



**MONASH** University

**The applicability of ambidextrous designs for service firms competing within stable external environments: The case study of an Australian Accounting practice**

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## **Abstract**

Increased computer power offered at ever decreasing cost is a hallmark of the twenty first century. In its wake product lifecycles shorten and prime cash generators rapidly become obsolete from technology changes. Management teams confronted with the imminent loss of cash generating outputs are then compelled to develop replacements before lifecycles end. New product comes out of exploratory activities that involve risk and failure. This conflicts with the efficiency and cost control required when managing capabilities exploiting mature products. Ambidextrous structures evolved to resolve the structural tensions and incompatibilities created by the simultaneous hosting of explore and exploit activities.

Ambidextrous designs are primarily considered responses to external environmental dynamics. This thesis examines their application when external environments are stable and present no threat to an organisation's core offer longevity. It considers two questions in relation to external environment stability and the possible application for ambidextrous designs. Can ambidextrous designs create strategic advantage opportunities for firms competing in environments not presenting existential threats to the lifecycle of core offers? Does the absence of existential threat to the core offer develop negative conditions in internal environments preventing the integration of ambidextrous designs?

The case study method was used to address the research questions. The case is a professional accounting practice delivering a core service not subject to threat of obsolescence. The research scope includes the analysis of the Australian professional accounting industry, i.e. the context in which the practice competes. The core offer of the practice is not differentiated from the competition and competitive advantage is derived from personal relationships. The inability to differentiate the core offer is found to create opportunity for enhancing competitive advantage by introducing supplementary services. The findings also show that although the core offer is stable, the competitive environment is possibly dynamic. The introduction of supplementary services provides a capability for defending market share if competition intensifies.

The existing practice capability is monodextrous and unsuitable for hosting exploratory activities. An ambidextrous design offers a capability to overcome its incompatibility with new service development. This indicates that ambidextrous designs provide potential for facilitating added competitive advantage when

conditions are stable. Notwithstanding this finding the practice revealed management attitudes that would obstruct ambidextrous design introduction. This demonstrates how a stable offer can condition management to focus on stability and security rather than choosing the uncertainties associated with new product development.

The findings from the research therefore show that organisational ambidexterity has an application where it is not a response to existential threat. The use of ambidextrous designs in situations that are not a response to external dynamic risk is not widely acknowledged in the literature. The research also contributes to knowledge about the management role in the introduction of ambidextrous designs. It achieves this by identifying attitudes and behaviours that obstruct rather than nurture implementation, an area not extensively considered by the existing literature. Using the accounting practice as a case for study also contributes valuable insights regarding the nature of exploit capabilities and the way management teams respond in the absence of threats to core offer lifecycles.

## **Declaration**

This thesis contains no material which has been accepted for the award of any other degree or diploma at any university or equivalent institution and that, to the best of my knowledge and belief, this thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

## **Acknowledgements**

The wisdom in Alexander Pope's droll observation that "*fools rush in where angels fear to tread*", became very apparent during the eight years I was immersed in this thesis. It really resonated when I suddenly realised that an ingenuous decision to end my professional career as a PhD student placed the tail of a very difficult tiger in relatively inexperienced hands. There were times when holding on was so difficult I just wanted to let go. After all, who really wants to hold a tiger by the tail at the end of a professional career? Thankfully the late George Harrison was right, all things do pass, and so the tiger finally ended his run. I am therefore able to acknowledge with gratitude those who taught me to tame the beast, those who encouraged me not to let go, and those who provided the medical attention that pulled me through.

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There is no more delicate matter to take in hand, nor more dangerous to conduct, nor more doubtful in its success, than to be a leader in the introduction of changes.

For he who innovates will have for enemies all those who are well off under the old order of things, and only lukewarm supporters in those who might be better off under the new.

(Niccolo Machiavelli *The Prince*)

# CHAPTER 1

## INTRODUCTION

### Chapter summary

This thesis explores the possibilities for improving competitive advantage when there is no existential threat to the core offer of a professional services firm. The research considers the issue from two aspects. Do opportunities exist for the firm to acquire a strategic benefit by introducing supplementary services into market segments where product differentiation has not been a contributor to competitive advantage? Is the extant capability of a firm that competes in these market segments compatible with the organisation architectures necessary for new service development and delivery? The chapter explains why the implementation of new product innovation programs into established extant capabilities can introduce anomalies that traditional structures are unable to reconcile. It refers to previous research that found reconciliation to be possible by re-engineering the organisation architecture. This is achieved by creating a structure capable of hosting two capabilities simultaneously, one producing the existing offer, and another nurturing new product innovation. Organisations that are successful in implementing these dual focus designs are considered by the literature to be ambidextrous. The chapter narrative identifies that previous research into organisation ambidexterity has primarily considered the designs to be a response to dynamic environments that threaten core offer longevity. It explains that this thesis examines the topic from an inverse perspective, whether ambidextrous structures can deliver strategic benefits to firms competing in environments that present *no* existential threat to the core offer. The chapter includes a brief summary of the literature, introduces the questions to be examined by the research, explains why it is justified, and its contribution to the ambidextrous organisational theory. A brief outline of the chosen methodology and method, together with an explanation of the content for the chapters that follow, conclude the chapter.

### The Innovation Imperative

The term technological unemployment (Keynes 1930) describes a situation where the pace of technology change is so rapid that the number of new jobs created by the economy is unable to replace those made redundant by the changes. In 2014 the Economist magazine reported that for much of the twentieth century, global economies adjusted and evolved, enabling the creation of new jobs which replaced

those lost in the face of constant and significant technological change (Economist 2014). Two emerging factors are now significantly impacting on the ability of the global economy to sustain its capacity for absorbing jobs lost as a result of technological change. The first is the growing reach and power of computerisation (Frey et al 2013), and the second, the replacement of labour by capital (Summers 2013). A significant contributor giving rise to this situation is the reduction in the cost for deploying computer power. This resulted in a substantial restructure of the global economy, a process which commenced in the closing decades of the twentieth century and continues into the twenty first (Brynjolfsson et al 2000).

When faced with rapidly changing environments management is forced to search for, select, and introduce something new before existing cash generating products or services become obsolete (Eisenhardt 1989b; Roberts 2004). This process of renewal strengthens the potential for future sustainability (Lisboa et al 2011; O’Cass et al 2014). It replenishes existing capability by introducing additional or new capacity for generating future cash flow (Tushman et al 1996; McCarthy et al 2010). In some industries, the competing firms will only achieve this goal by developing and executing a carefully structured process of retention and renewal (O’Cass et al 2014). The process commences by first identifying viable products or services within the existing offer that can be retained. Products or services found to be non viable are targeted for an abandonment or harvesting strategy. A critical aspect of this renewal process is the implementation of appropriate innovation programs for developing new products to replace those found to be obsolete (Lewin et al 1999; Atuahene et al 2005). To ensure continuity of supply this renewal by innovation should ideally be undertaken in parallel with the product abandonment process (Raisch et al 2008; O’Cass et al 2014).

### **Structural conflicts from conflicting agendas**

A strategy that focuses on product retention and abandonment while simultaneously nurturing the development of replacements has been found to give rise to a number of irreconcilable conflicts (Cantarello et al 2012; O’Cass et al 2014). The conflicts arise because the respective activities are based on contradictory agendas and reconciliation between them is difficult (Smith et al 2005). The activities within an organisation that focus on the support required for the extant product range are collectively described as its exploit capability (March 1991). Activities focused on developing new products, services and markets, are referred to as the explore

capability (March 1991). Simultaneous support of both explore and exploit activities give rise to a structural contradiction that lies at the heart of the conflict (Cantarello et al 2012; O’Cass et al 2014). The reason being that some structures are more suited to the maintenance of extant capabilities, while others support the nurturing of innovation (Pettigrew et al 2000; Eisenhardt et al 2000; Benner et al 2003). Mechanistic structures built on principles of centralisation, clear lines of command, and plenty of rules, are suited for maintaining a mature established capability (Farjoun 2010; O’Reilly et al 2004). Typically this is the capability producing the extant cash generating product range (Burns et al 1961). Organic structures characterised by fluid job descriptions, high communication levels, and few rules, free up employees (Burns et al 1961). This freedom provides an environment that stimulates the new ideas required for developing new products and services (Burns et al 1961). It is an open question whether exploit activities supporting an existing product range, and exploration activities required to develop new products, are capable of being supported by a single organisation at the same time and place (Csazar 2013; O’Cass et al 2014).

The reason these structures are so different lies in the nature of their objectives. The ultimate aim for a structure focused on exploratory activities is the development of new products or services capable of meeting the needs of emerging markets (Cyert et al 1963; Abernathy 1978; Benner et al 2003). The innovation programs that facilitate this objective are described as being breakthrough<sup>1</sup> or discontinuous (Cyert et al 1963; Tushman et al 1996). The aim of a structure focused on exploit activities is to maintain the efficiency of an extant capability (Jansen et al 2005). The innovation programs that support and improve the extant cash generating capability are referred to as incremental<sup>2</sup> or architectural (Tushman et al 1996;). Implementing and nurturing discontinuous innovation requires the organisation architecture and culture to be built on experimentation, risk taking, openness, loose discipline, and a motivation that will often be further stimulated by failure (March 1991; O’Reilly et al 2004; O’Reilly et al 2008; Farjoun 2010). Incremental innovation however, is designed to improve the routinisation, discipline, control, risk aversion, and tightening of slack demanded for maintaining the existing capability producing the current product range (March 1991; O’Reilly et al 2004; Farjoun 2010). The

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<sup>1</sup> In this thesis the term discontinuous will be used.

<sup>2</sup> In this thesis the term incremental will be used.

disparate demands of these structural and cultural objectives illustrate the nature of the conflicting agendas (Eisenhardt et al 2000; Smith et al 2005). The solution for reconciling them requires the creation of a platform able to incorporate, reconcile, and sustain both exploratory and exploitative capabilities within one holistic organisation structure (Benner et al 2003; O’Cass et al 2014).

### **Resolving conflicting agendas**

A widely accepted axiom in management studies is that an organisation’s structure will ultimately be shaped by its strategy (Chandler 1962). Roberts (2004) refers to this axiom as the standard conception in management studies. From an industrial economics perspective (Belleflamme et al 2010) this axiom supports the view that corporate strategy is an important influencing factor in determining the structural capability required for implementing strategy (Chandler 1962; Roberts 2004). The connection between strategy and structure provides a rationale for the emergence of architectural types designed to reconcile the conflicting explore and exploit agendas. The architectures manifest as a number of different designs, however they are all collectively described as ambidextrous structures (Duncan 1976; Simsek 2009). Organisations that implement and use the designs are consequently referred to as being ambidextrous (Benner et al 2003).

The word ambidextrous is derived from the Latin words *ambos* meaning both, and *dexter* meaning right which, when brought together, imply the ability to be equally dexterous with both left and right hand (Simsek 2009). In a structural context this implies that the organisation will be adept in maintaining a dual capability, one able to exploit existing products, services and market segments, the other hosting the exploratory activities required for developing, and implementing new products and services (Benner et al 2003). Being ambidextrous describes an organisation that is both aligned and efficient in managing existing demands, while at the same time is sufficiently adaptable to the incorporation of changes emanating from its environment (Duncan 1976). The term ambidextrous has also been interpreted to describe an organisation with the ability to support a cost efficiency strategy through its exploit capability, and a differentiation strategy using its explore capability (O’Cass et al 2014).

### **Dynamic external environments**

When the economic cycle results in periods of instability that are characterised by rapid and constant change, decision makers need to encourage the exploration of

alternatives (Leonard-Barton 1990). For the purpose of this thesis these environments are described as dynamic. Their rapid change consistently threatens the viability of the extant product range, and the dynamics become an important catalyst for motivating firms to consider the introduction of ambidextrous architectures (Jansen et al 2005; Raisch et al 2008). In these environments, failure to initiate the required level of discontinuous innovation will potentially impact on the future survival of the firm (Jansen et al 2005).

### **Ambidextrous organisations and stable environments**

For the purpose of this thesis, the description of a stable external environment refers to one where the *inherent dynamics do not present any immediate threat to the viability of the extant cash generating products or services* of the industries operating within it (Dess et al 1984; Jansen et al 2005). Firms operating in environments considered to be non-dynamic and relatively stable have no imperative for countering imminent threats to existing products or services. These conditions allow the top management team (TMT) to focus exclusively on modifying the existing product range and ensure that the capability producing is efficient (O'Reilly et al 2004). This internally focused perspective encourages the implementation of the incremental innovation projects (Leonard-Barton 1990) that are designed to improve short term efficiencies, and to modify the extant product range and the capability producing it (O'Reilly et al 2004; O'Reilly et al 2008; Farjoun 2010; Csazar 2013). A monodextrous structure focused exclusively on an exploit capability is appropriate under these conditions because the urgent imperative to develop new products is absent. Unless other strategic imperatives for developing new outputs to supplement the enduring core offer emerge, an ambidextrous design serves no purpose.

The question therefore is whether an ambidextrous design could have any use for a firm competing in an environment considered to be stable with regard to its core offer. The TMT would need to modify its focus, turn away from an exclusive concentration on the exploit capability, and include a strategy to develop and sell a new offer that supplements the core. The motivation in these situations is not a response to a dynamic environment threatening the lifecycle of the core offer. Other incentives, for example enhancing competitive advantage, become the motivating factor. The added competitive advantage is gained by differentiating the offer through new products or services which supplement the stable core. The TMT motivation is a desire to achieve superior returns relative to the competition. The superior returns



are the outcome from a strategy involving continual differentiation of the product or service offer, which boosts income streams, and delivers greater internal efficiency (Porter 2004; Roberts 2004). The new income streams are generated from the added value delivered to customers, and the internal efficiency is gained by reducing fixed costs because of the increased throughput (Goldratt 2014). Differentiating the offer by adding new services or products will require a measure of discontinuous innovation activity to be introduced into the extant exploit capability. At this point, the need for an ambidextrous design becomes necessary, because the implementation of a discontinuous innovation program into an extant exploit capability will trigger the structural incompatibilities identified in the literature (Duncan 1976: March 1991). In the situation described, the catalyst for using an ambidextrous design will not be the primary causation factor identified in the literature, a mandatory response to an existential threat emanating from a dynamic environment (Leonard-Barton 1990; Jansen et al 2005; Raisch et al 2008). The decision to use an ambidextrous design becomes a strategic choice designed to increase value rather than replacing the core income source with a terminal lifecycle.

Risk mitigation could also become a motivating factor for considering an ambidextrous approach. The lifecycle of the core offer may not be under threat of substitution or obsolescence, but other dynamics emanating from both external environment and competitive environment could present a potential risk. One dynamic is the inexorable advance in computer technology. The rapid advances have the potential to profoundly impact and ultimately present an existential threat for many work categories. The threat manifests in the changes being brought about to the nature of work as smart software applications evolve and become cheaper to introduce and maintain. It has been suggested that these applications could ultimately present a risk to the future sustainability of 47% of employment categories in the United States of America (Frey et al 2013). These predictions indicate that it may be in the long term interest of all industries and professions to examine emerging opportunities that provide a potential for expanding the dimension of their existing product or service offer. This would represent a risk mitigation strategy offering some protection against the possibility of unemployment arising out of significant changes brought about by technological advancement.

There is another situation that could motivate a need for introducing new products or services even though the core offer lifecycle is stable. It is possible that

threats emerging within the competitive environment oblige action to *differentiate the firm* by its ability to deliver new products or services *in addition to* the stable core offer. The introduction of new products under these circumstances is not a proactive strategy for gaining competitive advantage, it represents a risk mitigation strategy. Risk mitigation is achieved by *reinforcing the credentials of the firm*. Its objective is to reinforce the firm as being not only a provider of excellence for the core offer. It is presented as an entity capable of supplementing its offer by delivering additional value which augments the inherent benefits of the existing relationship.

### **Antecedents for organisational ambidexterity**

The literature has identified a number of internal structural and cultural factors that facilitate the successful incorporation of ambidextrous designs into the fabric of an organisation (Lubatkin et al 2006; Raisch et al 2008). A comprehensive understanding has not been developed about these factors under stable environmental conditions. It is apparent that firms competing under conditions of relative external stability adapt to their environments by utilising a process of incremental adjustments to the extant capability (Amabile et al. 2001). The outcome is to concentrate on the requirements of the extant exploit capability rather than redirecting resources into exploration (Pettigrew et al 2000). As a result the organisation structure becomes mechanistic (Burns et al 1961), and is characterised by clear lines of command, centralisation, and a plethora of rules to create an efficient exploit capability (Csazar 2013). Significant re-engineering is required before a firm offering a stable core product or service, produced by a mechanistic structure, would be able to implement the exploratory activities necessary for nurturing the development of something new. Organic structures (Burns et al 1961) with fluid job descriptions and fewer rules, that provide the freedom required to explore new ideas, are required (Csazar 2013). The TMT would have to refocus strategic vision, search for new opportunities, and re-engineer organisation architectures before being in any position to commence development of a new product or service (Tushman et al 1999; Lin et al 2011).

### **Re-Engineering strategy and structure**

#### *Re-focusing strategy*

The refocus of strategic vision is sometimes driven by a fear to avoid missing out on available opportunities (Berger 1985). Described as the fear of committing an error of omission, it is different to an error of commission which is the fear of being wrong (Berger 1985). During periods of ferment and change decision makers must

explore new opportunities. They will therefore tend to avoid errors of omission which may result in missing out on emerging opportunities (Leonard-Barton 1990). This choice may be very difficult for the TMT of a firm that is totally reliant on a stable product or service for generating its cash flow. Its TMT will have developed a dependency on consistency with a focus on the reduction of inconsistency (Denison et al 1995; Lewis 2000; Lin et al 2011). The inherent conservatism nurtured by the absence of any need for constantly replenishing the offer may also create a strategic perspective that is unwilling to focus on both sustaining and exploring (Lin et al 2011). These situations cultivate a preference for securing incremental change and innovation so that errors of commission are eliminated, and the existing capability is efficiently maintained (Leonard-Barton 1990; Lin et al 2011). Consequently decisions based on the fear of omission may represent a very unattractive option for the members of these teams. It may just not be possible for them to adopt the new perspectives required for shifting strategic focus. The shift will require the TMT to adopt a strategy motivated by a desire to avoid errors of omission. This requires acceptance of risk, the implementation of an action plan designed for exploring potential new opportunities, and embracing learning activities that facilitate discontinuous innovation (Vera et al 2004; Lin et al 2011). It requires an organisation culture that is dual focused, accepting the inconsistencies of exploration, and the consistencies necessary for maintaining the extant exploit capability (Lin et al 2011). The proclivity of the TMT for embracing a strategic perspective based on avoiding errors of omission can also be affected by the ruling decision making processes. Scandura et al (2000) found that a structure where decisions require approval from all decision makers before proceeding (a hierarchy), records a lower probability for achieving agreement than one where each decision maker is able to approve independently (a polyarchy). Csazar (2013) suggests there is likely to be a higher probability for a TMT structured as a polyarchy to execute on a decision involving errors of omission, than one structured in the form of a hierarchy.

