business advice in general presents both the characteristics of being task-interactive and personal-interactive and it requires a close relationship with clients (Bennett and Robson, 2004). At the same time the ability for successfully using the strong ties with partners and clients seems to be related to the strategic intent adopted by small accountancy firms (Døving and Gooderham, 2008). Thus, on the one side intellectual capital provides knowledge and relationships required for developing new services. On the other side, strategy intent works as a preliminary factor for focusing SMPs action on innovation. In order to better encompass the connection among intangible resources and entrepreneurial innovation literature recognizes the Intellectual capital concepts and taxonomies as a good framework (Leitner, 2011). Indeed SMPs and more in general professional service firms, draw on it in order to create value for them and their clients (Chang and Birkett, 2004). According to Huang, Intellectual Capital is a wide concept which understanding depends on business related disciplines (Huang et al., 2007). Thus, several approaches are allowed but the most accepted definition of Intellectual Capital assumes three categories concerned with: 1) external relationships, related to relational capital; 2) internal infrastructure, related to structural capital; 3) people, related to human capital.

Human capital is usually recognized as a bundle of human resource elements, including competencies experience, skills and tacit knowledge (Choo and Bontin, 2002; Guerrero, 2003; Kong, 2008). It represents tacit knowledge not embedded within the organization but stored inside people's minds. According to Resource Based View innovation is strongly connected to the human capital due to its inimitability (Hatch and Dyer, 2004; Laursen and Foss, 2003). Thus, we argue that:

Hypothesis 1a There is a positive relationship between strength in human capital and the likelihood of a new service launch.

Structural capital refers to the knowledge embedded within the organization. It supports human capital in day-to-day activities (J. Roos et al., 1998; Stewart, 1997). Within this concept literature recognizes all store-systems of knowledge such as database, formalized routines, manuals, which are able to create value for the organization (Aramburu and Sáenz, 2011; Bontis, 1999). Unfortunately, due to their emergent approach, SMPs use a lower level of formalization for developing their innovation plans also for radical innovation. Thus, we argue that

Hypothesis 1b There is a negative relationship between strength in structural capital the likelihood of a new service launch.

Relational capital has been connected with the bundle of formal and informal connections with organization's external stakeholders (Bontis, 1999; J. Roos et al., 1998; Stewart, 1997). several studies have analyzed the role of customer involvement in new service development (Buganza et al., 2009; Carbonell et al., 2009). In our opinion, due to the existing relationship of trust, personal and geographical proximity among SMPs and Entrepreneurs (Bennett and Robson, 2004; Robson and Bennett, 2001) small accountancy firms can easier introduce new services that can be provided to existing clients. . Thus, we argue that

Hypothesis 1c There is a positive relationship between strength in relational capital and the likelihood of a new service launch.

Analyzing the connection between innovation and strategy, (Ostrom et al., 2010) suggest that the service strategy is one of the three priorities in the service research agenda and the application of Treacy and Wiersema model to new service development literature reveals that the competitive strategy is a critical factor in the innovation activities to the extent that service innovation strategy should be considered during

the service design process (Goldstein et al., 2002). Indeed, in order to achieve a market space where the competition is weak and the profitability very high a firm can challenge itself producing new solutions able to reinvent the way to satisfy existing client's needs or to make explicit the latent needs. Thus we argue that:

Hypothesis 2a. Firms that pursuit a service leadership strategy have a higher probability of developing new services

3. Methodology and sample

In order to get an empirical analyses of our hypotheses we conducted a research using a structured questionnaire which was provided to some Italian SMPs. To develop the research we contacted the Italian Chartered Accounting Association, obtaining a list of 11,267 SMPs. We sent them through e-mail a structured questionnaire and obtained 960 questionnaires completely filled: 9% of the total population which is comparable to similar surveys (Døving and Gooderham, 2008; Mole, 2002). General information about respondents are offered in table 1.

