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Increasing Service Innovation in Small Medium Accountancy Practices: The Impact of
Dynamic Capabilities and Entrepreneurial Orientation

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Abstract

Small Medium accountancy Practices (SMPs) are regarded as the most important provider of support to Micro Small Medium Enterprises (SMEs). However, several challenges, including technology, have driven the need for SMPs to engage in service innovation. Service innovation is described as a new or enhanced service offering intended to benefit SME clients. Whilst a vast amount of literature has explored the capabilities needed for firm innovation, limited research has explored the dynamic capabilities needed for service innovation, in SMPs. Furthermore, it has been suggested that entrepreneurial orientation is both an important antecedent for dynamic capabilities and service innovation. However, limited empirical research has explored the relationship between these concepts. This paper addresses these gaps by exploring the dynamic capabilities and entrepreneurial orientation required for service innovation in SMPs.

1 Introduction

The SME sector plays an important role in the global economy, accounting for more than 95% of firms and more than 50% of jobs worldwide (World Bank, 2019). Within Europe, SMEs account for 99% of firms and approximately 67% of all jobs (European Commission, 2023). On the Island of Ireland, SMEs are particularly important, accounting for some 99.8% of all enterprises, and employing 70-80% of the total workforce, therefore exceeding both the worldwide and European dependence on SMEs for employment (European Commission, 2019; DBEIS, 2022).

A plethora of studies provide evidence that SMEs rely extensively on external accountants for business support (Kirby and King, 1997; Bennett and Robson, 1999; Berry et al., 2006; Watson, 2007; Mole et al., 2017). Empirical evidence also confirms that there is a positive relationship between the use of external accountants for business support and the growth and survival of SMEs (Watson, 2007; Kamyabi and Devi 2011; Carey, 2015).

External accountants are categorised into three types according to size: Big Four (KPMG, PWC, EY and Deloitte); Mid-Tier/Second Tier Practices, which are large accountancy practices with predominantly large clients; and Small Medium accountancy Practices (SMPs), the smallest subset of external accountants, who fall within the definition of SMEs (Albu et al., 2016). SMPs account for the majority of external accounting practices worldwide, for example there are approximately 2,000 SMPs on the Island of Ireland.

SMPs are described by the International Federation of Accountants¹, (IFAC, 2023b p1) as “practices that exhibit the following characteristics: their clients are mostly small and medium-sized entities (SMEs); they use external sources to supplement limited in-house technical resources; and they employ a limited number of professional staff.” SMPs provide a range of services to their SME clients including: compliance services (taxation and accounting) which account for approximately 66% of the service provision in Ireland and the UK; audit and assurance (12%); and advisory services (22%) (ACCA, 2015; Albu et al., 2016).

SMPs are currently facing numerous challenges in the delivery of their service offering. There is relatively little academic literature on these challenges, however, representative bodies of the

¹ IFAC are a “global organization for the accountancy profession, comprising 180 member and associate organizations in 135 countries and jurisdictions, representing more than 3 million professional accountants” (IFAC, 2023a)

Professional Accountancy Organisations (PAOs), namely IFAC and the Edinburgh Group² suggest four strategic challenges threatening SMPs sustainability namely, changing regulation/deregulation, changing technology, changing client needs, and competition for talent (Street et al. 2019). Street et al. (2019), and others (Alam and Nandan, 2010; ACCA, 2015; Albu et al., 2016) argue that service innovation is important for SMPs to overcome these strategic challenges. Service innovation is described as a new or enhanced service offering intended to benefit clients (Dotzel et al., 2013). There have been calls for research to understand service innovation within SMPs and more generally Professional Service Firms (Barrett and Hinings, 2015; Albu et al., 2016; Williams and Van Triest, 2021).

In the general innovation literature, it is suggested that dynamic capabilities are important for service innovation (Den Hertog et al., 2010; Agarwal and Selen, 2013; Kindström et al., 2013; Janssen et al, 2018). Dynamic capabilities are “the firm’s ability to integrate, build and reconfigure internal and external competencies to address rapidly changing environments” (Teece et al., 1997 p. 516). There have been a few studies which has explored the dynamic capabilities of SMPs (see. Døving and Gooderham, 2008; Sarens et al. 2015), however, this research has explored how they use these capabilities for diversification³ as opposed to service innovation.

Furthermore, it could be suggested that for SMPs to engage in and leverage service innovation, they need entrepreneurial orientation. Entrepreneurial orientation is defined in this paper as a “strategic construct that captures a firm’s strategy-making practices, management philosophies, and firm-level behaviours that are entrepreneurial in nature” (Anderson et al. 2009, p.220). Prior scholars suggests that entrepreneurial orientation has a positive effect on dynamic capabilities and service innovation (Jiao et al., 2010; Bello et al., 2016; Ndubisi & Agarwal 2014; Ferreira et al., 2020). To the best of our knowledge, entrepreneurial orientation has not been explored in the context of SMPs. To fill gaps in knowledge on SMPs and in particular to help understand how SMPs can be better supported to leverage service innovation, we suggest that there is a need for a greater understanding of SMPs dynamic capabilities and entrepreneurial orientation.

Consequently, this paper will explore two research questions:

1. Do the dynamic capabilities of SMPs influence service innovation?
2. Does entrepreneurial orientation influence the dynamic capabilities needed to engage in and leverage service innovation within SMPs?

The remainder of the paper is organised as follows: section two will discuss the theoretical frameworks of service innovation for SMPs, the role of dynamic capabilities, and entrepreneurial orientation. Section three will discuss the methodology adopted in this research.

² The Edinburgh Group is a coalition of 16 PAOs from across the globe, representing over 900,000 accountants. The group was formed in recognition of the importance of the SMPs and SMEs in order to champion their interests (Street et al., 2019).