#### *Power of the TMT*

The previous section has suggested that the catalyst for facilitating perspective changes is derived from the vision of the TMT and the way it is organised for making decisions. This view is supported by the organisational ambidextrous literature (Lin et al 2011). The leadership provided by the team has been found to be a critical factor for the introduction of ambidextrous architectures (Lubatkin et al 2006;

Raisch et al 2008; Lin et al 2011). Research on the application of ambidextrous structures in small to medium size enterprises, concluded that no other group has the same level of influence as the team residing at the top of the organisation apex (Lubatkin et al 2006). This view is derived from a recognition that the TMT is empowered to make strategic decisions, and they are ultimately accountable for what happens to the organisation (Hambrick 1989). This influence is represented by the power the team has to initiate the action required for reallocating scarce resources from an existing to a new capability (He et al 2004). Clearly therefore, the behaviour, attitudes, and perspectives of the TMT within a firm delivering a stable core offer, will play a significant role in determining its ability to adapt (Lubatkin et al 2006; Lin et al 2011). In this regard a metaconstruct referred to as behavioural integration (Hambrick 1994), which is used to describe the level of collaborative behaviour displayed by a team, becomes relevant (Lubatkin et al 2006; Lin et al 2011). Behavioural integration is a collective term describing the social dimension to the team relationship, the quality of the information exchange between its members, the nature of the task dimension, and how decisions are made individually or jointly (Hambrick 1989; Lin et al 2011). Behavioural integration can influence how a TMT is able to manage the complexities arising from the explore exploit conundrum (Simsek et al 2005; Lubatkin et al 2006; Carmeli et al 2009).

### **Summary of the literature**

The literature's use of the expression ambidextrous to describe an organisation dates back to 1976. Duncan (1976) explains the term as describing an organisation with a dual focus, aligned and efficient in managing its existing capability, but adaptable to external environment changes. The landmark paper for organisational ambidexterity (Raisch et al 2008; Nosella et al 2012) however is ascribed to March (1991). The paper introduces a defining axiom used consistently in the literature to represent the essential conflict ambidextrous organisational structures are designed to resolve (Lubatkin et al 2006). The axiom is a juxtaposition between the words explore and exploit. Explore is used to depict the innovation activities developing new products (He & Wong 2004), exploit represents the extant capability producing existing product (Laureiro-Martinez et al 2014). The juxtaposition between the two represents the structural conflicts involved when organisations undertake both activities simultaneously (Smith et al 2005). The conflicts emerge because of the competing explore exploit agendas, and the different organisation

structures required for their support (March 1991). Explore involves risk, flexibility, and the acceptance of failure (Atuahene-Gima 2005; Farjoun 2010). An exploit capability requires the efficiency which comes from routine, discipline and risk aversion (O'Reilly et al 2004; Farjoun 2010). The genesis for the commencement of wider research and the emergence of a formal theory (Raisch et al 2008; Nosella et al 2012) is considered to be a paper published by Tushman et al (1996). *For the sake of brevity future references to organisational ambidexterity is abbreviated to OA.*

Nosella et al (2012) group the body of knowledge which has emerged since Tushman et al (1996) under four headings, foundations, contextual solutions, antecedents and consequences, and cross boundary perspectives. The foundations category examines OA in terms of a physical separation between two structures, one designed to conduct the innovation activities of the firm, and the other designed for maintaining the extant capability (Benner et al 2003; O'Reilly et al 2004; O'Reilly et al 2008). This structural or spatial approach is considered to be the traditional representation of an ambidextrous design (Birkinshaw et al 2004). The category of research referred to as contextual solutions examines OA from the perspective of how behaviour can be molded at the individual level of the organisation, rather than by structural separation (Adler et al 1999; Birkinshaw et al 2004; Gibson et al 2004). The antecedents group focus on identifying any specific enabling factors that will drive an organisation to select a structural or contextual solution (Bodwell et al 2010; Jansen et al 2008a; Jansen et al 2008b; Hughes et al 2010; Carmeli et al 2009). The group focusing on consequences looks for linkages between the implementation of an ambidextrous approach and performance outcomes whether positive, neutral, or negative (Chang et al 2009; De Visser et al 2009). Finally, the cross boundary group considers whether the emergence of OA is an outcome from any stimulus generated by local and cross border inter firm relationships (Riccaboni et al 2009; Lin et al 2007; Gupta et al 2006).

Post 2012 a number of new perspectives emerged. O'Cass et al (2014) extend the principle of ambidexterity to the marketing function whereas previously the focus was on product generation. The O'Cass et al (2014) extension is to apply ambidextrous principles for resolving conflicts that emerge when the marketing activities necessary for new products are incompatible with those protecting or growing market share of existing product. An important new area of research that emerged because of the difficulties involved when implementing spatial solutions

(Govindarajan et al 2005; Csazar 2013), is the use of structures based on alliances, outsourcing, or acquisitions (Stettner et al 2014). A new avenue of enquiry based on a recognition that resolving the conflicting demands made by efficiency and flexibility is the task of individuals (Smith et al 2005; Eisenhardt et al 2010), is examined by Laureiro-Martinez (2014). She suggests that new insights into OA can be gained by focusing on the individual or micro level of ambidexterity in organisations, and considering the antecedent factors that encourage a manager to think and act in an ambidextrous way.

A consistent theme occupying the published research is to identify the external catalysts creating the need for OA, and the internal conditions within an organisation that nurture its implementation and acceptance (Raisch et al 2008). External environment and competitive environment dynamics are recognised to be the prime external catalysts. Organisation structure, leadership and individual behaviours are the three significant internal nurturing factors (Raisch et al 2008). The literature has not considered any potential benefits OA may offer to organisations competing in environments that are not dynamic. It has also not considered whether the internal nurturing factors for OA in dynamic environments would provide the same support in conditions of external environment stability. These are the issues examined in this thesis.

### **Research aim**

The published research has portrayed organisational ambidexterity as a structural response to dynamic factors in external environments that shorten the lifecycles of existing products or services (Tushman et al 1996). The ambidextrous designs discussed in the literature are presented as solutions for overcoming anomalies and incompatibilities that obstruct the innovation programs designed to replenish, or replace, products or services destined for obsolescence (Jansen et al 2005; Raisch et al 2008; Voss et al 2013). The research aim for this thesis however, is to investigate if conditions *other than dynamic environments* might provide management teams with a reason for utilising ambidextrous designs. The research will focus on one firm from a service industry where the core offer is not under threat of substitution or obsolescence. External environment dynamics are therefore removed as a causative factor for choosing OA, by the presence of the stable core offer. The motivation prompting a decision to introduce an ambidextrous design becomes the enhancement of competitive advantage through service differentiation.

The literature has however identified that TMT behaviours and attitudes are important antecedent factors for facilitating the implementation of OA (Beckman 2006; Lubatkin et al 2006; Raisch et al 2008; Lin et al 2011). For this reason an additional aim for the research is to develop a comprehensive understanding of the behaviours and attitudes driving a TMT that *does not have to contend* with the potential obsolescence of its core product offer. The behaviour patterns that are identified by this examination can then be compared with those the literature recognises as antecedent conditions for the introduction of organisational ambidexterity. The comparison would disclose OA antecedent conditions that are absent, or those that may obstruct a decision to implement new service development programs facilitated by the use of ambidextrous designs. The nature of the prevailing behaviours and attitudes will be determined by an examination of strategic vision, the way decisions are made and its influencing factors, how the team is organised, its communication protocols, and the organisation culture it encourages.

### **Research Questions**

Firms competing in stable environments presenting no threat to existing cash generating outputs do not have an existential imperative for developing additional new products or service. An exclusive focus on maintaining and improving the extant capability would appear to be the most suitable strategic option for sustaining the continuing generation of shareholder value (Leonard-Barton 1992; Daneels 2002). In the absence of an existential threat to the stable core offer, other factors would need to motivate a TMT in these firms to *voluntarily* take the risks involved in developing new products or services to supplement the stable core offer. This thesis considers a situation where an industry delivers a stable service offer but its competitive environment also presents opportunities to supplement that offer. Exploitation of these possible opportunities are within the scope of the competing firms who deliver the industry's stable offer. In the situation just described an ambidextrous approach to organisation design offers a structural solution to facilitate introduction of the supplementary service offers (March 1991). Becoming ambidextrous will enable the firm to initiate the discontinuous innovation programs required for new service development while simultaneously maintaining its mandatory focus on the stable cash generating core service offer (March 1991; Voss et al 2013). The decision to initiate a discontinuous innovation into the firm involves risk and may require strategic refocus, modification of behaviours, change in attitude and significant structural

reengineering (Vera et al 2004; Lin et al 2011). This represents major change, and it is uncertain whether the prevailing conditions within the firm would allow this transition to occur. Two questions can therefore be considered. Can an ambidextrous design provide any strategic benefits for the TMT of a firm managing within a stable external? If so, will prevailing TMT leadership perspectives and the existing organisation structure support the implementation of an ambidextrous design. Two research questions are therefore formulated for the purpose of examining these issues.

**Research Question One.**

*Can ambidextrous designs create strategic advantage opportunities for firms competing in environments presenting no existential threat to the lifecycle of the core offer?*

**Research Question Two.**

*In the absence of an existential threat to the core offer will a firm's internal environment develop characteristics preventing the integration of ambidextrous designs?*

**Justification for the research**

The thesis aims to contribute to existing theory and literature on the subject of ambidextrous organisation architectures by examining if the designs have utility when a firm is not compelled to innovate in order to ensure its future survival. The research has been motivated by a number of considerations. The TMT of firms competing in stable environments do not contend with short or medium term threats to existing cash generating capability. The teams however still need to sustain a competitive edge and to differentiate their offer from those of competitors. Enhancing the offer by providing add on services is therefore a possible strategy for increasing competitive advantage. Ambidextrous architectures facilitate the development of new products or services (Atuahene-Gima 2005; O'Cass et al 2014). They allow an extant cash generating capability to continue its operations efficiently without interruption (Benner et al 2003; McCarthy et al 2011; O'Cass et al 2014), which is an essential requirement when the core offer is not under threat of obsolescence or replacement. In firms where the core offer is both the current and future cash generator, the TMT may not be receptive to the introduction of discontinuous innovation programs that impact negatively on the capability producing that cash flow (Argyris et al 1978; Benner et al 2003; Voss et al 2013). If ambidextrous structures offer these firms a capability that safeguard the efficiency of the existing service offer, and provide a



strategic opportunity for developing and implementing new services to satisfy a demand, then there may be an application for their designs in these situations.

If the research determines that this scenario represents a possible application for ambidextrous designs two positive outcomes emerge. The findings will add to the body of knowledge on OA by illustrating that structures can be useful in situations where existential imperative is absent. Alternatively, if it is found that OA does not offer any strategic benefit in these situations, this also contributes to the body of knowledge by showing that ambidextrous designs are limited to specific conditions. A recognition that ambidexterity is a strategy for creating differentiation and competitive advantage also creates a new avenue of enquiry for future research. It opens potential for examining how the designs could be used for securing deeper penetration of existing markets, and for gaining access to new segments. The research outcomes may also offer significant practical opportunities for management teams competing in stable environments. If it is determined that there is application for the designs in stable external conditions, the findings offer an opportunity to set aside the attitudes of consistency inculcated by stability, and to embrace the inconsistency necessary for becoming exploratory (Lin et al 2011). Management teams adopting the new strategic vision this offers, will have gained access to a structural capability offering the potential for changing the nature of competition in their industry (Cyert et al 1963).

### **Contribution to Ambidextrous Organisational Theory**

The aim of this thesis is to examine if *strategic choice* rather than *existential necessity* can motivate the need for an ambidextrous design. The specific aspect it explores is the motivation for securing a strategic benefit by improving competitive advantage with additional service offers. The scope of the research includes an examination of a firm's extant capability in order to determine if the absence of an existential threat inhibits the capacity for introducing new services. The findings from this research contribute to ambidextrous organisational theory in a number of ways. Nosella et al (2012) categorise the body of knowledge on ambidextrous organisations under four headings, foundations, contextual solutions, antecedents and consequences, and cross boundary perspectives. This thesis qualifies as research under the heading of antecedents and consequences (Chang et al 2009; Smith et al 2010; Andriopoulos et al 2010). It contributes to the knowledge in this area by exploring whether factors *other than dynamic environments* (Raisch et al 2008) might

motivate management to consider ambidextrous designs. This research therefore examines the decision to implement OA from an *elective* perspective. There is no extensive research considering the use of ambidextrous designs when external environments do not pose a threat to core product longevity. The election considered in this thesis is whether OA can provide a TMT with an opportunity for enhancing competitive advantage. The ultimate decision to implement OA under these conditions is not the result of mandatory causation motivated by existential threat (Eisenhardt 1989b; Atuahene-Gima 2005; Roberts 2004), *it represents an elective response*. Previous research has focused on the mandatory perspective, viewing OA as a solution for resolving a structural problem that arises when attempting to overcome a potential existential threat (Jansen et al 2006; Raisch et al 2009).

The research also provides an opportunity for extending the knowledge about the antecedent factors which the existing literature identifies as being positive nurturers for the implementation of OA (Gibson et al 2004; Lubatkin et al 2006; Raisch et al 2008). These factors encourage the development of a supportive internal environment and in this way facilitate a TMT decision to proceed with an OA implementation. This research examines three of these positive nurturing factors, but considers their influence from a negative perspective. It examines whether they become barriers rather than nurturers in response to the influences from a stable external environment. The three antecedent factors that are selected for this research are TMT behaviour and attitudes (Beckman 2006; Lubatkin et al 2006; Raisch et al 2008; Lin et al 2011), the way a TMT is structured (Lubatkin et al 2006), and the processes used for making strategic decisions (Berger 1985; Scandura et al 2000). The previous research has not considered the impact of stable environments on these three nurturing factors, nor whether under conditions of environment stability they might become barriers for the introduction of OA. The findings from this aspect of the thesis therefore contributes to the existing body of knowledge under the heading of antecedent factors.

This thesis also opens up opportunities for new avenues of investigation into alternative applications for OA. Its findings offer the TMT of firms that do not confront product obsolescence a strategic and structural opportunity for overcoming organisation inertia, an attitude stimulated by stability. Introduction of OA in these environments provides a capability for choosing strategic initiatives that increase firm

value and change the basis of the competitive environment in the particular industry (Cyert et al 1963).

### **Methodology and method**

The aim of this thesis is to examine whether factors other than environment dynamics may motivate the TMT of a service firm to consider implementing discontinuous innovation and using an ambidextrous design for that purpose. In order to answer the research questions two different data sources are used, a participating firm considered to be representative of a particular industry category, and the industry itself (Stake 2000). Data collected about the industry enables a comprehensive understanding to be developed of the external environment in which the participating firm competes (Pettigrew 1988; Stake 2000). Data collected from the participating firm provides the required detailed insights into how the TMT responds to the stimuli from its external environment and translates that into strategy and structure (Chandler 1962; Roberts 2004). Collection of the data requires very close interaction with individuals who in various contexts are providing service and support to the industry. It is also necessary to develop a close interaction with representatives of the TMT from the representative firm. This allows an understanding to be developed of the situations they face and their responses. Based on these terms of reference case study is selected as the most appropriate method for undertaking this research (Eisenhardt 1989a; Yin 1994). The method is appropriate when the research aim is to develop an understanding of dynamics present within single settings (Eisenhardt 1989a), and for gaining an understanding of the context for that single setting (Pettigrew 1988; Pettigrew et al 2000). It is also particularly suitable for developing useful and relevant management knowledge (Leonard-Barton 1990; Amabile et al 2001).

Raisch et al (2008), and Nosella et al (2012), refer to the lack of OA research at the individual level of analysis. They suggest that detailed case studies could help to further substantiate understanding of contextual ambidexterity. Nosella et al (2012) also identify a need for analysis at the micro level of organisations by examining organisational practices and routines. The reason given is that this level of analysis assists understanding about the artefacts and processes underlying the development of an ambidextrous capability. Mom et al (2009) also observe that a conceptual and empirical understanding of ambidexterity at the individual level of analysis is very limited. They recognise an opportunity for building on the findings in Gibson et al

(2004) to develop a greater understanding about the contextual approach to ambidexterity in organisations. The case study method used for this research is therefore able to undertake analysis in areas that previous research has identified to be appropriate for further examination. It examines organisational processes and routines at the micro level and considers individual behaviours in context. Its findings and conclusions therefore provide an opportunity for contributing to the body of knowledge in areas identified as being limited with regard to their research content.

The industry selected for undertaking this research is the professional accounting industry in Australia. The case selected for study is an accounting practice considered to be a typical representative for the firms competing within a particular market segment of the industry. Opinions regarding the issues confronting the industry are obtained from a broad range of industry stakeholders (Denzin et al 1994). The individuals interviewed in this process include representatives from the competing firms, users of the services provided by the industry, advisors to the industry, and a consultant considered to be a competitor. In addition, a comprehensive profile of the way the industry is structured and regulated is documented from sources that are freely available in the public domain. These sources include surveys undertaken by the Australian Bureau of Statistics, and by a number of commercial enterprises supplying services to the industry. The information produced from these sources allows a comprehensive profile of the industry to be documented. It uncovers the issues faced by the industry and its participating firms including historical factors, current conditions, and opinions regarding its future directions. Because opinions were elicited from stakeholders who contributed to the industry in so many different ways, the profile produced is multi dimensional and does not represent a myopic viewpoint expressed by one interest group (Denzin et al 1994). The analysis also identifies a number of services opportunities that the competing firms could potentially deliver for enhancing their offer.

This analysis of context greatly assisted selection of the accounting practice used as the case study. The practice which is ultimately selected represents a segment of the industry servicing small to medium size enterprises (SME's). These SME firms are potential users for the additional service opportunities identified during the analysis of context. Subsequent interviews with the TMT of the case study accounting practice and its middle management enable a multi dimensional profile to be developed that captures the firm's essential characteristics (Denzin et al 1994;

Lubatkin et al 2006). The findings reveal a particular institutional logic which later provides insights into how the practice works, and how it represents a particular social world (Thornton et al 2008). The recognition that a specific institutional logic is present, enables the behaviours identified at both individual and organisational levels to be understood within their social and institutional contexts (Thornton et al 1999). This follows the principles enunciated by institutional logic theory where institutions are viewed from the perspective of their organisation totality, as opposed to an individual level (Friedland et al 1991). Analysis at an institutional context facilitates understanding of how activities and systems both regularise behaviour, and provide opportunity for agency and change (Thornton et al 2008). In some respects the accounting practice is found to be a product of its environment, however in other ways, the actions taken, and the views expressed, tell of an organisation wishing to break free from the restrictions that environment imposes. This desire to be different, and a matching of opportunity to capability, enables identification of a possible new service which the practice could potentially offer its existing clients. The new service offer requires development which would need to be undertaken as a discontinuous innovation project. Implementation of this type of innovation is not within the capability of the existing monodextrous capability which focuses exclusively on exploit activities. The findings from the analysis of the data collected when undertaking the case study and its resulting conclusions are presented to representatives of the TMT to elicit their response. Their response is positive, indicating the possible utility of the ambidextrous design for environments where the core offer is not under threat of replacement or obsolescence.

### **Outline of chapters**

#### *Chapter 2 – Review of the organisational ambidextrous literature*

The review of the literature commences with an explanation of how the body of knowledge has evolved from its origins in 1976. It explains the nature of OA, its antecedents, consequences, moderators and outcomes, and the structural paradoxes it is designed to resolve. The nature of innovation in the context of OA is examined, and the possible ambidextrous designs are discussed. An important factor considered by the literature is the critical role of the TMT for implementing the innovation programs that OA helps to facilitate. The influence of knowledge search strategies, and learning programs is considered, together with the role played for facilitating innovation in organisations. The chapter discusses how the conclusions

from this research could motivate management teams in stable environment conditions to consider innovation. The possible contributions to the body of knowledge on the topic of OA offered by this research concludes the chapter.