Table 1. Descriptive statistic of the sample

Variables	Average	SD	Max	Min
Number of staff people	4.1	6.8	110	0
Number of people including owners. internships and partners	6.7	10.6	140	1
N. of Offices	1.3	1.0	20	1
N. of Services Provided	4.9	2.6	18	2

4. Measurement

4.1 Dependent variables

Our dependent variable is calculated as the number of new services provided by SMPs. New services are recognized counting each service that is going to be provided within the following year and that was not provided in the previous year. In order to develop a list of services that Italian accountants are allowed to provide to their clients we involved a group of 5 experienced authorized accountants and compared to the official website of the Italian Association of Chartered Accountant. Thus, for each service we obtained a dummy variable coded 0 and 1, respectively when a new service is introduced. Data were analyzed through a LOGIT regression.

Table 2. Number of PMSs which provide

Service	PMSs that provide it	%	PMSs that will provide it	%
Real estate management	100	10%	147	15%
Debt administration/closure of firms	205	21%	202	21%
Arbitration	82	9%	192	20%
Bankruptcy and crisis management	192	20%	245	26%
Taxation/tax planning	605	63%	362	38%
Remuneration schemes/ salary administration	202	21%	191	20%
Financial auditing	594	62%	371	39%
Administrative routines	822	86%	388	40%
Valuation of firms/mergers/demerger	532	55%	386	40%
Administration of naval accident practice	14	1%	119	12%
Inheritance issues/generation transfer	140	15%	205	21%
Contracts and litigation	437	46%	300	31%
Strategic planning	151	16%	248	26%
Marketing/sales	24	3%	141	15%
Management/organization/HRM	186	19%	269	28%
IT consultancies	28	3%	133	14%
Financial management/budgeting	165	17%	225	23%
International business	75	8%	187	19%

4.2 Independent variables

Intellectual capital

Literature on Intellectual capital has not provided a shared scale for measuring firm resources and competences embedded within the concept of Intellectual Capital. Thus, according to previous studies (Leitner, 2011; Spanos and Lioukas, 2001) we followed an approach of self-assessment based on a scale of 1 to 5 where respondents are asked to evaluate SMPs assets (appendix 1 reports a wider definition of single variable and their statistical significance). Thus, as developed in other studies (Subramaniam and Youndt, 2005) we decided to measure intellectual capital by formulating statements about typical characteristics of its components (human, relational and structural capital).

Strategy

Service literature has traditionally paid little attention to strategic concerns and this topic has been under-investigated with a paucity of empirically based researches (Papastathopoulou and Hultink, 2012). The interlacing of strategy, competition and profitability has been discussed further by Treacy and Wiersema (Treacy and Wiersema, 1993) study of the firm's value generating mechanisms. They explain that the acquisition of superior performance depends on "delivering superior customer value in line with one of the three value disciplines – operational excellence, customer intimacy, or product leadership". A self-assessment approach was used and appendix 1 reports variable we used to measure SMPs' strategies and statistical significance.

4.3 Control variables

According to previous studies firm size could influence SMPs innovation (Døving and Gooderham, 2008). Thus, we decided to test our model measuring firm size as a control variable. We decided to measure size in terms of number of people involved in the firm, number of offices and number of services provided by the firm. According to data collected our samples shows an average employment of people (including senior partners) of 6.65 who work on an average of 1.28 offices providing an average of 4.92 services on a list of 18 services developed as described before. Table 2 reports descriptive statistics of the control variables.

Table 2. Descriptive statistics about control variables

Variables	Mean	SD
Number of people	6.65	10.56
Number of offices	1.28	0.97
Number of services provided	4.92	2.62

5. Results

In order to test our hypothesis, regarding the association of service innovation and intellectual capital and strategy intent we carried out a logistic regression model. We tested correlations among independent variables in order to verify the existence of multicollinearity. Table 3 shows main results of our analyses and indicates that there isn't any reason for concerning about multicollinearity.