³ Diversification is referred to in the accounting sector as the “multidisciplinary practice” (Greenwood et al. 2005).

2 Theoretical framing

2.1 Service innovation within SMPs

To overcome the challenges faced by SMPs, it is suggested that service innovation is required (ACCA, 2015; Street et al., 2019). Whilst service innovation is understudied in SMPs and professional service firms in general, Bello et al., (2016), in a study of professional firms in India (n=201), found that service innovation offers clients new or enhanced added value benefits, and also has the potential to enhance profitability of the firm providing the service. Within the service innovation literature Coombs and Miles's (2000) breaks service innovation up into three categorisations of perspectives: the assimilation, demarcation, and synthesis approach. Recent studies (Salunke et al. 2019; Woo et al. 2021) have highlighted the relevance of an alternative S-D logic approach for investigating service innovation where benefiting clients is an important consideration. S-D logic proffers that service is central to any economic exchange and can be conceptualised as the “process of using one’s resources for the benefit of another actor – rather than goods, as the fundamental basis of economic (and social) exchange” (Lusch and Vargo, 2019 p. 4). Customer centricity, whereby service innovation creates not only value for the firm providing the services, but also their clients receiving the service, is at the heart of S-D logic (Salunke et al., 2019). A S-D logic lens is adopted in the current study since it is suggested that the application of capabilities for service innovation, which add value to the SME client, is important for SMPs to overcome strategic challenges.

2.2 The role of dynamic capabilities in service innovation

As noted, prior research has identified dynamic capabilities as an important determinant of service innovation (e.g. Den Hertog et al., 2010; Salunke et al., 2019). Teece (2007) introduced the notion of microfoundations into the dynamic capabilities’ literature. According to Teece (2007), dynamic capabilities can be disaggregated into three categories: sensing, seizing and reconfiguring, which are underpinned by their ‘microfoundations’, the distinct processes that enable firms to develop higher order dynamic capabilities. to address rapidly changing environments.

Alternative definitions and interpretations exist for dynamic capabilities. For example, Eisenhardt and Martin (2000 p.1107) define dynamic capabilities as “organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve, and die.” They argue that dynamic capabilities have significant commonalities across firms (referred to as ‘best practices’) which can exist in moderately dynamic and high velocity markets. This definition is distinct from the one provided by Teece et al (1997), who view dynamic capabilities as the ability to specifically address rapidly changing environments.

Within the service innovation literature, the majority of studies have adopted the Eisenhardt and Martin’s (2000) perspective of dynamic capabilities as best practices (eg. Argarwal and Selen, 2013; Bello et al. 2016; Salunke et al., (2019). Other scholars (Den Hertog et al.;2010; Janssen et al., 2016; 2018; Kindström et al. 2013) draw on the perspective of dynamic capabilities put forward by Teece (2007). However, this literature is limited. As this study is particularly concerned with the ability of SMPs to adapt to a rapidly changing environment, the Teece (2007) perspective of dynamic capabilities for service innovation will be adopted.

2.3 Entrepreneurial orientation as an antecedent to dynamic capability development

Teece, (2020) suggests that dynamic capabilities do not merely happen by chance but are developed through entrepreneurial strategy-making practices, philosophies, and behaviour within the firm, collectively referred to as entrepreneurial orientation. Miller (1983) argues that entrepreneurial orientation comprises three dimensions, namely, innovativeness, proactiveness and risk-taking. According to Miller (1983), all three must be present for a firm to be entrepreneurial. While Miller's (1983) concept of entrepreneurial orientation is widely adopted in the literature, Lumpkin and Dess (1996) argue that it may be too narrowly construed. In contrast, they view entrepreneurial orientation as a multidimensional construct with two additional dimensions, namely autonomy and competitive aggressiveness, which complement Miller's (1983) original three dimensions. Lumpkin and Dess (1996) argue that each dimension can vary independently given the context in which they are being investigated. Whilst there are other perspectives of entrepreneurial orientation, for example Anderson et al (2015), the current study adopts the Lumpkin and Dess (1996) perspective of entrepreneurial orientation. The Lumpkin and Dess (1996) conceptualisation offers the researcher an opportunity to investigate all five dimensions individually. For SMPs with limited resources, it is important to understand which dimensions are most beneficial for service innovation.

3 Methodological approach

To help achieve the research questions, a quantitative design was adopted. An online survey was administered to SMPs, who are members of the three main PAOs on the Island of Ireland. The survey contains items drawn from established scales in the literature. Dynamic capabilities are measured using the 16-item scale developed by Kump et al. (2019). Entrepreneurial orientation is measured using the 18-item scale developed by Hughes and Morgan's (2007). The scale comprises five dimensions: risk-taking, innovativeness, proactiveness, competitive aggressiveness, and autonomy. Finally, service innovation is measured using the 8-item scale derived from Salunke et al. (2019). Control variables include age, size, and geography served by SMPs. A total of 203 usable responses were received. The data will be analysed using structural equation modelling (SEM) via AMOS.

4 Discussion and conclusion

SMPs are important providers of business support for the SME sector. However, they are largely overlooked in the academic literature and in the development of policy to assist SMEs. SMPs are currently facing significant challenges which necessitates innovation in their service offerings. Service innovation offers new opportunities for SMPs to not only increase their revenue, but also to provide new and enhanced value-added services to their SME clients. This study will extend the literature by offering insights into the specific elements of entrepreneurial orientation that drive the dynamic capabilities for service innovation in SMPs.

5 Plan for development of the paper

The next steps in this paper are to analyse the data from the 203 fully completed responses received. It is anticipated that the empirical findings of the study will be available for presentation at the conference.

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