### *Chapter 3 – Methodology and research method*

The chapter explains the reasons why an exploratory research design was chosen for this thesis and sets out details of the research strategy. The chosen ontological and epistemological assumptions are outlined, followed by a discussion on the choice of research paradigm. The chapter then details the reasons for choosing a qualitative approach for the research, and explains why a case study method was selected as being appropriate for collecting the data. Finally the chapter explains the method for data collection, management and analysis.

### *Chapter 4- Description of the industry context*

This chapter describes the findings from an analysis of the context in which the case study accounting practice is situated. The context is the professional accounting industry in Australia. To ensure that the findings are relevant to the case study, the analysis focuses on context related to accounting practices with less than five principals. The chapter describes how the industry is structured and regulated, provides details of its size, the services provided, and the market segments from which clients are drawn. The chapter lists the opportunities identified by industry stakeholders, and describes the marketing and distribution channels used for achieving growth objectives. Expectations regarding growth are discussed, and the nature of the competitive environment described. The cost structures and profit expectation for the accounting practices in this segment of the industry are explained, and a section is included that provides details of the technology used. The chapter concludes with a brief discussion of some industry specific issues identified by the stakeholders interviewed.

### *Chapter 5- Case overview*

The pseudonym used for identifying the case study accounting practice is Financial Health & Wealth Solutions abbreviated to FHW. The chapter introduces the FHW representatives who are interviewed and provides a brief summary of the important milestones in its forty year history. The corporate governance model is explained, and the services it provides outlined. The chapter concludes with a diagram of the organisation structure, and an explanation of how the operations function is managed by a number of formal teams.

### *Chapter 6 – Case study findings and analysis*

The chapter describes the findings from the analysis of the case study data. It describes the competitive environment of FHW, its clients and competitive advantage. Objectives and strategies are described and discussed, followed by a section that identifies the key resources available. The prevailing patterns of behaviour of the TMT and their attitudes and priorities are examined in detail. A section is devoted to describing the activities that define the nature of the extant capability, followed by an examination of the risks faced and the opportunities for growth identified by its TMT. Two critical restraints on strategic vision are identified, and the chapter concludes with a brief summary of the key features of FHW that are revealed by the analysis of findings.

### *Chapter 7 – Summary of findings*

The chapter opens with an explanation of the various external and internal factors which determine attitudes, behaviours, and structures in FHW. It continues with a listing of the defining features describing the nature of the FHW principal group, and the internal capability of the practice. These defining features have evolved in response to the external and internal influencing factors. The chapter compares the defining features of FHW to the characteristics identified in the literature which determine whether a capability is explore or exploit focused. This comparison reveals that the FHW internal capability aligns with the archetypal monodextrous exploit structure described in the literature.

### *Chapter 8 – Improving and defending competitive advantage*

The chapter considers the issues presented by research question one. It identifies the situations where FHW could potentially derive strategic benefits from using ambidextrous designs. The benefit offers both the possibility for delivering enhanced competitive advantage in existing market segments, and risk mitigation potential should competitive environments become more intense. Implementation of ambidextrous designs is difficult, and the TMT of FHW may not have the capacity for executing this new strategic dimension. The capacity to implement is considered by research question two which is discussed in Chapter 9.

### *Chapter 9 – Obstacles to organisational ambidexterity*

The chapter explains that the case findings identified a new service offer which offers potential for creating advantage and delivering a strategic benefit to FHW. Three ambidextrous designs offer the capability for facilitating implementation of the discontinuous innovation program necessary to develop the new offer. The

FHW principal group is identified as a major obstruction for implementing any of the possible ambidextrous designs. The chapter explains how external environment stability instilled leadership attitudes in the case study accounting practice that are not conducive for nurturing conditions favouring the implementation of ambidextrous designs. The external environment is also the catalyst for creating an existing capability that will not encourage behaviour facilitating the introduction of ambidexterity in context. The chapter ends with a conclusion that the presence of a stable external environment creates an internal capability which does not foster conditions that are favourable for the introduction of OA.

#### *Chapter 10 – Conclusions*

This chapter sets out the contributions this thesis makes to the literature on OA, and the implications for managerial practice arising from the findings. The limitations for applying the findings and conclusions to other situations and to the context from which the case is drawn is also explained. The chapter concludes with a discussion of the potential directions for future research suggested by the findings from this thesis.



## CHAPTER 2

### LITERATURE REVIEW

#### Origins

The word ambidextrous derives from the Latin words *ambos*, meaning both, and *dexter* which means right (as opposed to left). Ambidextrous therefore implies being adept in the utilisation of both left and right sides (Simsek 2009). The expression was initially used by Duncan (1976) to describe the conflicts that emerge when organisations implement innovation processes designed to develop new products, while attempting to maintain the efficiency of an extant core capability. Duncan (1976) described this dual focus as aligned and efficient in managing today's demands, while being adaptable to the changes that constantly emerge within the external environment. Organisation structures with the ability to embrace the dual perspectives of alignment and adaptability are considered to be ambidextrous (Duncan 1976; Simsek 2009; Benner et al 2003).

A core concept characterising the research after 1991 is the juxtaposition of two concepts, exploration and exploitation (March 1991). This juxtaposition is ubiquitously used to describe the situation where innovation (explore), and maintaining (exploit) activities are undertaken simultaneously by an organisation. This explore exploit axiom was used by March (1991) for describing an organisation that had achieved a state of ambidexterity. The ambidexterity derives from an ability to simultaneously undertake the exploration activities required for innovation and new product development, and the exploitation activities required for maintaining the extant capability producing established products or services (Benner et al 2003). The March (1991) paper is considered by some writers (Raisch et al 2008; Nosella et al 2012) to be the landmark publication for the literature on the topic of organisation ambidexterity (OA).

Besides the juxtaposition between explore and exploit, March (1991) also identified that when an organisation pursues a simultaneous focus on explore and exploit activities, a number of potentially negative outcomes could arise that require management intervention. These negative outcomes manifest in the emergence of potentially destructive conflicts caused by attempting to build substantially different structures that are culturally dissimilar. March (1991) did suggest that these conflicting support structures were capable of alignment and could coexist within one

organisation. Their co-existence was predicated on using a structural design based on ambidextrous principles (March 1991; Birkinshaw et al 2004).

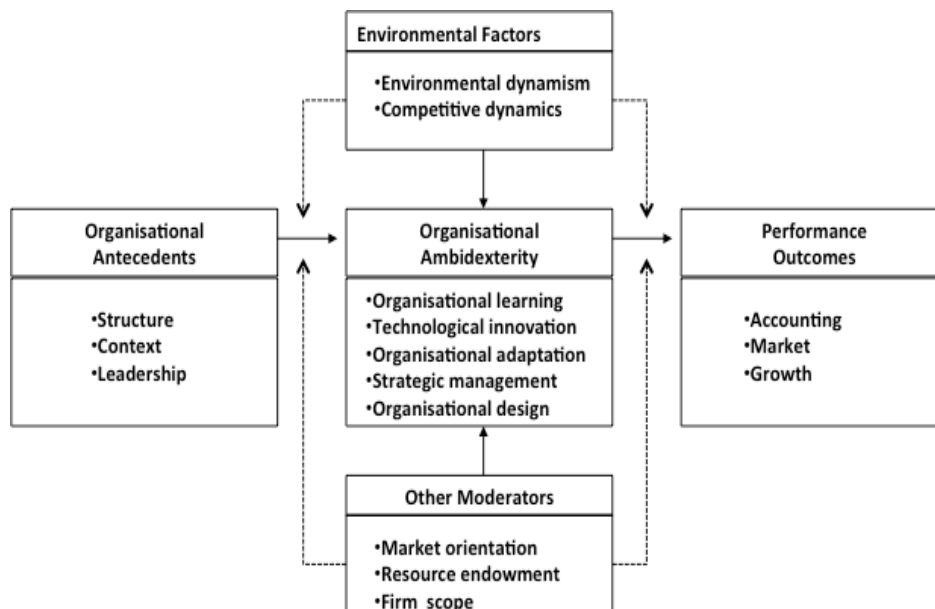
The precise origin for the commencement of wider research on the subject of OA is however the subject of some debate. Nosella et al (2012) consider that the actual genesis is accredited to a paper published by Tushman et al (1996). This paper is considered by some to be the first attempt for presenting a formal theory of OA (Raisch et al 2009). Tushman et al (1996) understand that an organisation is considered to be ambidextrous if it is able to compete successfully with a dual focus. The dual focus manifests as an ability to allocate resources for improving the alignment (or fit) between existing strategy, structure, culture and processes, while simultaneously preparing for the inevitable revolutions triggered by discontinuous environmental change (Tushman et al 1996; Benner et al 2003; Gibson et al 2004). In the context of OA, the term discontinuous implies a situation where extant capability is being overtaken by radical change thereby compelling action to secure non-continuous renewal (Cyert et al 1963; Jansen et al 2005). Later researchers (Benner et al 2003; Laureiro- Martinez et al 2015) refer to the Tushman et al (1996) ambidextrous solution as a structural approach. This approach is characterised by the explore and exploit activities being undertaken simultaneously with each contained in a separate organisation unit (Birkinshaw et al 2004).

### **Developments 1996 to 2012**

Post 1996, OA was regarded as an identifiable and specialised architectural form and had gained recognition as a research paradigm in its own right (Raisch et al 2008). The published research was categorised under a number of different literature streams (Raisch et al 2008). The categories are organisation science, organisational learning, technological innovation, organisational adaptation, strategic management and organisational design (Raisch et al 2008). The themes dominating each of these different literature streams provide an insight into the organisation centric features on which OA is built. Raisch et al (2008) explain these as follows. The themes describe the way organisations acquire and use knowledge (March 1991; Levinthal et al 1993; Gupta et al 2006), and how activities within organisations that focus on innovation are structured so as to generate future value (Duncan 1976; Tushman et al 1996; Sheremata 2000; Gibson et al 2004). An important theme is the examination of the tensions that emerge when management tries to balance the requirements for ensuring continuity while simultaneously coping with periods of change (Abernathy

1978; Dougherty 1992; Nadler 1997). These tensions are described as the need to balance the imperative for sustaining an extant capability, usually the producer of the current cash generator, but simultaneously focusing adequate resources on developments for exploiting future opportunity (Volberda 1996; Brown et al 1997; Leana et al 2000; Probst et al 2005). The final theme considers the solutions developed for resolving the conflicting explore and exploit agendas. The solutions are represented by the unique organisation architectures developed for providing a capability able to support dual strategies with different agendas (Burns et al 1961; Duncan 1976; Gibson et al 2004; Tushman et al 1996).

A model developed by Raisch et al (2008), provides a comprehensive insight into how the research on OA had developed to that date. The model is reproduced below in Figure 1.1



**Figure 2.1**

Ambidexterity in organisations – antecedents, features, and outcomes (Raisch et al 2008).

External environmental dynamics are identified by the model as significant catalysts for the emergence of OA (Auh et al 2005; Jansen et al 2005; Jansen et al 2006). External environment dynamism, and competitive environment dynamics, together with three additional moderating factors, represent the triggers stimulating an organisation to choose ambidexterity. The three additional moderators are the specific market orientation of the firm, its resource endowment, and its scope (Kyriakopoulos et al 2004; Ebben et al 2005). OA manifests in how learning is organised and directed, the nature of the technical innovation, the way in which the firm adapts to changing conditions and formulates strategic responses, and the

organisation structure (Daneels 2002; Burgelman 2002; Gupta et al 2006; He et al 2004; Jansen et al 2005). The model also lists three internal factors that are critical antecedents for a decision to assume an ambidextrous form. These antecedent factors are the nature of the organisation's internal structure, the behavioural context at the individual level, and the leadership provided by the TMT (Tushman et al 1996; Bradach 1997; Adler et al 1999; Beckman 2006; Gibson et al 2004; Smith et al 2005). Finally the model suggests that successful implementation may be followed by superior performance outcomes in the form of improved financial returns, market expansion and firm growth (Gibson et al 2004; He et al 2004; Auh et al 2005; Jansen et al 2006; Lubatkin et al 2006). An underlying presumption not apparent in the model itself is that the organisation is able to focus on exploration and development, while at the same time maintain the excellence of its exploit capability producing the existing offer.

Nosella et al (2012) group the body of knowledge which had accumulated before 2012 under four headings, foundations, contextual solutions, antecedents and consequences, and cross boundary perspectives. The foundations category examines OA in terms of a physical separation between two structures, one designed to conduct the innovation activities of the firm, and the other designed for maintaining the extant capability (Tushman et al 1996; O'Reilly et al 2009; Benner et al 2003). Contextual solutions refers to an examination of how OA is achieved by moulding behaviour at the individual level of the organisation rather than by structural separation (Birkinshaw et al 2004; Adler et al 1999; Raisch et al 2008). Antecedents focuses on identifying any specific enabling factors that will drive an organisation to select a structural or contextual solution (Chang et al 2009; Smith et al 2010; Andriopoulos et al 2010). Consequences looks for linkages between the implementation of an ambidextrous approach, and performance outcomes whether positive, neutral, or negative (Hughes et al 2010; Chang et al 2009; De Visser et al 2009). Cross boundary perspectives considers whether the emergence of OA is an outcome from any stimulus generated by local and cross border inter firm relationships (Riccaboni et al 2009; Lin et al 2007; Gupta et al 2006).

Researchers post 1996 have also considered the question of whether an ambidextrous design actually produces superior performance outcomes. Results are not conclusive. He et al (2004) and Jansen et al (2005) found that performance outcomes were improved, Venkatraman et al (2007) found the results to be

inconclusive, and Lavie et al (2011) found outcomes to be negative. Recognition that a quest for superior returns might be a motivating factor for a management team to choose an ambidextrous design underlies this aspect of the research. Whereas the quest for driving additional value may be an antecedent for the choice of OA, Laureiro-Martinez et al (2015) acknowledge that the management perspectives of organisations are often driven by a focus on short term returns (Eisenhardt 2010). Implementation of an ambidextrous design may involve an initial investment which in the short term diminishes immediate returns. This outcome may act to remove any motivation for considering the design as a potential for performance improvement. Laureiro- Martinez et al (2015) support this view by referring to a report in Fortune Magazine (Sherman 1993). In this report a manager from the Intel company observes that the more successful his company becomes in its core activities, the more difficult it will be to become something else.

### **Developments after 2012**

An additional dimension that has recently emerged is the recognition that OA is not a structural alternative that is only applicable to an organisation's product generating capability. It can also have applications relevant to marketing (O'Cass et al 2014). This view is based on a recognition that innovation not only develops new product, it includes actions necessary for ensuring new product can secure the required level of acceptance from new or existing customers (or possibly both). This recognition extends the use of an ambidextrous approach to the firm's marketing capability. Its application would be for resolving conflicts that emerge when innovations necessary for marketing new product, are found to be incompatible with those currently in place for protecting or growing market share of existing product.

The difficulties involved in reconciling the internal structural and cultural conflicts that arise from simultaneous explore and exploit strategies have led to questions whether ambidextrous designs are a viable solution (Csazar 2013). Govindarajan et al (2005) had already identified this difficulty eight years prior. The solution suggested in Csazar (2013) is to outsource exploration, rather than attempting to join it with an extant exploit capability. This solution avoids the need to couple both explore and exploit capabilities together within the same overall structure. In a later paper, Stettner et al (2014) found that this alternative could be extended by adopting strategies using acquisition or alliances in addition to outsourcing. They also suggest that the use of acquisitions for exploration purposes

may potentially deliver superior performance outcomes to those achieved by attempting the implementation of OA within one holistic structure.

The strategic initiatives that attempt to resolve the conflicting demands of efficiency and flexibility come from the decisions made by individuals (Smith et al 2005; Eisenhardt et al 2010). Based on this recognition, Laureiro-Martinez et al (2015) opened a new direction for the research into OA. By focusing on the individual or micro level of ambidexterity in organisations, they examine the antecedent factors which cause a manager to think and act in an ambidextrous way. Their research is also motivated by a desire to understand the factors encouraging managers in dynamic environments to be flexible rather than remaining fixed on achieving short term gains.

### **The Nature of Organisational Ambidexterity**

#### *Dynamic environment challenges*

A critical TMT objective is to secure adequate cash flows for the firm thereby ensuring it has the resources for servicing both immediate and future needs. This aim is achieved by increasing or improving current performance outcomes while simultaneously investing to create future value (Roberts 2004). This goal is significantly influenced by the way in which scarce resources are balanced and allocated between the requirements of the extant cash generating capability, and the projects and activities the management team is considering for the purpose of producing future returns (March 1991; Levinthal et al 1993; Volberda 1996). The need to achieve an appropriate apportionment ratio is therefore a strategic necessity that must continually be dealt with by the TMT (He et al 2004).

When external and internal environments are dynamic and the longevity of lifecycles for existing products or services are uncertain, management teams potentially face an existential threat (Eisenhardt 1989b; Atuahene-Gima 2005; Roberts 2004). These situations often force the TMT to embrace constant and inexorable change in order to secure the future viability of the firm (Atuahene-Gima 2005; Jansen et al 2006; Raisch et al 2009). The change process involves retaining a selection of the old range, refining some offers where required, and also systematically selecting candidates for abandonment (Lewin et al 1999). This refinement of the existing offer must be undertaken in parallel with a program for developing the future products or services that will become the cash generators of the future. In the absence of a product replenishment program the firm may have

nothing left to sell in the future. This imperative to embrace change and initiate product replenishment strategies to meet the challenge presented by dynamic environments converts the resource allocation conundrum into a time critical strategic decision (Eisenhardt 1989b). Future viability may be dependent on how quickly the management team acts to secure the appropriate strategic balance required (Jansen et al 2005). In these situations resources must continue to be allocated for ensuring the extant capability continues to deliver some measure of competitive advantage in the face of changing circumstances. However, they must also be allocated into investments with potential for creating future capability to replace any products lost to obsolescence (Volberda 1996). Resolving this strategic conundrum, and securing the required equilibrium, provides an organisation with the ability to adapt and to remain relevant in the face of constantly shifting demands and trends (Chandler 1962; Roberts 2004).

#### *Responses to dynamic environments*

In environments characterised by inexorable change, firm sustainability is ultimately reliant on an ability to develop a capability that will produce the future products or services demanded by a rapidly evolving external environment (Floyd et al 2000; Jansen et al 2005). Not allocating resources to develop the future capability therefore, could be a fatal miscalculation with the potential to threaten a firm's long term sustainability (Atuahene-Gima 2005). A frequent but inevitable consequence of directing scarce resources into capabilities that only generate value at some future time, is that cash flows and economic returns tend to be reduced in the short term (Laureiro-Martinez et al 2015). In non-dynamic environments these factors have the affect of diverting risk averse management teams away from pursuing resource hungry innovation activities that in the short term dilute earnings (He et al 2004). When faced with volatile conditions however, competent management teams will have greater motivation to undertake projects with a longer term horizon. They will recognise that the impact of short term performance must ultimately be weighed up against the demands of long term adaptability (Smith et al 2005).

The simultaneous focus on maintaining immediate profitability while developing future capability is also explained as reflecting the imperative to simultaneously align and adapt (Gibson et al 2004). The term align is equated with activities that enable the exploitation of existing opportunities within the prevailing competitive environment; adapt describes the exploration activities that deliver the

potential for developing future capability (He et al 2004; Jansen et al 2005). Attempting to simultaneously implement both align and adapt activities within one holistic organisation structure creates structural tensions. The two sets of activities trigger a number of apparently irreconcilable conflicts that are almost paradoxical because they are based on contradictory agendas (Smith et al 2005). Organisation architectures built on ambidextrous designs are offered as solutions for resolving the conflicting agendas. Organisations that have successfully embraced the ability to simultaneously focus on the two agendas, alignment or exploitation on the one hand, and adaptation or exploration on the other, are considered to be ambidextrous (Tushman et al 1996; Tushman et al 1997).