Table 3 – Correlation Matrix

	1	2	3	4	5	6	7	8	9
1 N. Offices	1								
2 N. People	0,38 ***	1							
3 N. Services provided	0,17 ***	0,30 ***	1						
4 Relationa Capital	0,00	0,11 .	0,2 ***	1					
5 Structural Capital	0,01	0,06	-0,01	0,12 **	1				
6 Human Capital	0,06	0,20 ***	0,16 ***	0,11 .	0,11 .	1			
7 Product Innovation	0,06	0,19 ***	0,18 ***	0,34 ***	0,24 ***	0,36 ***	1		
8 Customer Intimacy	-0,06	0,07	0,16 ***	0,48 ***	0,11 .	0,18 ***	0,15 ***	1	
9 Organizational Exc.	-0,06	0,00	-0,07	0,11 .	0,40 ***	0,10 .	0,14 ***	0,07	1

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1 ' ' 1

The first one shows a correlation index of 0.34 between number of offices and number of people. This could be easy to understand since it is plausible that a firm with more than one office employs a greater number of people. The second one is related to the connection between the strategy of customer intimacy and the importance assigned to relational capital. The value is anyway relatively low since it is 0.48 and it is also easy to imagine that firms that are developing a customer intimacy strategy consider as very important the relational capital.

Table 4 – Role of intellectual capital and strategy for developing new services: logistic regression model

	Mod. 1	Mod. 2	Mod. 3	Mod. 4
Costant	-2.790 ***	-2.707 ***	-2.771 ***	-2.729 ***
N. Offices	0.182 ***	0.217 ***	0.229 ***	0.236 ***
N. People	0.057 ***	0.029 *	0.034 *	0.021
N. Services provided	-0.011 **	-0.017 ***	-0.020 ***	-0.020 ***
Relationa Capital		0.361 ***		0.201 ***
Structural Capital		0.015		-0.117 **
Human Capital		0.200 ***		0.059
Product Innovation			0.491 ***	0.449 ***
Customer Intimacy			0.194 ***	0.108 *
Organizational Exc.			0.117 **	0.156 ***
Pseudo-R ² (Cox & Snell)	0.011	0.1369	0.217	0.269

Signif. codes: 0 '***' 0.001 '**' 0.01 '*' 0.05 '.' 0.1

Table 4 reports main results of the developed logistic regression. We ran four sets of analyses. The first model includes control variables only which measure SMPs dimension in terms of number of people, number of offices and number of services. The second model includes control variables and intellectual capital, while the last model is the completely one considering control variables, intellectual capital components and strategies. Observing data in the table we can recognize that model 4 offers a greater R² calculated according to Cox and Snell model. This approach is coherent with other studies developed in the field (Leitner, 2011)

According to data showed we can recognize that in model 2 Human Capital has a significant and positive correlation to service innovation. Unfortunately this condition is only partially true. Indeed in model 4 the coefficients are still positive but not statistically relevant.

Hypothesis 1b predicts an association between relational capital and the likelihood of developing new service. The logistic regression models shows that relational capital has a positive effect on both model 2 and 3 offering a full support for our first hypothesis with coefficients at 0.361 in model 1 and at 0.201 in model 2 with a high significance p-value at 0. As can be seen from the coefficients in the variable structural capital has in model 2 a positive connection with the likelihood of introduction of new services, but it is negative in model 4. Neither model shows a statistically significant relationship. Moreover, table 4 shows that strategy is directly connected with the likelihood of new service development. Interestingly enough SMPs that pursuit a service leadership strategy have a higher probability of developing a new service.

We conclude therefor that the developed logistic regression offers a full support to hypothesis 1a and 2a, a partial support to hypothesis 1b and 1c.

5. Discussion and conclusion

Our study focuses on the role of intellectual capital and strategy on innovation in Small Accountancy Firms in Italy. A structured questionnaire was submitted to 11,297 chattered accountants obtaining 960 completely filled questionnaires. A LOGIT regression model was used in order to test our hypothesis.