#### *Reconciling the exploration exploitation conundrum*

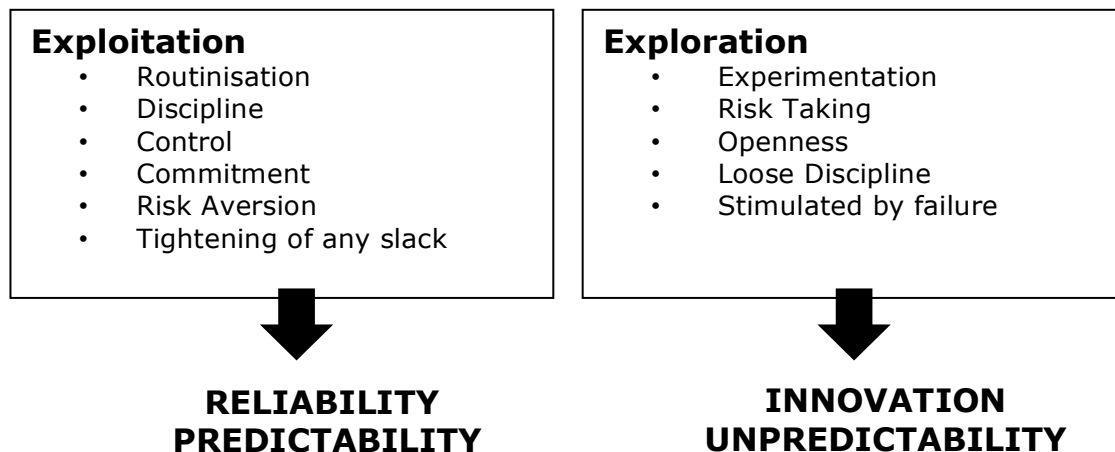
The axiom used for describing the contradictory agendas arising from the simultaneous pursuit of alignment and adaptability is derived by juxtaposing the activities that describe exploration, with those describing exploitation. Exploitation describes the need for maintaining efficient operations in a mature market, its objective is to respond to current environmental needs (Laureiro-Martinez et al 2015). Exploration refers to the activities required for developing new products and services in emerging markets (He et al 2004). A disengagement from the current task and a search for alternatives is required for undertaking exploration activities (Aston-Jones et al 2005). Exploration focuses on the acquisition of new knowledge, distinguishing it from the central concern of an exploit capability which is to refine existing knowledge (Levinthal et al 1993). The two disparate aims are juxtaposed throughout the OA literature and referred to as the exploration, exploitation conundrum (Smith et al 2005), frequently shortened to *explore*, as opposed to *exploit*. Lubatkin et al (2006) define exploit as a response to current environmental conditions through the adaptation of existing technologies and meeting the needs of existing customers. Explore they explain as a response to latent environmental trends that stimulate the need to drive innovation in technologies and new markets.

The strategies, organisation architectures, and processes required to support explore and exploit activities are fundamentally different (March 1991). Attempting to simultaneously sustain both creates a paradoxical situation requiring contradictory agendas to be followed (Smith et al 2005). The essence of the contradiction is the difference between the objectives for achieving static efficiency on the one hand, and dynamic flexibility on the other (Schumpeter 1942; Abernathy 1978). Static efficiency



is the ideal situation for supporting activities necessary for maintaining an exploit capability. These clash with the flexibility that nurtures an ability to execute the innovation strategies characterising exploration (Hannan et al 1984; Eisenhardt 1989b; Atuahene–Gima 2005). A further difficulty is that the organisation architecture required for supporting an extant exploitative capability, is incompatible with the structural requirements for supporting exploration activities focused on developing future needs (Guttel et al 2009). A fundamental contributing factor triggering these incompatibilities is that the act of exploration is driven by variance increasing activities, whereas maintaining an exploitation capability requires the elimination of variance reducing activities (Farjoun 2010). For these reasons an attempt to embrace both acts simultaneously becomes a structural paradox. To embrace both, management must of necessity implement two agendas that bring inherent contradictions with them (Smith et al 2005).

A further complication is that an environment capable of supporting an explore capability requires a tolerance for risk and an atmosphere of freedom (Farjoun 2010). This allows employees to experiment with the confidence that they will not be unreasonably reprimanded if their efforts result in failure. These attitudes foster a culture of experimentation, one where success is often stimulated by the frequent and inevitable failures that occur (Farjoun 2010). A culture necessary for maintaining an efficient cash generating capability designed to produce outputs for a mature or maturing market cannot encourage failure. The result is that processes within these structures are tightly controlled by the application of highly standardised routines (Farjoun 2010). This tight coupling in the organisation's architectural design (Roberts 2004), characterises a structure that is focused on maintaining the exploit capability. A successful outcome will only be achieved if internal guidelines are based on standardisation, replication, reliability, risk avoidance and discipline (Guttel et al 2009). Farjoun (2010) illustrates the conflicting tensions that arise when attempting to host the two acts of exploration and exploitation within one capability using a simple diagram reproduced below as Figure 2.2.



**Figure 2.2**

Contrasting exploit and explore environments (Farjoun 2010)

The diagram shows how an exploit capability is based on a need for reliability and predictability. Exploration however, dealing with high levels of unpredictability, can only flourish in an environment that tolerates risk and stimulates innovation and experimentation.

*Innovation in the context of organisation ambidexterity*

The exploratory dimension of an ambidextrous organisation is represented by a class of innovation described as being discontinuous (Cyert et al 1963). Its ultimate goal is to turn out those radical advances that profoundly alter the basis for competition in a particular industry (Cyert et al 1963). Discontinuous innovation initiatives are also designed to overcome the potential future cash flow deficits resulting from high levels of organisation slack that represent a threat to future viability (Cyert et al 1963). O'Reilly et al (2004) explain how attempts to incorporate discontinuous innovation into the framework of an established mature capability can trigger structural, process and cultural incompatibilities. This develops conflicts that require resolution before the innovation process can be successfully integrated into the organisation (March 1991).

Discontinuous innovation is distinguished from the innovation initiatives described as incremental or architectural (Tushman et al 1996; Jansen et al 2005). Incremental innovation is focused on improving extant capabilities rather than developing new products that may ultimately exploit the potential offered by emerging strategic windows (Jansen et al 2005). Its objectives are the improvement of existing products and operations, and maintaining the technological or process advantages required to sustain the extant capability (Tushman et al 1996). Incremental innovation

therefore represents the process of continuous change necessary for maintaining efficiency during the ordinary course of an organisation's life. Incremental innovation projects will not trigger the conflicts that arise when attempting to integrate discontinuous innovation initiatives, into an existing mature structure focused on a need for efficiency.

The need for introducing discontinuous innovation initiatives into an organisation can be clearly understood when these are viewed as a response to the quantum shifts in strategic direction that are periodically initiated by organisations in response to environmental changes. These situations are explained in Miller et al (1983) and Mintzberg (1988) in this way. For most of the time organisations pursue a particular strategic orientation and any change occurs within the context of that orientation. The external environment is however subject to change, at times slowly, but occasionally in dramatic shifts. These dramatic shifts force the existing strategic orientation to be moved out of sync with its environment. The result is tantamount to a revolution that forces the need for a quantum change process to be initiated in order to realign organisation strategies with prevailing realities (Miller et al 1983).

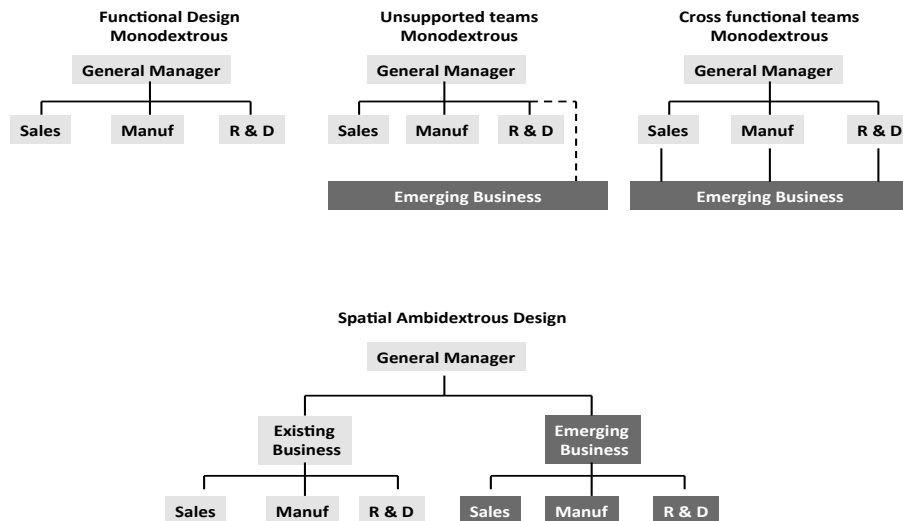
### **Ambidextrous Designs**

#### *The spatial or structural approach*

Organisation ambidexterity has been described as the ability to operate complex organisation designs that provide for both short term efficiency and long term innovation (Tushman et al 1996). Research into the different ambidextrous designs that facilitate the simultaneous application of exploration and exploitation within one organisation structure, represents the focus of the foundation school of OA research (Nosella et al 2012). This school regards the design to be the critical distinguishing feature that defines an organisation as ambidextrous. An ambidextrous architectural design could be viewed as a structural response to the choice of dual strategies executed simultaneously. One strategy is focused on developing new offers and its aim is exploration. The other, focused on maintaining the efficiency of an extant capability, is an exploit strategy. Understanding the ambidextrous design as a structural response to dual strategies is either based on the axiom that organisation structure is determined by the needs imposed by the organisation strategy (Chandler 1962), or by its situation (Mintzberg 1980). Roberts (2004) refers to the axiom as the standard conceptualisation in management studies.

The term structure refers to the people in the organisation, the tasks they perform, the way in which the organisation is formally organised, and the nature of its culture (Smith et al 2005). The task of the TMT is to mould these four component parts into an effective capability that delivers an ability to execute the chosen strategic vision (Drucker 1968; Roberts 2004). The structure represents the solution for resolving the inherent contradictions and conflicts arising out of the explore exploit conundrum. The ambidextrous designs achieve this by creating a separation within the architectural framework of the organisation, allowing both exploit and explore activities to proceed independently (Smith et al 2005). The designs also provide for the leveraging of respective capabilities and reciprocal value creation (Smith et al 2005). This is achieved by utilising embedded communication channels that allow for some level of integration between the two capabilities (Smith et al 2005).

O'Reilly et al (2004) discuss four designs by which discontinuous innovation initiatives can be brought into an organisation structure. The four designs are reproduced as Figure 2.3. Of the four, three are monodextrous, and one is ambidextrous.

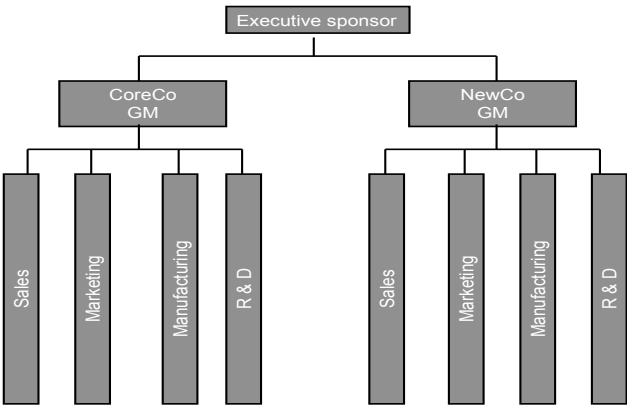


**Figure 2.3**

Structural alternatives for implementing discontinuous innovation (O'Reilly et al 2004)

The essential difference between the monodextrous and ambidextrous approaches is the way discontinuous innovation activities, (represented as the emerging business), are incorporated into the organisation structure. In the monodextrous designs, the emerging business is a component of the existing structural framework and

integrated into it. In the ambidextrous design there is a separation, a new capability is created and its exclusive focus is on the introduction and execution of the discontinuous innovation programs. This spatial or structural model, which the literature tends to recognise as the traditional view for an ambidextrous design (Birkinshaw et al 2004), creates two structurally independent architectures within one organisation structure. One of the structures is focused on maintaining an efficient extant capability and is executing the exploit strategy, the other, focused on developing future capability, is executing the explore strategy. The two capabilities are incorporated within one holistic structure. Their parallel existence allows conflicting activities to be undertaken independently, thereby facilitating the simultaneous execution of both explore and exploit strategies (Smith et al 2005). Govindarajan et al (2005) explain the spatial solution as a dual purpose structure headed by one executive sponsor. Their explanation is illustrated by the model shown as Figure 2.4.



**Figure 2.4**  
 Spatial ambidextrous design with lines of authority & responsibility  
 (Govindarajan et al 2005)

The executive sponsor is indirectly responsible for both CoreCo, the extant exploit capability, and NewCo, the explore business unit. CoreCo and NewCo are each headed up by their own general manager with direct responsibility for the sales, marketing, manufacturing, and research and development conducted by their respective business units. O'Reilly et al (2004) provide a useful table illustrating the different alignments required for maintaining CoreCo and NewCo and this is reproduced below as Table 2.1.

Alignment of	CoreCo –Exploit Capability	NewCo – Explore Capability
<b>Strategic Intent</b>	Cost, Profit	Innovation, Growth
<b>Critical Tasks</b>	Operations Efficiency	Adaptability, New Products
	Incremental Innovation	Discontinuous Innovation
<b>Competencies</b>	Formal, Mechanistic	Entrepreneurial
<b>Structure</b>	Operational	Adaptive, Loose
<b>Controls, Rewards</b>	Margins, Productivity	Milestones, Growth
<b>Culture</b>	Efficiency, Low Risk	Risk Taking, Speed
	Quality Customers	Flexibility, Experimentation
<b>Leadership Roles</b>	Authoritative, Top Down	Visionary, Involved

**Table 2.1**

Illustration of different alignments in exploit and explore structures (O'Reilly et al 2004)

*Explore exploit interdependencies*

A fundamental principle in the formation of a spatial or structural ambidextrous capability is the need for a state of interdependence to exist between the two structures (Farjoun 2010). This interdependence facilitates potential integration opportunities. Interdependence is explained in Farjoun (2010) as a relationship between structures that become a duality rather than a dualism. When the relationship is a dualism, the two structures exist totally independent of each other with no opportunity for interface or leverage provided. In a duality, although both units are different and independent, they require the existence of the other to fulfil their purpose and there is interdependence. In this spatial ambidextrous design, interdependence between the explore and exploit capabilities is achieved through a process of borrowing and exchange. Both structures leverage off each other to create opportunities for the mutual creation of value (Tushman et al 1996; Govindarajan et al 2005). The TMT fulfils a critical role in this process, requiring its members to respect the important role played by the past, but also to be willing to continuously change in order to meet the challenges of the future (Govindarajan et al 2005). Govindarajan et al (2005) use the example of New York Times Digital (NYTD) for illustrating the reality of this state of independence and interdependence. NYTD which equates to NewCo, is the electronic division trading under the banner of the New York Times brand. It was established to explore the potential the internet provided for distributing news electronically. The established print business unit CoreCo, offered NewCo a number of editorial and advertising revenue sources that

provided enormous opportunities for immediate leverage. The management of CoreCo were not precious with respect to this valuable intellectual property and made it available to their NewCo colleagues. The result was that as NewCo developed its own business model and created new avenues for advertising revenues and editorial material, the same opportunities were afforded to CoreCo. This reciprocity, a tangible example of the principle of duality, allowed two independent operations to leverage off each other for mutual benefit, and in this way to also become interdependent on each other.

#### *The contextual solution*

An alternative to the spatial solution for OA is the development of a supportive business context that enables employees to execute both exploit and explore activities at appropriate times within their own working environments (Raisch et al 2008). Context in this sense refers to all the systems, processes, and beliefs that shape individual level behaviour in organisations (Ghoshal et al 1997). This contextual approach to OA is achieved by fostering a receptive and flexible organisation culture. Gibson et al (2004) explain this as an environment that supports flexible routines, and encourages individual employees in the context of their daily work to make choices between their exploit focused alignment activities, or to seek new business by initiating explore or adaptation activities. This dual approach is achieved by fostering behavioural attitudes that facilitate the creation of initiatives alerting front line employees to opportunities beyond the confines of their prescribed tasks (Gibson et al 2004). This contextual ambidextrous approach requires cooperation between employees, the forging of internal linkages between them, and an individual type capable of multi tasking, and comfortable to wear more than one hat (Birkinshaw et al 2004; Gibson et al 2004). Contextual ambidexterity can therefore be understood as a manifestation of particular behavioural attributes. For this reason it is often described as behavioural ambidexterity (Gibson et al 2004). The essential differences between a spatial or structural design, and contextual or behavioural ambidexterity, is illustrated in matrix form by Gibson et al (2004). The matrix is reproduced below as Table 2.2.

	Spatial Design	Contextual Design
<b>How is Ambidexterity Achieved</b>	Alignment & adaptability focused activities done in separate units or teams	Individual employees divide their time between alignment and adaptability focused activities
<b>Where are decisions made about the split between alignment &amp; adaptability</b>	At top of organisation	On front line
<b>Role of top management</b>	To define structure and make tradeoffs between alignment and adaptability	To develop the organizational context in which individuals act
<b>Nature of roles</b>	Relatively clearly defined	Relatively flexible
<b>Skills of employees</b>	More specialized	More generalized

**Table 2.2**

Matrix illustrating the differences between spatial and contextual ambidexterity (Gibson et al 2004)

The matrix illustrates that the essential difference between the spatial and contextual approaches is structural. When OA is implemented as a spatial solution, it requires the formation of two discrete interdependent business units. When OA is based on a contextual solution, it manifests in the way people are organised and how they behave within a supportive culture developed through the management processes (Gibson et al 2004).

#### *Achieving organisation ambidexterity across modes*

Stettner et al (2014) identify three modes for developing ambidexterity in organisations. In mode one, ambidexterity through internal organisation, the explore and exploit activities are undertaken *within* the organisation using either a structural or contextual design. Mode two ambidexterity is achieved by establishing alliances with other firms. A firm either develops and accesses new knowledge in its upstream activities by collaborating with alliance partners, or uses partners to commercialise and market existing knowledge and products through downstream activities (Stettner et al 2014). Mode three ambidexterity comes from purchasing either the explore or the exploit capability. When either mode two or three is used, ambidexterity is said to have been achieved *across modes*, whereas when both explore and exploit activities are conducted internally within one organisation, ambidexterity is described as being *within mode* (Stettner et al 2014). The across mode approach is suggested as an effective method for overcoming many of the difficulties encountered when attempting to simultaneously undertake explore and exploit activities within modes (Stettner et al 2014). One of the critical advantages is that across mode methods secure both specialisation and balance, without the negative transfer and tension



arising when attempting to simultaneously host conflicting routines (Stettner et al 2014). This situation is facilitated by the fact that explore and exploit activities are separated from one another by the boundaries created by the respective modes.

### **The Important role of the Top Management Team**

A survey of one hundred and seventy high technology firms undertaken in 2006 found the composition of the top management team to be an important antecedent factor for the introduction of an ambidextrous design (Beckman 2006). The decision to consider OA was based on team affiliations. When the team had many affiliations in common, the firm culture tended to focus on exploitation. When affiliations were more diverse, there was a greater tendency for developing an exploratory attitude. The survey illustrates the importance for the team to be exposed to the stimulus coming from external influences. The leadership provided by the TMT is also recognised by Raisch et al (2008) as an important antecedent factor and they acknowledge this in the model illustrated by Figure 1.1. A significant reason for the TMT becoming such an influential factor is the complexity involved when attempting to deal with the inherent paradoxes embedded in the ambidextrous designs (Benner et al 2015). Resolving these paradoxes presents ongoing difficulties for the teams managing the structures required (Smith et al 2005). Strategic leadership plays a pivotal role in balancing the dynamic forces demanding exploration and the inertial forces seeking to maintain the status quo (Virany et al 1992; He et al 2004; Lin et al 2011). Consequently, if the TMT is positive about the potential benefits from OA, it becomes a driving force for the implementation (Lin et al 2011). If however resolving the inherent paradoxes becomes too difficult, the TMT could very well become a significant inhibiting factor (Lin et al 2011). Lubatkin et al (2006) surveyed one hundred and thirty nine participating managers drawn from small to medium size enterprises. The survey discovered that when management style is shaped by integrating activities collectively described as behavioural integration (Hambrick 1994), the TMT became a catalyst for the introduction of OA. Behavioural integration has a social dimension, (encouraging an atmosphere of collaboration), and a task dimension (how effective the information exchanges are facilitated). It includes the way decisions are made, and the type of culture encouraged within the organisation (Hambrick 1994; Lubatkin et al 2006). The Lubatkin et al (2006) survey also found that when the management style of the TMT was built on positive aspects of

behavioural integration, it became both a catalyst, and a critical supporting factor, for the deployment of an ambidextrous approach in the participating organisations.

The research into OA has also identified the important role of leadership for the introduction of OA (Lubatkin et al 2006; Raisch et al 2008; He et al 2004; Lin et al 2011). Previous research has found a relationship between the nature of the strategic leadership, and the propensity for implementing discontinuous innovation (Lin et al 2011). For these reasons two further behavioural factors that may have a direct influence on the nature of the TMT leadership are considered relevant for this thesis. The first is the influence of the past, and the second is the affect from a dominant coalition with the exclusive authority for determining strategy.

When the TMT is not forced to continually reformulate strategy in response to product volatility, it is possible the team will regard history as a reliable indicator for the future. This attitude may encourage a reliance on pre-existing knowledge systems or schemas when deciding on responses to external environment influences (Norman 1976). These schemas are systems representing beliefs, theories, and propositions that have developed over time based on each manager's personal experience (Norman 1976). Taking the form of mental representations depicting the internal and external environments in which the managers operate, schemas are likely to reflect historical environments rather than current ones (Kiesler et al 1982). The presence of strong influences from historical schemas would potentially make it very difficult for new ideas to penetrate existing TMT perspectives. Since the introduction of OA emanates from the introduction of new ideas, the presence of historical schemas may represent a material barrier for developing the attitudes necessary for implementing an exploratory culture.

A further barrier for the introduction of new ideas may originate out of the leadership structure. If the TMT comprises a dominant coalition of key individuals with significant influence over the way a firm is managed (Prahalad et al 1986), it becomes difficult for new ideas that originate from individuals outside of the dominant group to penetrate. This barrier may also be reinforced by the stabilising influences coming from successive years of economic success (Sherman 1993), and a leadership that prefers the consistency of history to the inconsistencies presented by discontinuous innovation (Denison et al 1995; Lewis 2000; Lin et al 2011). This creates a dominant paradigm where the TMT moulds itself around a set of shared

beliefs or conventional wisdom about the world because this has been the secret of past success (Kuhn 1970).

### **Organisation learning a nurturing factor**

The objectives determining the priorities for the learning activities embedded within the formal and informal organisation structure are an important precondition for nurturing an environment that facilitates and supports the introduction of OA (Burgelman 2002; Gupta et al 2006; Raisch et al 2008). It is important for the learning processes to incorporate programs for acquiring knowledge that will facilitate the implementation of discontinuous innovation activities. If the focus of organisation learning is exclusively directed to supporting incremental innovation and the continuous improvement of the existing capability, this important precondition is absent (Gupta et al 2006). March (1991) explains how the respective learning processes have different agendas. Learning directed for an exploit objective focuses on the reuse of existing routines and local search experience selection. Learning focused on achieving explore objectives will concentrate on variation, planned experimentation, and play. The essential nature of OA mandates that resources are not only allocated to support the efficiency of the exploit capability, they must nurture the research required for an effective explore capability (He et al 2004; Gupta et al 2006).

Previous research has discovered that a factor influencing the nature of organisation learning is whether it is driven from the upward or downward flows of knowledge streaming through the organisation hierarchy (Harry et al 2000; Mom et al 2007). When knowledge emanates from the apex of the organisation pyramid it tends to be tight and unambiguous. The resulting learning parameters are focused on maintaining the efficiency of the extant capability because the TMT objectives are for maintaining efficiency and profitability. Employees at the lower level of the pyramid however, are more inclined to look for improvement by experimentation because their experiences were shaped by first hand knowledge of the situation. The learning attitudes that result from this level become more conducive for creating an atmosphere of discontinuous innovation (Mom et al 2007). This tension can cause the TMT to block upward knowledge flows because their agenda is based on avoiding negative influences that affect the efficiency of the extant exploit capability (Mom et al 2007). If this occurs learning objectives become narrower and more restricted, effectively curtailing the learning vision throughout the organisation. These

factors once more show the importance of the role that the TMT fulfils in creating an OA receptive culture. It also illustrates the important role played by the TMT to inhibit or encourage the implementation of OA.

### **Gaps in the literature and the research questions**

#### *Applicability to stable environments*

The description of a stable external environment for the purpose of this thesis is explained in the first Chapter. It is described as an environment presenting no imminent threat to the longevity of existing product (or service) lifecycles. In the absence of product volatility, management teams develop a tendency towards a structural inertia. This reduces their capacity to adapt to future environmental changes, and to seek new opportunities (Hannan et al 1984). The focus of the team becomes the organisation of operations around simple repetitive tasks, implementation of tight controls, and standardisation through process repetition (Farjoun 2010). These teams also have some ability to control their environments, and are fairly insulated from external perturbations (Farjoun 2010). Management teams guiding organisations through relatively stable external environments therefore, have no apparent necessity to embrace strategies designed for implementing discontinuous innovation programs. The imperative is to focus on the efficient exploitation of the extant operational capability.

The role of dynamic environments as a trigger for motivating the introduction of discontinuous innovation programs is extensively discussed in the OA literature (Atuahene-Gima 2005; Jansen et al 2006; Raisch et 2009). These innovation programs develop the products or service outputs that replace those made obsolete by the changes brought about by dynamic environments. An issue not extensively researched is whether there can be any strategic application for OA in stable environments. In these situations the TMT is not driven to find structural solutions for simultaneously housing exploration and exploitation capabilities. The causative condition represented by threats to the longevity of product lifecycles is absent. Other motivating factors would need to be present before the TMT would accept the risks involved from introducing discontinuous innovation programs into efficient internal environments. A possible motivation is that the TMT views OA as a capability offering potential for increasing firm value. This is gained by improving competitive advantage through the introduction of additional products or services. The existing customer base might also become the channel for distributing the new offers thereby avoiding

a necessity to develop additional market segments. Development of new product requires a discontinuous innovation program and under these conditions it must be conducted in parallel with the permanent extant capability producing the stable core offer. Introducing exploration into an extant exploit capability therefore triggers the tensions and incompatibilities identified in the literature. An ambidextrous design may therefore provide the solution for resolving these tensions and incompatibilities. The structures become the facilitator for implementing the potentially disruptive discontinuous innovation program. In these circumstances OA delivers a strategic benefit to a firm under conditions where there is no threat to existing product or service lifecycles. Its application also stems from an elective situation. The strategic benefit gained by securing added competitive advantage from the new product or service offers produced therefore represents a different application the use of OA. This is the specific issue considered by the first research question of this thesis. Can ambidextrous designs create strategic advantage opportunities for firms competing in environments presenting no existential threat to the lifecycle of the core offer.

#### *TMT attitudes and behaviour in stable environments*

The second research question explored by this thesis is whether the absence of an existential threat to the core offer creates identifiable features in a firm's internal environment that prevent integration of ambidextrous designs. Research has identified the behaviour and attitudes of the TMT, and the nature of leadership, to be important antecedent factors in the decision for implementing ambidextrous designs (Eisenhardt 1989b; He et al 2004; Beckman 2006; Raisch et al 2009; Lubatkin et al 2006). The literature has also identified the construct known as behavioural integration (Hambrick 1994) to be a positive factor for developing environments that are conducive for the implementation of OA (Lubatkin et al 2006). There is however no extensive research on the relationship between behavioural integration, *and stable environments* with respect to OA. This research is examining these relationships to assess whether stable environment alter the positive influence made by behavioural integration on OA.

Other positive facilitators for OA identified by the previous research are the nature of the TMT structure (Csazar 2013), and the decision making processes (Leonard-Barton 1990). A situation with potential to significantly influence the nature of the decision making process is the presence of a dominant group of individuals who exercise power at the apex of an organisation. A dominant coalition of

individuals has the potential for enforcing a dominant general management logic (Prahalad et al 1986). The presence of a dominant general management logic is described as the application of mental maps developed through continuous experience in the core business, and sometimes applied inappropriately in new businesses (Prahalad et al 1986). The presence of a dominant logic enforced by a dominant coalition of individuals becomes a significant factor for determining the nature of strategic decisions. It is a state of particular relevance to the industry selected for study. Its business units are accounting practices where typically ownership, governance and executive control vest exclusively within a dominant principal group (ABS 2001-2002; Macquarie Bank 2014). Previous research recognises that TMT structure, and the strategic decision making process, are antecedent factors that encourage the implementation of OA (Leonard-Barton 1990; Csazar 2013). This research will consider whether stable environments modify the positive aspects of these antecedent factors, creating internal characteristics which do not encourage the introduction of OA. The existence of a dominant group that may be acting under the influence of a dominant logic is an additional moderating factor that will be taken into account in examining this issue.

Flexibility removes inertia from the perspectives of the TMT (Hannan et al 1984). Flexibility within an organisation could be regarded as an important precondition for developing an appropriate environment for nurturing the implementation of OA. The presence of organisation inertia however, leads to rigidity and undermines the value placed on exploratory activities (Leonard-Barton 1990). The firm becomes more reliant on its core competencies as a result, and is likely to develop an attitude of path dependence in its operations (Danneels 2002). Rosenkopf et al (2001) observe that reliance on core competencies will cause the TMT to use past decisions for its strategic benchmark. One of the effects from this reliance on the past is that search activities in the organisation tend to ignore the potential for boundary spanning, and accessibility to novel solutions becomes restricted (Rosenkopf et al 2001). If the nature of the external environment encourages TMT inertia leading to an exclusive focus on sustaining core competencies, the resulting attitudes will not encourage the implementation of OA. A behavioural construct with potential for contributing to organisation inertia is a reliance on historical schemas (Norman 1976). This research considers whether stable environments inculcate a state of organisation inertia which the TMT

reinforces by allowing the past experience to dominate strategic decision making. It has been established that organisation inertia discourages flexibility and this nurtures an internal environment that is not positive for developing OA (Leonard-Barton 1990). An understanding of the cause and effect relationship between stable environments, the application of historical schemas and the emergence of organisation inertia will provide additional data required for considering the second research question for this thesis. If stable environments are found to inculcate organisation inertia by encouraging a reliance on historical precedent for formulating strategic decisions, the resulting conditions would not be positive for the implementation of OA. Alternatively, if stable environments are found not to specifically inculcate organisation inertia, and the TMT is not bound by the past in its contemplation of future strategy, then conditions for the implementation of OA would be more positive.

## CHAPTER 3

### METHODOLOGY AND RESEARCH METHOD

#### Chapter summary

The chapter explains the methodological choices for this study and sets out details of the research strategy. The chosen ontological and epistemological assumptions are outlined, followed by a discussion on the choice of research paradigm. The chapter then details the reasons for choosing a qualitative approach for the research, and explains why a case study method was selected as being appropriate for collecting the data. Finally the chapter explains the method chosen for data collection, management and analysis.

#### Research purpose

Blaikie (2010) identifies seven purposes for social research, to explore, to develop an understanding, to describe, to explain, to predict a possible outcome, to effect change, to evaluate, and to assess. Exploratory research is considered appropriate for situations where there are limited reference studies available or, when the aim is to find new patterns or ideas rather than testing a given hypothesis (Collis et al 2003). For the purposes of this thesis the term *stable external environment* describes an external environment where the inherent dynamics do not present an immediate threat to the viability of the extant cash generating products or services of the industries operating within it (Dess et al 1984; Jansen et al 2005). An aim for this thesis is to explore if there is potential for ambidextrous architectural designs to deliver a strategic benefit for service firms competing in these stable external environments. This possibility is not extensively examined by the ambidextrous literature. It represents a different perspective for the use of ambidextrous architectures which are primarily considered to be applicable in environments that are dynamic. The previous research has shown these designs to be supportive structures for developing new product in situations where lifecycles of core cash generating products are threatened by changes occurring in the dynamic environments.

The research also has an additional aim, to examine if the organisation architectures and TMT perspectives of a firm competing under stable conditions are capable of integrating ambidextrous designs. There is no extensive research in the existing literature exploring this relationship. Both research aims therefore categorise the research purpose to be exploratory. The first research question is exploring



whether an alternative application for ambidextrous architectures is a feasible possibility. The second question is exploring the affect of external stability on TMT perspectives, behaviours, attitudes and the firm internal structures. The characteristics and features this exploratory process identifies are then applied for assessing their proclivity for accepting ambidextrous designs.

### **Research strategy**

Blaikie (2010) identifies four research strategies, inductive, deductive, retroductive and abductive. The deductive strategy is applicable when the objective for data collection is to confirm or disconfirm a particular proposition which is usually expressed as a theory (Bazeley 2013). This thesis proceeds from observation, looks for behaviour patterns in what has been observed, and then uses the findings to develop a number of conclusions. This represents an inverse process to the requirements for a deductive strategy and it was accordingly not considered a potential choice for this thesis. A retroductive strategy, in which one or more speculative explanations are assessed against historical or archival data (Bazeley 2013), also does not reflect the aims or purpose of this research. Inductive and abductive strategies are appropriate for answering *what* questions, and are applicable when the research purpose is exploratory (Blaikie 2010). This research considers *what* benefit, if any, ambidextrous designs could have for service firms competing in stable environments and its purpose is exploratory. The choice of an appropriate research strategy therefore is limited to either inductive or abductive.

The aim of inductive research is to establish some limited generalisations about the social phenomena being studied, either by measurement, or from observation (Blaikie 2010). It is based on an assumption that the social world is both measurable by researcher defined concepts, and is capable of description by observing the patterns of association that characterise the behaviour of participating individuals (Blaikie 2010). To undertake inductive research the researcher defines a set of characteristics and then collects data related to them from which generalisations can ultimately be formulated. Abductive research alternatively aims to describe the characteristics and behaviour patterns of individuals interacting within a particular social context. It also aims to establish some limited generalisations about the social phenomena being observed or measured (Blaikie 2010). The abductive strategy is particularly relevant when the research aims to find answers to a “why” question or is attempting to develop a deeper understanding of a particular

phenomenon (Blaikie 2010). An important distinction between abductive and inductive research is that after establishing the limited generalisations which are its initial purpose, the abductive strategy seeks to probe deeper. It looks for causal factors that give rise to the existence of the particular social phenomena under examination (Blaikie 2010). This additional dimension is *not* included within the aims of this research and therefore the abductive strategy is not considered to be appropriate. The purpose of this research is to establish whether some limited generalisation can be made about the usefulness of ambidextrous designs in situations where there is external environment stability. It commences from an observation of TMT behaviours within a firm selected as the case study, and based on these behaviours seeks to formulate a number of conclusions. The aim is not to proceed beyond this limited objective, and therefore the research strategy is more appropriately classified as being inductive rather than abductive.

### **Ontological assumptions**

The underlying philosophical principle accepted for this research is that although reality may exist, it can never be known perfectly. Accordingly it is predicated on a conclusion that the reality represented by any findings from the research is based on probabilistic rather than absolute conclusions (Denzin et al 1994). A further relevant aspect of the research is that its focus is on the social rather than a physical perspective of reality. It is presumed however that although social reality might represent an intangible, some of its dimensions are made visible by observing the actions of the social actors involved in the particular phenomenon being examined (Blaikie 2010).

This assumption accords with a reality type identified in Blaikie (2010) referred to as a depth realist. This term describes a belief that social reality is made up from a number of domains, those that can be observed, those that actually exist independently of the observer, and that which cannot be observed at all. This domain perception of the nature of social reality is considered as appropriate for defining the ontological assumptions on which this thesis is based. Two domains are recognised, the first a belief that the social world can be regarded as a product of its inhabitants, and the second, that it is actually open to interpretation through the meanings produced and reproduced by various participants as they go about their everyday activities (Denzin et al 1994).

These assumptions most closely relate to an ontological paradigm defined as interpretative. This views the social world as being the product of its inhabitants, and accepts that it is a world capable of interpretation by the meanings participants produce & reproduce as a necessary part of their everyday activities together (Denzin et al 1994; Blaikie 2010). Both of these views are incorporated into the assumptions accepted by this research regarding the nature of social reality. Accordingly the ontological assumptions classification for this thesis is defined as being interpretative.

### **Epistemological assumptions**

The typology classification suggested in Blaikie (2010) is the source used for developing the epistemological assumptions considered appropriate for this thesis. Since the purpose of the research is exploratory, it was recognised that the thesis cannot yield permanent, unvarying criteria. This implies that any additions to knowledge produced by the study could not be regarded as absolutely true, or alternatively absolutely false (Blaikie 2010). In addition to this limitation, the findings from the research are based on probabilistic rather than absolute conclusions (Denzin et al 1994). Since absolute outcomes are not an expectation from the findings, it is then reasonable to base the epistemological assumptions applicable to this thesis on a belief that social enquiry is ultimately a representation afforded reality through the perspectives of various researchers (Bazeley 2013). This implies that it is not possible to make absolutely true discoveries about the social world. Therefore everyday knowledge about social reality is to an extent relative, and is the outcome of people having to make sense of their encounters with the physical world, and with other people (Bazeley 2013; Blaikie 2010). Based on this belief, knowledge in the social sciences becomes a product of reinterpretations arrived at by various researchers who express that knowledge in a specific technical language (Blaikie 2010). An important underlying presumption that must be accepted however, is that notwithstanding these limitations the conclusions that represent knowledge outcomes must actually be verifiable before they can be regarded as valid (Blaikie 2010).

The views accepted for this thesis closely align with an epistemological typology classified as being constructivist. The constructivist assumes that knowledge about the social world is the outcome of social scientists reinterpreting everyday knowledge into technical language. Because fallible humans cannot observe an external world unencumbered by concepts, theories, background

knowledge, and past experiences, it is impossible to make true discoveries about the world (Bazeley 2013; Blaikie 2010). For this reason therefore, all social enquiry reflects the standpoint of the researcher. All observation is theory laden with no permanent unvarying criteria for establishing whether knowledge can be regarded as true. This constructivist view relates closely to the assumptions regarding the nature of knowledge in the social sciences that are accepted for this research. Accordingly the epistemological assumptions underlying this thesis are regarded as constructivist.

### **Research method**

Qualitative research views the world from an interpretative, naturalistic perspective, requiring the researcher to study phenomena within natural settings while attempting to make sense of or interpret their meaning (Denzin et al 1994). Quantitative research in the social sciences on the other hand, is based on the measurement of aspects in behaviour (Van Maanen 1983). The research question for this thesis seeks meanings in behavioural patterns as opposed to measuring them, objectives appropriate for a qualitative as opposed to a quantitative method of enquiry. In addition the interpretivist research paradigm on which it is based, aligns with one of the perspectives by which the qualitative researcher views the world.