Our empirical research demonstrates that relational capital is the fundamental determinant of SMPs new service development. This result confirms the prevailing evidences stemming from recent studies in the area of service innovation which strive to identify and analyze the antecedents of innovation in the service industry. The strength of linkages with clients and suppliers is often recognized as the most important factor

that trigger innovation activities especially for small service firms that typically face with resources constraints and compete with limited resources. Given resources limitations, SMPs choose to stress the interactive way of doing innovation by leveraging information and knowledge available in their social network. Our regression logistic model reveals that between quality of human capital and the propensity to innovate there is a weak association. At a glance, it is amazing that human capital has a weak impact on innovation capability for knowledge-intensive firms like SMPs. Indeed innovation lies in the ability to deploy the available stock of knowledge in order to develop a unique offering to the market. Despite the importance of service innovation, most of the SMPs of our sample declare to deliver mainly mandatory or standardized accountancy services that require a simple knowledge updating without fostering a more robust knowledge development. Drawing on the strategic management literature the present study aims to verify the impact of competitive strategies in the new service development. Our results confirm that SMPs pursuing a service leadership strategy have a high propensity to innovate their offering since they focus on delivering unique offering to the market. These SMPs choose to reshape their offering by introducing business advisory services in order to better satisfy the constantly changing client's needs. In model 4 customer intimacy has a positive association to service innovation but the statistical relationship is very weak. We can find a possible explanation of this incoherence emphasizing the weaknesses of human capital. In order to satisfy more and more sophisticated client's needs, SMPs tend to develop an agreement with a specialized service provider and lose the control over the relationship with the client.

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APPENDIX 1a

Variable	Scale	Definition, construction, coding and date of survey
Resources - Intellectual Capital Framework		
<i>(Question: Please rate the importance of the following resources)</i>		
<i>Human Capital</i>		<i>Chronbach Alpha: 0.84</i> <i>Rotation applied: Varimax</i>
- Competences of Front-line Staff	1-5	Factor Loadings: 0.53
- Competences of internship people	1-5	Factor Loadings: 0.81
- Competences of associated authorized chartered accountants	1-5	Factor Loadings: 0.676
- Competences of not associated authorized chartered accountants	1-5	Factor Loadings: 0.56
<i>Relational Capital</i>		<i>Chronbach Alpha: 0.81</i> <i>Rotation applied: Varimax</i>
- Close relationship with clients	1-5	Factor Loadings: 0.68
- Close relationship with others (partners, ...)	1-5	Factor Loadings: 0.80
- Firm's brand and reputation	1-5	Factor Loadings: 0.61
<i>Structural Capital</i>		<i>Chronbach Alpha: 0.77</i> <i>Rotation applied: Varimax</i>
- Procedures of interaction with clients	1-5	Factor Loadings: 0.63
- Harmonization of procedures among offices	1-5	Factor Loadings: 0.66
- Database and other knowledge repositories	1-5	Factor Loadings: 0.73
- Resources for managing fees (payments, ...)	1-5	Factor Loadings: 0.54

APPENDIX 1b

Variable	Scale	Definition, construction,
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coding and date of survey

Strategy - Treacy and Wiersema model

(Question: Please the extent to which you use each of the following competitive methods)

*Customer intimacy**Chronbach Alpha: 0.86**Rotation applied: Varimax*

- Client answer process management	1-5	Factor Loadings: 0.60
- Client answer precision management	1-5	Factor Loadings: 0.75
- Client relationship management	1-5	Factor Loadings: 0.73
- Associates reputation management	1-5	Factor Loadings: 0.71

*Product Leadership**Chronbach Alpha: 0.83**Rotation applied: Varimax*

- Service range	1-5	Factor Loadings: 0.71
- Service customization	1-5	Factor Loadings: 0.77
- Service complementariness	1-5	Factor Loadings: 0.67
- Firm dimension	1-5	Factor Loadings: 0.54

*Operational Excellence**Chronbach Alpha: 0.57**Rotation applied: Varimax*

- Excellence in the client fee management	1-5	Factor Loadings: 0.55
- Excellence in the client dialogue process	1-5	Factor Loadings: 0.56
- Excellence in the client acquisition process	1-5	Factor Loadings: 0.47

APPENDIX 1c

Variable	Scale	Definition, construction, coding and date of survey
Firm Size		
- Number of People	Metric	Number of Front Office People Number of internship People Number of authorized chartered accountants Total number of people
- Number of Offices	Metric	Number of offices
- Number of Services Provided	Dichotomy	0-1 on a list of 18 services recognized by previous studies and from a preliminary interview with experts. 0 Not provided 1 Provided