Bazeley (2013) describes the qualitative research process as one in which a researcher will observe a particular phenomenon, prepare a detailed description of it, and then interpret and analyse what the description represents. It involves the use of a variety of empirical materials. These include case studies, drawing from personal experience, introspection, life stories, interviews, artefacts and texts, in fact any source that describes the essential nature of individual lives (Denzin et al 1994). Case studies, one of the recognised methods used in qualitative research, are considered to be an ideal approach for understanding the dynamics present within single settings (Eisenhardt 1989a). They are traditionally categorised as being descriptive, illustrative, experimental or explanatory in nature (Scapens 1990). Because they are based on the process of interview, observation, and the analysis of documentary evidence (Denzin et al 1994), case studies fulfil many of the criteria necessary to search for meaning. The case study method is also used in situations where very few theories exist, or the body of knowledge in relation to the subject being researched is particularly deficient (Collis et al 2003).

The various criteria described indicates case study method as an appropriate strategy for undertaking the data collection process necessary for answering the

thesis research questions. Case study is also recognised as one of the empirical materials used for qualitative research (Denzin et al 1994). An aim for this research is to develop an understanding of the dynamics inside one firm competing within a stable external environment. This aim equates to the single setting situation identified by Eisenhardt (1989a) as ideal for a case study method. A further contributory factor is that since there is no well developed understanding in the literature regarding the benefits ambidextrous designs may provide in stable environments, the choice of case study method provides potential for generating new insights that may be used in future research (Collis et al 2003). These insights could contribute to the development of a theory (Collis et al 2003) relating to the benefits for ambidextrous architectures to organisations competing in stable environments.

### **The influence of context**

One of the most frequently identified characteristics of a qualitative approach to research noted in the qualitative methods literature refers to the attention paid to context (Bazeley 2013). The reason being that environment, or context, conditions the situations under which the things we structure exist (Becker 1998). The laws of behaviour cannot be expected to hold independently of context (Bazeley 2013). These observations are particularly relevant to this study because at the core of the research questions is the need to understand how the external environment influences certain behavioural patterns within the case study. Therefore, in addition to carrying out a detailed analysis of the case, a comprehensive review is undertaken of the environmental context in which it is embedded. This recognises that although the case being studied is effectively an independent system, and many influences determining behaviour patterns are shaped within its own boundaries, there are also other influences emanating from areas external to the case itself (Stake 2000). It acknowledges that certain features are contained within a system, (within the boundaries of the case itself), whereas others are a direct result of external environment influences (Stake 2000). Analysing the external environment made it possible to recognise relevant external features that directly, or indirectly, influenced patterns of behaviour subsequently identified within the case study.

### **The context which is analysed**

The context for this research is the industry in which the case study participates as a competing firm. The aim for the analysis of context is to compile a comprehensive profile of the professional accounting industry in Australia. This

assisted identification of characteristics present in the competing firm strategies, culture, and organisation structures, which disclosed a propensity for affecting a capacity to evolve an ambidextrous perspective. A comprehensive knowledge of a particular environment is a distinct advantage for the researcher, and an invaluable guide during the early stages of data collection (Gummesson 1991). My previous knowledge of the industry confirmed that there was no imminent threat to the viability of the core services offered by the accounting practices making up the industry. This initial insight confirmed that the core service offer of the professional accounting would comply with the definition of a stable external environment accepted for the purposes of this thesis.

### **Analysis of context**

The objective for the analysis of context is to document a comprehensive profile of the industry, and to identify the features in its external environment influencing how competing accounting practices formulate strategy, and shape their internal organisation architectures. Two information sources are used for the analysis of context, documentary sources, and data collected from interviews conducted with industry stakeholders. Prior to commencing data collection a number of features were identified as necessary for building a descriptive profile of the industry. The features are its size and structure, profile of the competing accounting practices, a description of the competitive environment, service offerings, markets and distribution channels, opportunities, threats, and limiting factors (Porter 1980). To facilitate the collection of the data required for building a contextual profile based on these features, a group of sixteen headings is used. The headings are listed in Table 3.1.

1	Structure and Regulation
2	Size - represented by number of competing firms and fees generated
3	Legal structure, governance, and strategic focus
4	Sources of competitive advantage
5	Services provided by the industry
6	Fee seasonality
7	Lifecycle expectation for the core service offering
8	Opportunities for delivering additional services
9	Market segments in which the firms compete
10	Marketing and promotional strategies
11	Distribution channels used by the industry
12	Services used by the industry
13	Growth expectations and limiting factors
14	Industry competitors
15	Operating costs and profitability
16	Specialised technology used by the industry

**Table 3.1**

Information headings used for analysing context

A primary source for building a profile of the industry is a detailed survey<sup>3</sup> of the Accounting Profession in Australia which was published in May 2003 (ABS 2001-2002). This survey provides comprehensive information about industry size, service offerings, and a demographic profile. A benchmarking report and practice improvement guide, Macquarie (2014), published by Macquarie Bank Ltd and prepared by Business Fitness a consultancy, is also used extensively. It is a valuable source for current data about the industry. Additional information was obtained from the professional accountant membership bodies, the Tax Practitioners Board, the Australian Securities and Investment Commission, and from relevant Federal Government statute and regulation. In addition to these information sources, interviews were undertaken with various industry stakeholders who contributed personal insights drawn from their experience as participants, clients, or consultants.

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<sup>3</sup> The ABS advised that a new survey was scheduled for 2015 but no results have been published and there is no information available whether the survey has in fact been undertaken.

## **Interviews in relation to context**

### *Ethics approval*

Permission to collect data from interviews, both for the analysis of context (and ultimately for the case study), was granted by the Monash University Human Research Ethics Committee (MUHREC) on the 16<sup>th</sup> May 2011 with an approval period extending to the 16<sup>th</sup> May 2016. When the possibility of an interview was canvassed with any prospect, the individuals approached were advised that confidentiality and privacy would be scrupulously protected. Participants were handed an explanatory statement prior to commencement of the interview. The generic template provided is shown at Appendix 3/1. All participants were also requested to acknowledge the voluntary nature of the process by signing a formal consent in the format approved by the MUHREC (Appendix 3/2). When information obtained from the interviews is finally transcribed and documented, all references to the participant is by pseudonym so that confidentiality is respected.

### *Interviews*

Five stakeholder groups are identified and listed in Table 3.2. The selection of participants is purposively based (Stake 2000), and interviews commence with the use of individual generic questionnaires developed for each group. A flexible approach allows issues that not identified in the standard questionnaires to emerge as the interviews progress (Shaw 1999). The generic questionnaires are shown in Appendices 3/3 to 3/7.

<b>INTERVIEW GROUP</b>
Principals of accounting practices
Clients of accounting practices
Lawyers providing advice to the industry
Specialist consultants to the industry
Competitors to the industry

**Table 3.2**

Professional accounting industry stakeholder groups

Interviews are conducted at venues chosen by participants, allowing the individuals concerned to place themselves within an environment they regard as natural and in which they are comfortable (Shaw 1999).

### **Case Study Type**

Stake (2000) identifies three case study types, intrinsic, instrumental, and collective. Intrinsic describes a study that is designed to develop an understanding of the case for itself. An instrumental type is designed for developing additional insights into a particular phenomenon enabling reassessment of previous generalisations



about its nature. In a collective study, the researcher is more interested in the characteristics of a group rather than a specific individual case therefore it will include a number of subjects who together ultimately represent the case. The collective study is clearly not applicable to this research which focuses on one single case. A disadvantage identified with the instrumental approach is that since its exclusive focus is to generalise from the findings, the researcher may be deflected from appreciating any unique particularity displayed by an individual case (Stake 2000; Woodside et al 2003). In addition to this disadvantage, a further reason for not using an instrumental case type is that the research aim is not the formulation of generalisations from its findings. The aim for this thesis is to develop a comprehensive understanding of the case itself, for itself, which fits with the purpose defining an intrinsic case type. Accordingly the case type used for this thesis is considered to be intrinsic.

### **Ensuring rigor and discipline**

Two principles are incorporated into the case study design to ensure the presence of adequate levels of rigor and discipline, construct validity, and reliability (Yin 1994; Gibbert et al 2008). Yin (1994) also identifies two other considerations for securing the required levels of rigor and discipline in case study design, the principles of internal and external validity. This case design did not seek to incorporate these two criteria. A test for internal validity is not required when conducting case studies designed for exploratory purposes (Yin 1994). As for the test for external validity, it is a principle required when the aim of the research is to generalise beyond the initial findings (Yin 1994). This is not an aim for this research.

A case study design meets the test for construct validity when subjective judgments are avoided during the collection and analysis of data (Yin 1994). Three tactics are recommended for embedding this into the design, the use of multiple sources of evidence, establishing a chain of evidence, and allowing the case study report to be reviewed by key informants Yin (1994). Reliability is achieved by embedding procedures that enable a later investigator to arrive at the same conclusions as the original, assuming of course that the same procedures are followed (Yin 1994). Clearly documented procedures, and the presence of a well organised case study data base, are identified as the critical features necessary for securing reliability (Yin 1994). The sections in this chapter describing data management and analysis procedures explain the steps taken to ensure that the

requirements for construct validity, and reliability, are embedded into the case design.

### **Details of case study and selection criteria**

The external environment for the professional accounting industry in Australia fulfils those criteria this thesis has identified for defining it as one that is stable. The key identifying factor is that external environment dynamics do not pose any imminent threat to the longevity of the core cash generating services provided by the accounting practices which together make up the industry. The professional accounting industry is therefore considered a suitable context from which to select a case for detailed study. The entity selected as the case for study is one of the competing accounting practices. A comprehensive description of the case study context appears in Chapter 4 of this thesis.

The population from which the case study accounting practice could potentially be drawn is substantial. A detailed survey of the industry undertaken in the years 2001-2002 (ABS 2001-2002) included data provided by nine thousand eight hundred and sixty practices. A substantial percentage of that number were deemed unsuitable for use as a case study because of geographical location. They are situated either outside the state of Victoria, or are in rural locations that are not easily accessible. The sole practitioner practices making up sixty seven percent of the total population are considered unsuitable because of size. It is unlikely that they have the resources or the expertise to consider new service development requiring ambidextrous designs. Practices with two principals are also excluded, because it is unlikely that they have the infrastructure, or the managerial capability required for implementing ambidextrous designs. The decision to exclude these two groups is based on a recognition that the case chosen for study must be capable of revealing the best possible explanations regarding the phenomena being studied (Yin 1994; Stake 2000). Additional exclusions are also based on size. Approximately two and a half percent of the accounting practices surveyed in ABS (2001-2002) are operated by five or more principals. These practices have internal structures that facilitate diversification of their service offerings. The diversification is designed for matching the needs of the clients these practices service, predominantly large private companies, small cap listed companies, and large not for profit organisations. This group, which represents less than three percent of the population, is therefore also not a realistic proxy for the firms making up the industry. The choice therefore is

finally restricted to the accounting practices with three to four principals. The analysis of context disclosed that whereas these practices possessed latent capability for diversification, eighty seven percent of their fees are derived from the compliance service suite (ABS 2001-2002). The compliance suite is the core service offer delivered by the industry, it is enduring, and not subject to any threat of obsolescence or replacement.

Three further criteria are also used for selecting an appropriate practice for study. The accounting practice should not be newly established, its existing organisation structural design is monodextrous not ambidextrous, and the principals are prepared to allocate the time necessary for conducting interviews. The criteria used for deciding if the existing structure is monodextrous are derived from O' Reilly et al (2004). The features identified recognise that operational focus is on the improvement of quality and lowering of cost, innovation is designed for increasing process automation, continuous improvement programs aim to boost the reliability of the existing offer, marketing strategies are designed to sustain existing client satisfaction, and fee increases are generated from existing service offerings.

These restrictions and disqualifications make it necessary to choose the case study by using a purposive rather than a random sampling method (Stake 2000). The purposive method is also acknowledged as an effective approach to identify cases that are capable of providing the information necessary for gaining an understanding of the research question (Marshall et al 1995). A number of possible candidates are identified during the analysis of context. The information is provided by a number of persons interviewed who suggest names of practices they thought may be prepared to offer themselves as the case for study. Other potential practices are identified based on personal knowledge of the industry. A list of possible candidates was ultimately culled to five who then became the preferred options. The principals are approached directly, provided with a brief outline of the research problem (Appendix 3/8), and asked if they would be prepared to offer their practice as a case for study. The outline provided to the principals ultimately becomes the basis for an explanatory statement handed to case study interview participants. The information provided to the prospects includes an estimate of the time commitment required from the accounting practice principals if they agree to participate. The first potential candidate declined the request on the basis of work commitments, and the second agreed to

participate after the proposal was sent to all principals in his practice for their consideration.

### **Description of the case**

Chapter 5 of this thesis provides an overview of the accounting practice used as the case study. It has four principals and a financial planning division headed by a registered financial planner. Established for over forty years, many of the clients serviced have been with the firm since its formation date in 1975. Excluding principals, the practice employs thirty four personnel, and outsources some of its back office processing offshore. Governance is structured around a formally constituted board comprising the principals, head of the financial planning division, and an independent director who was one of Australia's most successful retailers. Although the principals do not acknowledge the existence of a managing principal, one of their members, who is senior in age and in service years, tends to fulfil this role. The practice is profitable, and has experienced steady growth year on year. It was originally added to the list of potential candidates after its senior principal was interviewed as a participant for the analysis of context. This interview indicated that the practice fulfilled the selection criteria regarding size and the number of years it had been trading. In addition, comments by the principal being interviewed provided some insights into a high level of internal sophistication and process maturity. The interview also disclosed the presence of an inherent potential for innovation that could allow the existing service offer to be widened. To preserve anonymity the case is referred to as FHW.

### **Data sources and collection method**

#### *Ethics approval –case study*

On the 16<sup>th</sup> May 2011 permission was granted by the Monash University Human Research Ethics Committee (MUHREC) for the collection of data from interviews undertaken with case study personnel. This approval was subject to a condition that the accounting practice selected as the case study should have no direct or indirect association with the PhD candidate. Final approval was granted to proceed with the selected accounting practice on the 22<sup>nd</sup> May 2015. All participants interviewed as part of the data collection process for the case study were advised that confidentiality and privacy would be scrupulously protected. Assurances were given that pseudonyms are used for the purpose of identification, and that no personal names or references to the participating organisation are made. Participants are requested to acknowledge the voluntary nature of the process by signing a formal

consent in the format approved by the MUHREC (Appendix 3/2). In addition all receive an explanatory statement (Appendix 3/9) prior to interview.

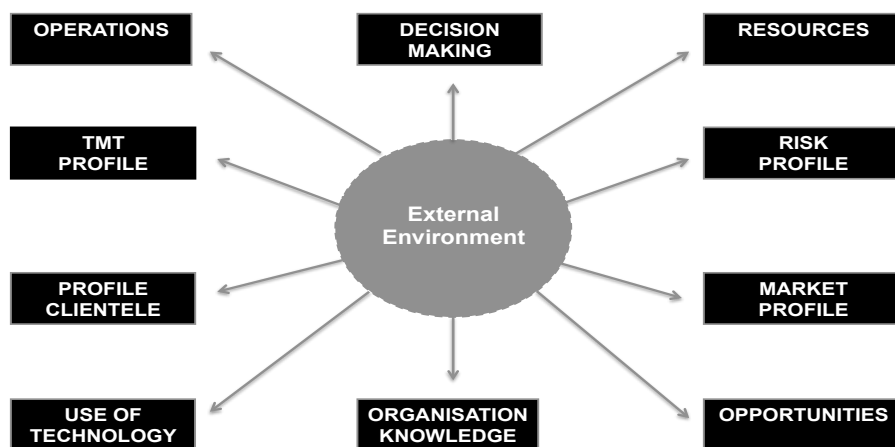
#### *Questionnaire development*

A cross sectional method was used for the data collection process. This requires the case to be studied at a particular point in time (Saunders et al 2003). The method is appropriate for this research because its purpose is not to investigate how behaviour patterns within the case evolve over any period of time. The primary data sources are the transcripts from eight interviews undertaken with a group representing the TMT of the case study accounting practice. An additional data source is a diagram detailing how the practice is managed and controlled. The diagram also traces the origins and destinations for lines of authority and responsibility. Information extracted from the practice website is used for developing the background information necessary to prepare an introductory profile of the practice. Two lists of questions were compiled prior to commencing the interviews. The first, shown as Appendix 3/10, is a group of questions directed to accounting practice principals, the independent director, and a consultant assisting the practice to determine future strategic direction. The second list shown as Appendix 3/11 details the questions directed to the supervisor or middle management level of the accounting practice. Questions adequately answered during an interview are not put again in subsequent interviews unless the objective is to obtain different viewpoints. In all cases a flexible approach is used when approaching interviews allowing the discussion to create its own momentum if useful additional insights are emerging (Shaw 1999).

The principle that effective research should not proceed without understanding what is actually being looked for (Wolcott 1994), is recognised when compiling the interview questions. In addition the interview strategy accepts the principle that information generated must be entirely relevant to the research question (Yin 1994). The questions also recognise a requirement for understanding the nature of any opportunities available, and to assess how the presence of a non-dynamic external environment affects capability and behaviours. The data collection priorities are also cognisant of a need to consider the propensity displayed for introducing an ambidextrous design. Questions are therefore compiled to facilitate an understanding of how the external environment affects relevant OA antecedent factors identified in the literature. The factors selected are the organisation structure of the practice, the

context in which its employees conduct their daily tasks, the nature of its leadership, its market orientation, and the resources it has available (Raisch et al 2008).

A three stage process is adopted for creating the questionnaire templates. Stage one is to define a group of headings that identify the features of the accounting practice to be examined and the selected features are shown in Figure 3.1. The diagram stresses the critical nature of the external environment to this thesis. It does so by relating the external environment to each of the features in the practice considered relevant for data collection.



**Figure 3.1**

Aspects of case study used for determining data requirements

The second stage of preparation is to compile a detailed specification of the information required from the interviews. These specifications define the data requirements necessary for compiling detailed descriptions of the features illustrated in Figure 3.1. These specifications are used to formulate the questions listed in the templates shown in Appendices 3.10-3.11. Formulation of the actual questions is the third and final stage of the process. When preparing the specifications a number of factors critically important for this research are considered. A primary consideration is the need for developing a comprehensive profile of the TMT controlling the case study practice. This acknowledges the importance of the TMT as an enabling factor for the development of ambidextrous designs (Raisch et al 2009), particularly with respect to SME's (Beckman 2006). The profile therefore is required to include characteristics describing the presence of a dominant general management logic (Prahalad et al 1986), and evidence for any reliance placed on pre-existing

knowledge systems or schemas (Norman 1976). The profile must also describe the nature of the activities incorporated under the heading of behavioural integration (Hambrick 1994), which the literature recognises to be a positive nurturing factor for the decision to implement OA (Lubatkin et al 2006). Behavioural integration is measured by considering the level of collaboration between the members of the TMT, how they exchange information, the culture they encourage within the accounting practice, and how decisions are considered, resolved, and executed (Lubatkin et al 2006). The TMT profile also includes a description of the prevailing decision making processes which assists in developing understanding of the respective risk tolerances displayed by the team members (Berger 1985; Scandura et al 2000). Understanding risk tolerance provides insights into how the team might assess an investment with uncertain outcomes, an important factor when considering any propensity for introducing the discontinuous innovation programs requiring ambidextrous designs. A series of questions designed to ascertain if the TMT makes strategic decisions to avoid missing out on available opportunities, (errors of omission), or if it prefers to avoid being wrong, (errors of commission) (Berger 1985; Leonard- Barton 1990) are used for developing the necessary insights for describing the risk profile.

A further enabling factor encouraging the implementation of OA is the nature of the learning processes in the accounting practice (March 1991; Raisch et al 2008; Gupta et al 2006). This factor is identified as relevant for this research because organisation learning is important for developing a culture that fosters a willingness to embrace discontinuous innovation and the ambidextrous designs necessary for hosting it (March 1991; Raisch et al 2008; Gupta et al 2006). A series of questions are therefore included to ascertain if the case study accounting practice includes learning opportunities for acquiring new knowledge, or if its exclusive focus is to ensure the efficiency of the extant capability (Raisch et al 2008). The specifications for constructing the questions are illustrated in Table 3.3.

HEADING	DETAILED INFORMATION REQUIREMENT
Operations	<p>How is the operations function structured</p> <p>What are the objectives for the operations function</p> <p>What level of routinisation and experimentation is evident</p> <p>Describe the level of discipline – are process controls tight or slack</p> <p>What is the attitude to operational risk, (TMT, Middle Management)</p> <p>How open is management to process changes</p> <p>Describe the level of commitment to pre-defined objectives</p> <p>What is the attitude to process failure (TMT, Middle Management)</p> <p>Description of the innovation strategies and the processes for carrying them out</p>
TMT profile	<p>Corporate governance model and executive management structure</p> <p>Practice objectives</p> <p>Strategies for achieving objectives</p> <p>Behavioural Integration</p> <p><i>Level of collaboration between members of the TMT</i></p> <p><i>How is information exchanged between members of the TMT</i></p> <p><i>Describe the strategic making process - strategic &amp; operational</i></p> <p><i>Describe the TMT and practice culture</i></p>
Profile of clientele	<p>Demographics, ethnicity, specialisations, size</p> <p>Identification of any pareto characteristics</p>
Use of technology	<p>What technologies are used throughout the practice &amp; do they support marketing initiatives, operations, and administration</p> <p>Is there a strategy to ensure that technologies are maintained at the cutting edge</p>
Organisation knowledge	<p>Describe the TMT's vision for the practice learning objectives</p> <p>Describe the formal and informal learning activities</p> <p>Do the learning activities support incremental or breakthrough innovation (or both)</p> <p>Does knowledge emanate from organisation apex ,or does it also flow from the base</p> <p>Is the TMT influenced by pre existing knowledge schemas</p> <p>If so what is the predominant theme of those schema</p> <p>Is there a dominant general management logic influencing perspectives and attitudes</p>
Opportunities	<p>The opportunities that have been identified by the TMT</p> <p>Any opportunities identified by middle management</p>
Market profile	<p>TMT opinion regarding lifecycle of each income service group</p> <p>TMT description of the competitive environment</p> <p>TMT identification of primary competitors to the practice</p> <p>Practice marketing activities and objectives</p> <p>The TMT view of the primary competitive advantage enjoyed by the practice</p> <p>TMT opinion regarding market growth over the short to mid term</p>
Risk profile	<p>The practice risk model (as defined by the TMT)</p> <p>The risk mitigation procedures developed to protect against the identified risks</p> <p>The TMT attitude to risk</p>
Resources	<p>Practice infrastructure</p> <p>Personnel profiles</p> <p>Method used to fund the practice &amp; any scarce resources causing limitations</p>
Decision making	<p>Are decisions governed by a need to ensure that opportunities are not missed</p> <p>Are decisions governed by the need to avoid errors</p>

**Table 3.3**  
Schedule detailing information requirements



### *Case study interviews*

The interview participants are the senior principal, all practice principals, an external consultant appointed to assist with strategy formulation and marketing, an independent director, and a middle manager (described as a supervisor). The need for possibly expanding the initial group was communicated during preparatory discussions, a necessary step if there are gaps in the data after completing the scheduled interviews (Corbin et al 2008). This step is not required if no new information is being uncovered during the interviews which indicates that a point of data saturation has been reached (Corbin et al 2008). An expansion of the initial group was not found to be necessary after the scheduled interviews were completed. All case study interviews were scheduled to be held in the offices of the accounting practice. This acknowledged a principle that if possible data collection should be undertaken within the context in which the phenomena being studied naturally occurs (Miles et al 1984; Marshall et al 1995). The situation also assists the researcher to develop an understanding that is grounded in the perspectives of the participants (Miles et al 1984; Marshall et al 1995). Some participants however, elected to move the interviews to different venues. Their choices are respected to ensure that the person being interviewed enjoys maximum situation comfort (Shaw 1999).

The research priorities had previously identified the TMT as a key data source for providing the information required to answer the research questions. TMT in this thesis refers to the members of an advisory board responsible for oversight and strategy formulation. The interview schedule therefore includes individuals who are members of the accounting practice, and associates involved in the work of the advisory board. Middle management is also identified as an important data source and for this reason the supervisor responsible to the senior principal is included as a participant. The supervisor is well informed and because she is a confidant of the senior partner her participation delivers a number of insights that would not have been forthcoming from others. To respect the wishes of some participants who indicated their discomfort with recorded interviews, this option is not used. The method used for ensuring that the transcripts represent a true and fair representation of what was said, is to forward each participant a draft of the transcript, and request confirmation that it is a faithful summary of the interview. Table 3.4 lists details of all the interviews conducted and shows the pseudonyms used to identify interview

participants. A master list linking actual names to the pseudonyms is retained as a separate record and stored in a confidential file.

Date	Participant	Role	Venue	Time
01/06/15	BW	Independent director	Coffee shop	1.25 Hours.
07/07/15	BH	Principal (Financial Planning)	Coffee shop	1.25 Hours.
07/07/15	MW	Principal	FHW offices	1.0 Hours
13/07/15	AP	External marketing consultant	Coffee shop	2.0 Hours
24/07/15	MS	Retired principal (now consultant)	Home office	1.5 Hours
07/08/15	NS	Principal (Senior)	FHW offices	1.0 Hours
14/08/15	AF	Principal	FHW offices	1.0 Hours
14/08/15	SB	Supervisor	FHW offices	1.0 Hours

**Table 3.4**

Interviews undertaken with case study personnel

The original notes prepared during interviews are subsequently converted into full transcripts in electronic format and saved as a draft. After the participant has confirmed that he/she is in agreement with the content, the transcript is then saved as the official record of the interview. This establishes a trail of evidence proving that the data has a high level of integrity, is a reliable data source, and satisfies the test for construct validity.

### **Data management and analysis**

#### *Organisation of Data*

Where appropriate, the processes suggested in Bazeley et al (2013) and Bazeley (2013) are used to document, store, manage, sort, and analyse the data collected. The software application used for storing, organising, and analysing the data is NVivo for Mac Version 10.2.2 (1380). The use of the NVivo application facilitated the ability to ensure that the data storage, management, and analysis process used, would satisfy the test for reliability in the case study design. Data is secured by using adequate backup procedures and wherever possible a hard copy is also printed and retained. The NVivo file is backed up automatically on the computer hard drive, and on an external drive stored in a secure place. The source data imported into NVivo, and the way it is stored for subsequent analysis, is shown in tabular form as Table 3.5. The table illustrates the data stored under the two data source groups NVivo classifies as *Internals*, and *Memos*.

<b>SOURCES</b>	<b>INTERNALS</b>	Interviews	Transcript AF
			Transcript AP
			Transcript BH
			Transcript BW
			Transcript MS
			Transcript MW
			Transcript NS
			Transcript SB
	<b>MEMOS</b>	Practice profile	History and organisation structure
			Website
		Annotations	Comments 16 November
		Interview memo	Threats
		Node findings (Structural)	Clients
			Competitive Advantage
			Competitive Environment
Connection to Context			
Analysis 2nd stage	Knowledge		
	Limiting Factors		
	Operations		
	Opportunities		
Analysis last stage	Resources		
	Risks		
	Strategy		
	Technology		
Research journal	Top Management		
	Findings 24 <sup>th</sup> Nov 2015		
	Summary findings 24 <sup>th</sup> Nov 2015		
	Analysis struct. nodes 29 <sup>th</sup> Nov 2015		
	Summary of findings 1 <sup>st</sup> Dec 2015		
	Summary of conclusions @ 1/12/15		
	Diary of process		

**Table 3.5**

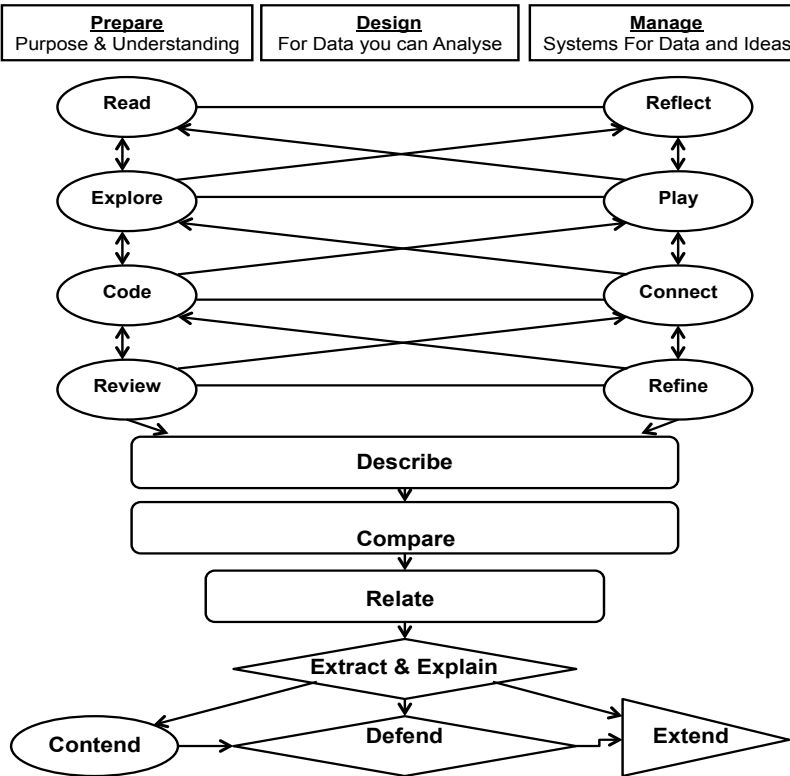
Table detailing data sources in NVivo

There are two separate folders in the *Internals* section of the data base. They are an *Interviews* folder where the interview transcripts are stored, and a *Practice Profile* folder containing information extracted from the practice website, plus a summary of the accounting practice background. NVivo also provides a facility for preparing and storing memoranda that contain reflections and insights which begin to emerge as analysis of the data proceeds. This section, which the software categorises as *Memos*, is used for capturing thoughts and notes about the data as the review progresses. The memos thus created are sorted into a number of different folders. An *Annotations* folder and an *Interview Memo* folder contain the thoughts and comments annotated on source documents as they are systematically reviewed

prior to coding. After completing the first round of coding the outcomes are reviewed, and thoughts, questions, and issues related to that review are documented using a further set of memos. The memos created as a result are stored in the folder labelled *Node Findings (Structural)*. Thoughts, questions, issues, and conclusions, documented and written up as memos during a second and third round of coding, are stored in the folder labelled *Analysis second stage*. A comprehensive set of notes summarising the findings and conclusions arising from the overall data analysis are stored in the memo folder labelled *Analysis last stage*. A research journal setting out a chronological log of the thought processes influencing development of the data in NVivo is stored under the folder named *Research journal*.

**Method used for data analysis**

The literature generally recognises that no universally accepted formula exists to transform qualitative research data into findings (Patton 2002). The result is that researchers use multiple methodologies (Punch 1998). The method used for this thesis is based on the process detailed in Bazeley (2013), illustrated in Figure 3.2.



**Figure 3.2**  
Illustration of the process used for analysing data (Bazeley et al 2013)

The method is found to be particularly appropriate for this thesis because it facilitates the integration of both construct validity and reliability into the method used for analysing the case study data. Bazeley et al (2013) explains that the ultimate objectives of the process illustrated in Figure 3.3 is to *contend*, *defend*, and *extend*. *Contend* is explained as the building of a rich and interpretive descriptive model, which then becomes the basis for *defending* the conclusions derived from the research data. *Extend* refers to the process of developing new insights from the research that are capable of contributing to the wider body of literature on the particular phenomena studied. Bazeley et al (2013) also stresses that an additional requirement is for all data to be linked with detailed audit trails that are able to support all findings and conclusions.

### **Data analysis process**

Analysis commenced with an initial careful reading of the interview transcripts, followed by a period of reflection on the issues they contained. This approach facilitated the development of deeper insights, and encouraged further exploratory iterations with the data designed to uncover the more subtle implications of meaning hidden within the content of the transcripts. The method also assisted with the process of developing codes, because it encouraged further exploration and stimulated the use of imagination to test possible implications outside the obvious frames of reference. This process not only helped in developing relevant code categories, but also assisted in developing connections between codes. This greatly assisted an ability to gain the deeper insights which facilitated recognition of the links which could be found between different sets of evidence.

The task of coding data in qualitative research is the major work component of the analytical process, and is necessary for developing any meaningful results supported by the underlying data collected (Gibbs 2007). Qualitative coding is about data retention rather than data reduction (Bazeley et al 2013). It allows efficient management of data and the building of ideas that facilitate the framing of questions arising from the emerging picture (Bazeley et al 2013). The analysis process used adopts the recommendations in Bazeley et al (2013), which was found to facilitate extraction and coding of relevant data during initial reading and reflection.

### **Coding of Data and the use of Nodes**

Coded extracts from source documents are saved under the code assigned to them within a section of the NVivo data base named *Nodes*. Three node folders are

used, each representing a different stage in the process of coding data. The first folder, structural nodes (Bazeley et al 2013), contains the outcome from the initial coding process. This node set produced a comprehensive profile of the accounting practice, and became the foundation for second and third stage coding. The structural nodes are also set up to uncover any cultural or structural incompatibilities that may obstruct the implementation of discontinuous innovation into the existing capability (O'Reilly et al 2004). The reason for this additional dimension to the structural nodes is that discontinuous innovation must either be present or contemplated in an organisation before any ambidextrous design can have any utility for that organisation (Miller et al 1983; Tushman et al 1996; Tushman et al 1997). It is therefore important to understand whether significant inhibiting factors are present in the internal environment that may prevent or hinder implementation. The structural nodes that are created for facilitating both objectives are listed below in Table 3.6. The nodes are based on the features of the accounting practice described in Figure 3.1. One additional node is included to allow coding of relevant background information.

Case Setting
Clients
Competitive advantage
Competitive environment
Connection to context
Knowledge
Limiting factors
Markets and marketing
Operations
Opportunities
Resources
Risks
Objectives and strategy
Technology
Top management team

**Table 3.6**

Structural nodes defined for Stage1 of the coding process

The coded data in the structural nodes facilitated identification of a number of themes and behaviour patterns of particular relevance to the research questions. To build on this early recognition a second round of coding was undertaken, stage 2 of the analysis process. The various memos reflecting the comments and observations documented while reviewing the data in the structural nodes are also included as data for this second round of coding. The set of nodes defined for this second round are designed to extract and code data relevant to the themes and behaviour patterns

identified while reviewing the structural nodes. The resulting nodes created are shown in Table 3.7. They are stored within a folder in NVivo labelled *Themes*.

<b>CASE SPECIFIC THEMES</b>	Opportunities	Discontinuous
		Related to core offer
	Risks	Internal
		External
	Dominant logic	
	Barriers to ambidexterity	
	Service offer	
	Objectives and strategies	
Resources available		
TMT behaviour		
Marketing expertise		
Competitive dynamics		
Fees		
Objectives and strategy		
Operations		
Service offer		
TMT behaviour		
Risks		
Maintaining knowledge		
Fee sensitivity		
Industry attitude to risk		
Industry threats		
Inertia		
Lack of marketing skills		

**Table 3.7**

Nodes reflecting emerging themes used for Stage 2 of coding process

The third and final stage of the coding process creates a set of nodes designed to facilitate a connection between the themes identified in Table 3.7 and the issues considered by the research questions. In order to place this third stage within its correct context the following issues are briefly noted. A central issue for this research is whether management teams competing within environments that do not threaten the lifecycle of the core cash generator would find strategic benefit in using ambidextrous designs. Consideration of this issue in relation to the case study requires understanding of its existing strategic intent, information about opportunities, (those currently identified plus any latent opportunities not recognised), understanding of existing TMT behaviours and attitudes, and a solid appreciation for the possibilities offered by the extant internal capability. An over arching requirement is the necessity for developing in depth insights into how the external environment influences the TMT perspectives, and how these translate into the current decisions

determining accounting practice direction. This recognises the key role of the TMT for nurturing conditions that facilitate the introduction of organisational ambidexterity (Beckman 2006; Raisch et al 2008). A further aspect of this research is to formulate an assessment whether the internal environment of the accounting practice, shaped by a stable external environment, is compatible or incompatible with the antecedent conditions necessary for implementing any of the ambidextrous designs identified in the literature. The three designs considered are structural (O'Reilly et al 2004; Govindarajan et al 2005), contextual (Gibson et al 2004), alliances, outsourcing and acquisition (Stettner et al 2014). The stage three node set therefore is created with reference to these identified issues. The set comprises eight head nodes, subdivided where necessary into sub nodes in order to provide additional depth to the perspectives if required. The eight head nodes describe the activities in the accounting practice, its capability and competitive advantage, the TMT focus, strategy and behaviours, current marketing practices, and the opportunities for creating value. Where necessary sub nodes distinguish between external and internal environment influences. The complete node set is shown in tabular format as Table 3.8.

### **Conclusion**

The completion of stage three coding facilitates the compilation of a comprehensive memorandum in which the issues revealed by the analysis undertaken are detailed. This memorandum, together with coded data stored in the various node sets, provides the information required for preparing a description of the case, a detailed review of the findings, and a basis for formulating the conclusions necessary for answering the research questions. The findings from the analysis of context are detailed in Chapter 4, and a comprehensive description of the case study accounting practice is set out in Chapter 5.



Exploit activities	Continuous improvement Customer satisfaction Quality and cost Improve the offer Penetrate existing markets Automation	
Explore activities	Innovate customer service Product innovation New technologies New customer groups	
Capability and competitive advantage		
Focus	Environment influence	On innovation On operations On knowledge On experimentation
	Internal influences	On innovation On operations On knowledge On experimentation
Marketing		
Opportunities value creation		
Strategy	Environment influences	Objectives and strategy Economic success Historical
	Internal influences	Objectives and strategy Economic success Historical
TMT behaviour and attitudes	Ability to unlearn Open to and broaden new ideas Attitude to risk Dissent Dominant coalition Schemas Influence of the past Core competencies Environment change Shared beliefs	

**Table 3.8**

Nodes created for stage 3 coding, links to research questions

## **CHAPTER 4**

### **DESCRIPTION OF THE INDUSTRY CONTEXT**

#### **Chapter summary**

This chapter describes the findings from an analysis of the context in which the case study accounting practice is situated. The context is the professional accounting industry in Australia. To ensure that the findings are relevant to the case study, the analysis focuses on context related to accounting practices with less than five principals. The chapter provides details of the industry structure, how it is regulated, its size, the services provided, and the market segments from which clients are drawn. The opportunities identified by various industry stakeholders are discussed, as are the marketing and distribution channels used for achieving growth objectives. Expectations regarding growth are outlined, and the nature of the competitive environment described. The chapter also explains the nature of the accounting practice cost structures, and provides details for the profit expectations in this segment of the industry. A section is included that provides details of the technology used, and the chapter concludes with a brief discussion of some industry specific issues relevant to the case study that are identified by the stakeholders interviewed.

#### **Information sources for analysis of context**

Three primary sources are used. The first is a survey of the industry undertaken by the Australian Bureau of Statistics for the financial year ended 30<sup>th</sup> June 2002 (ABS 2001-2002). The second is a benchmarking report on the industry published by the Macquarie Bank (Macquarie 2014). The third source is made up from transcripts of personal interviews conducted with a group of selected industry stakeholders. The persons interviewed, and their respective connections to the industry, are detailed in Table 4.1. The pseudonym identifying each participant is used throughout the analysis to acknowledge their opinions and contributions. Questions put to participants during interviews and transcripts of the interviews are summarised as Appendices 4.1 – 4.12. To ensure that the content of this chapter is relevant to the case study, the analysis of context focuses on issues relevant to practices of a similar size.

Participant	Role in the Professional Accounting Industry
APP	Senior partner in a five principal accounting practice.
APSP	Sole practitioner registered as a chartered accountant
CL1	CEO of an SME with a turnover of \$15 million per annum. Business employs an internal accountant (unqualified) and utilises the services of an external consultant for strategic advice and assistance with financial analysis.
CL2	Young professional in a medical related field who commenced professional practice three years prior to interview.
IB	Highly experienced insurance broker, who is a senior principal in a brokerage firm. The firm has built its business through associations with accounting practices.
IC	Principal of a national consultancy firm which for over 25 years has provided a range of services to accounting firms including benchmarking, valuations and practice broking.
LAW	Senior partner in high profile legal firm. Provides legal, commercial, and taxation advice to accounting practices throughout Australia.
PB	Accounting practice broker who during the years 1993 to 2006 facilitated the sale or merger of over 230 accounting practices.
RQA	Young accountant who recently passed the chartered accountant admission examinations. Employed in a five principal accounting practice.
SC	Licensed franchisee of a national network of consultants specialising in the provision of strategic advice to SME's.
SUC	A principal of a consultancy firm providing advice to accounting practices in retirement planning and self managed superannuation funds.
TAC	Specialist taxation consultant providing education programs to accounting practices throughout Australia.

**Table 4.1**  
Industry stakeholders interviewed for analysis of context

Macquarie (2014) was prepared by a consultancy firm, *Business Fitness*, on behalf of the Macquarie Bank Ltd. It is not a refereed publication and is based on data collected during the 2014 calendar year. The author does not indicate sample size nor the method used for selecting participating practices. The advice provided however is that the data is collected from a wide cross section which includes city, suburban, and regional firms, ranging in size from sole practitioner, to large multi office and multi principal businesses.

### **Defining professional accounting in Australia as an industry**

Porter (1980) defines an industry as a group of firms producing products that are close substitutes for each other. This definition can be applied to accountants in Australia who are engaged in professional practice. The competing accounting practices sell identical professional services, albeit no tangible product is delivered when the commercial transaction occurs (Kotler 1991). The delivery of a homogeneous intangible service makes it difficult to communicate evidence for value

and quality to the buyer (Kotler et al 2009). Managing this difficulty, and communicating value, is a key factor for achieving competitive advantage in the industry.

### **Structure and regulation**

#### *Designation as an accountant*

The designation of accountant is not protected by legislation or regulation in Australia. An individual can commence professional practice as *an accountant* without registering with an industry association or any government agency. There are however restrictions on the services that can be offered by an accountant who is unregistered. These restrictions apply to the provision of advice on taxation and financial investment products, the lodgement of taxation returns, and the undertaking of statutory audits. Providers of these services are required to be registered with an applicable federal government agency. In addition, merely adopting the designation accountant will not provide access to membership of the three professional membership bodies recognised by the Federal Government. The three organisations are the Institute of Chartered Accountants of Australia and New Zealand (ICA), CPA Australia (CPA), and the Institute of Public Accountants (IPA).

#### *Legislative protection*

Legislation affords the three recognised professional membership bodies with the authority for prescribing and monitoring the accounting standards determining format and content of general purpose financial statements (GPFS) in Australia. A set of GPFS's includes a balance sheet, income statement, statement of owner's equity and retained earnings, plus a statement of cash flow. Its purpose is to communicate performance to external third parties, and this distinguishes the report from management accounts which are prepared for exclusive internal use. Recognition of the three membership organisations is afforded by virtue of subsection 5(1) of the Australian Securities and Investments Commission Act 2001, Section 9 of the Corporations Act 2001, and regulation 2AC of the Australian Securities and Investments Commission Amendment Regulations 2004. The legislation also provides the three with authority to regulate the professional conduct and ethics demanded from the **registered** accounting professionals who are part of the industry.

#### *Professional membership organisations*

A qualified accountant in Australia is a person that meets the criteria set out in an Australian Securities and Investment Commission (ASIC) class declaration (CO

01/1256), which is made under S88b of the Corporations Act (2001). This order determines that to be a *qualified* accountant a person must be a member of one of three professional bodies, and must comply with its continuing professional education requirements. Membership gives an accounting practitioner the right to publicly display that he or she has an association with one of the three bodies, and authorises the marketing of services under each respective brand name, Chartered, Certified or Public. Each association has developed its own specific pathway to full membership. In all cases, applicants must first hold an undergraduate university degree or its approved equivalent. To obtain membership applicants are required to undertake a comprehensive postgraduate professional study program which is delivered under the auspices of the chosen professional body. Professional practice certificates are awarded to members who have completed a minimum of three years experience under supervision, and undergo a public practice orientation program.

#### *Industry control over professional standards*

Accounting practices that acknowledge their principals as members of one of the three professional accounting membership bodies must be insured under a professional indemnity policy. They are required to adhere to a strict code of ethical standards determined both by the professional accounting bodies, and an independent authority, the Accounting Professional and Ethical Standards Board (APESB). The APESB was established as an independent body in 2006 by the three accounting membership bodies in response to external pressures about inadequate external oversight with respect to ethical standards. Accounting practices acknowledging association with one of the three professional membership bodies are also required to undergo a peer based quality review once every five years. The review is carried out under the auspices of the relevant membership body. APP who is one of four principals in an accounting practice commented that he was in favour of external oversight, but did not really believe that the model in place was capable of stopping fraudulent activities by unethical accountants.

#### *Industry support services*

The three professional bodies deliver a comprehensive package of services and benefits to their members. These include continuing professional education, library & reference facilities, opportunities for networking with colleagues, in house training programs, counselling, access to online knowledge centres, access to topical blogs, a monthly journal, a branded credit card, and discounts on a range of

merchandise and services. Professionals employed by the three accounting bodies undertake research on topics of importance to their members, disseminating the findings by using the various media available to them. The accounting bodies also undertake formal offensive and defensive advocacy programs if at any time the interests of members must be defended or promoted, or for the purpose of stating an industry position on issues affecting public and government policy. TAC, an industry consultant, remarked somewhat cynically that in his view the advocacy programs only favoured the very top end of the industry. The only accounting practices deriving any benefit in his view, were large firms with over ten partners.

#### *Registration as auditor and tax agent*

The industry enjoys a degree of self regulation particularly in the areas of professional standards and conduct. Participants in public practice are however subject to external regulation and oversight if they register as an auditor or tax agent. Registration as an auditor with authority to audit GPFS's is under the aegis of the ASIC by the authority provided under Section 1280 of the Corporations Act 2001, and ASIC Regulatory Guide 180. Candidates seeking registration as an auditor are required to provide ASIC with evidence of experience gained in actually conducting audits. They are also required to submit supporting evidence of their audit capability which must include details of the formal and informal learning activities previously undertaken. The submission must show that the candidate is *capable*, as evidenced by experience, and *a fit person*, attested to by academic achievement and acceptance of mandatory professional standards through professional body membership.

Registration of individuals and companies authorised to charge fees for services related to the preparation and lodgement of income tax returns is under the control of the Tax Practitioners Board (TPB). This is a national body responsible for the registration and regulation of tax practitioners. The TPB is also responsible for ensuring compliance with The Tax Agent Services Act (2009), including the code of professional conduct that registered tax agents and practitioners must adhere to. The criteria for registration as a Tax Agent in Australia are laid out in The Tax Agent Services Regulations (2009). These require applicants to hold an undergraduate degree in which appropriate courses in accounting, auditing, and taxation are included. The regulations however do not stipulate that applicants should be members of any of the three professional accounting bodies.

There are six pathways by which an individual can apply for registration as a tax agent. These are either to hold tertiary qualifications in accountancy or appropriate qualifications in another discipline; to be in possession of a diploma or other award in accountancy; to possess a tertiary qualification in law; to have the relevant work experience; and finally the applicant is already a voting member of a recognised tax agent association. Applicants attempting registration via one of the six pathways must meet specified entry criteria. The criteria include possession of an accepted primary qualification, a TPB approved course in Australian Taxation Law, a TPB approved course in commercial law, a TPB approved course in basic accountancy principles, and finally the ability to provide evidence of practical experience.

#### *Provision of financial services*

The provision of financial services in Australia is regulated under Section 913B of the Corporations Act 2001 and the Australian Financial Services (AFS) regulations. The AFS regulations define financial services as being the provision of financial product advice, dealing in a financial product, or making a market for a financial product, operating a registered investment scheme, providing a custodial or depository service, providing traditional trustee company services. Professional accounting practices, even those with an advertised association with the three professional bodies, are disqualified from providing financial services unless one or more practitioners in the practice holds an Australian Financial Services (AFS) license. The regulations do however provide opportunities for accountants in professional practice to hold a limited AFS license. This affords the authority necessary for providing advice to the trustees of self managed superannuation funds. It does not give approval for the accounting professional to advise the fund trustee about investment products.

Applicants for full licenses must provide evidence that they are competent to carry on the kind of financial services business specified in their application. They also need to prove that they have adequate financial resources to carry on the proposed business. Other obligations include the provision of adequate training for themselves and their employees, evidence of regulatory compliance, the holding of professional indemnity insurance, and ensuring adequate avenues exist for the resolution of any disputes between themselves and their clientele.

## Industry size

The last comprehensive survey of the professional accounting industry in Australia was undertaken by the ABS using data collected for the financial year ended 30<sup>th</sup> June 2002 (ABS 2001- 2002). The Bureau has not updated these findings since that time although a survey was supposedly scheduled to commence sometime in the 2014 year. No information has been made public either with regard to the status of the potential survey or any new findings. In the absence of a more current survey, ABS 2001-2002 is used as the base data for determining the number of competing firms making up the industry.

The statistical unit used for the collection of ABS (2001-2002) survey data is an accounting practice. The survey found that at the 30<sup>th</sup> June 2002 Australia had 9,860 accounting practices. For the purposes of the survey these were categorised as sole practitioners, two principal firms, three to four principal firms, five to nine principal firms, ten to nineteen principal firms, and those with more than twenty principals. The number of firms in the categories and the percentage each represented of the total population is shown in Table 4.2. The table shows that 88.6% of the total population is represented either by sole practitioners or by practices with two principals.

Accounting Practice Categories	Number	%
Sole practitioners	6,610	67.0%
Two principal firms	2,134	21.6%
Three to four principal firms	854	8.7%
Five to nine principal firms	226	2.3%
Ten to nineteen principal firms	25	.3%
Firms with more than 20 principals	11	.1%
<b>TOTALS</b>	<b>9,860</b>	<b>100.0%</b>

**Table 4.2**

Number of professional accounting practices in Australia 2002 (ABS 2001-2002)

## Legal structures governance and strategic focus

### *Legal structures*

The three industry membership bodies approve incorporation of affiliated practices. The caveat under which approval is given is that any protection afforded by the corporate veil does not limit the potential professional liability of principals, or their staff. In addition to incorporated structures, practices trade as partnerships, and as sole traders.

### *Governance*

Six governance models for accounting practices are identified in Macquarie (2014). These are listed in Table 4.3. The table indicates what percentage of the



practices participating in the survey are governed by each model. The predominant choice is for governance and executive authority to vest solely with the principals.

Formally constituted board of directors delegating executive responsibility to CEO	13%
Managing partner who functions as CEO with authority to make executive decisions	6%
Exec. committee of principals delegate managerial responsibility to managing partner	9%
Shared facilities, independent practices share resources	5%
Principals combine as managing committee share professional and support personnel	41%
Sole practitioner who makes all strategic and operational decisions	26%

**Table 4.3**

Accounting practice governance models (Macquarie 2014)

### *Strategic focus*

Practices identified as being the “*most successful*” (Macquarie 2014, p13) focus their strategy on actions that secure existing client satisfaction, and improve the internal efficiency of their operations environment. These are key features identifying a capability as being focused exclusively on exploit activities (O’Reilly et al 2004). Successful practices also tend to specialise their client base, and concentrate on niche markets where they are able to gain a distinctive competitive edge. APP said that a critical strategic imperative for his practice is the implementation of measures facilitating the recruitment of competent professional staff. Competition in the industry to secure competent professional staff is identified as being particularly intense (IC; TAC). It is also a significant disadvantage for the smaller practices who are unable to compete with the larger firms offering attractive career opportunities to newly qualified graduates (IC; APSP; APP; LAW). The competition is exceptionally intense for micro practices seeking to recruit experienced accountants, putting them at a significant strategic disadvantage (APSP). This is an emerging threat to this segment of the industry, and represents a significant weakness in the sole practitioner structure (APP; APSP; IC; TAX). To manage this situation many micro practices engage self employed accounting consultants, often young professionals who have spare production capacity while gradually building their own client base (APSP). Although this method is considered a remedy, it is also regarded as a potential threat. The threat comes from the risk of losing clients to these younger professionals who have the time to enhance the service offer, and to deepen the professional relationship. The protective measure practitioners introduce for overcoming this threat of client loss is to prevent direct contact between consultant

and client. Unfortunately it is a solution that adds more pressure to the time stressed sole practitioner (APSP; RQA; TAX).

Interviews with industry stakeholders also indicated that when practices had less than five principals their strategic perspectives are shaped by the opportunities afforded by government legislation amendment (APSP; APP; RQA). As a result, the principals in these firms have no imperative for developing growth strategies, they consider growth to be a natural outcome from the additional requirements forced on clients by legislative complexity (IC; TAX; SUC). The positive outcome for the industry from this external stimulus is that its service offering experiences regular organic growth. The negative aspect however is that principals work in, rather than on, their businesses (IC). This is a contributing factor for the particularly narrow strategic perspectives typifying industry participants (IC). Although the principals of the practices appear to recognise the potential new technology offers for the future of the accounting profession (Macquarie 2014), there is little evidence that any positive initiatives are being taken to exploit this emerging opportunity.

### **Sources for competitive advantage**

A consultant who primarily provides support services to accounting practices with less than five principals stated categorically that relationships are the key driver for competitive advantage (IC). The gradual evolution of the relationship ultimately forges a bond of trust between client and professional (RQA). The result is that over time both parties tend to become locked into each other through the confidences they share (APP). These relationships become so strong over time, that clients will often remain with a practice even when satisfaction levels have dropped (LAW). In the words of APP *“the practitioner has to do something really bad before a client will actually make a decision to leave”*.

The relationship bond also has a negative aspect. In many situations clients will not deal with any other representative from the practice. The situation is often exacerbated by the contact principal who will actively discourage direct communication with any third party (IC; SUC; TAC). This attitude, discouraging and at times blocking the introduction of third party expertise into the relationship (CL1; RQA), represents an attitude of possession paranoia <sup>4</sup> (PP). The causative factor for this attitude is the fear of client loss to a third party. It is a situation that may offer the

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<sup>4</sup> This description is not used by industry practitioners nor by stakeholders. It is an invention originating out of the findings from this thesis

practitioner a feeling of security regarding future income streams, but it does not assist the evolution of a strategic vision to take the practice beyond the narrow focus of an existing service offer. The inability to open the relationship to third parties prevents the introduction of additional expertise (IC). It forces the service offer to be contained within the single dimension offered by the particular expertise of the relationship principal. This attitude of possession paranoia dissipates as the number of principals increases. The practice begins to offer specialisations, and the bond between client and contact principal begins to have less importance as the source for competitive advantage in the practice market segments (LAW; TAC).

This thesis is examining whether ambidextrous designs are capable of delivering any strategic benefit to firms competing in stable environment. It is suggested that additional strategic benefit is derived from enhancing competitive advantage by introducing new products or services. SUC, a consultant to the industry, has been advising practitioners on superannuation and related areas for nearly thirty years. He believes that there is an opportunity for practice principals with the necessary expertise to provide their relatively sophisticated clients a specialised service he describes as management accounting. SUC described this as a layered service approach that represents an advantage over other competing practices servicing the larger SME clients. SUC however qualified his views by observing that the weak marketing skills evident in many practices make the introduction of any new services that lie outside the core compliance offer difficult to achieve. Even if the practice had the product, it also requires the management and marketing skills to package, market, and deliver the add on services. It therefore followed, in his view, that it was the practices with both service expertise and marketing skills who would ultimately have the competitive advantage in their market place.

### **Services provided by the industry**

#### *Nature of services provided*

The service offering provided by professional accounting practices is grouped under two main classifications, accounting and compliance. The major focus of the accounting service offer is the preparation of annual GPFS. Compliance is a collective term describing the preparation of financial accounts, a comprehensive taxation service, company secretarial services, and audit. A service growing in importance is managing the accounting transactions on behalf of the trustees of self managed superannuation funds, and maintaining details of their member

entitlements and benefits (Macquarie 2014). This service falls under both the accounting and the compliance classification. A small minority of the practices also provide assistance and advice to clients confronting insolvency and potential bankruptcy (ABS 2001-2002). Accounting practices who employ registered financial planners, or have principals with the recognised credentials, also provide financial planning services.

*Annual income generated by the industry*

Total fees generated by the industry in the 2002 financial year amounted to \$7,707,500,000 (ABS 2001-2002). How the fees are spread between the practice classifications used by ABS (2001-2002) is shown in Table 4.4. Although the practices with over 10 principals numerically represent .4% of the industry population, they generate 42.8% of the total annual income.

	<b>Fees P.A</b>	<b>% of Total</b>
Sole practitioners	\$1,435,000,000	18.6%
Two principal practices	\$961,200,000	12.5%
Three to four principal practices	\$1,152,800,000	15.0%
Five to nine principal practices	\$860,500,000	11.2%
Ten to nineteen principal practices	\$238,600,000	3.1%
More than twenty principals	\$3,059,400,000	39.7%
	<b>\$7,707,500,000</b>	<b>100%</b>

**Table 4.4**

Professional accounting industry revenues year to 30<sup>th</sup> June 2002

*Average fee levels per accounting practice principal*

Based on the information provided by interview participants, average fees generated per principal have increased substantially since 2002 (APP; APSP; IC). This would indicate that industry revenues are now also substantially higher than the 2002 levels. The fact that average fee levels per practitioner increased over a period that includes the global financial crisis indicates that industry income generation is generally not sensitive to reductions in the level of economic activity. In addition, during the years 2002 to 2014 new taxation legislation and the additional burdens placed on the trustees of self managed superannuation funds, brought more work into the accounting practices (IC; SUC; LAW; APP; TAC). These changes, together with industry wide increases in hourly charge out rates, contributed to the higher fee outcomes (APP; IC).

ABS (2001-2002) does not disclose the average annual fee generated per principal for the accounting practice categories used by the survey. The data however indicates that average fees per annum for sole practitioner firms and two principal practices are \$225k and \$386k respectively. If these numbers are adjusted

for the change in the Consumer Price Index between 31<sup>st</sup> December 2001 to the 31<sup>st</sup> December 2013 (an increase of 35%), an approximation of current value in the 2014 year would be \$304k and \$520k respectively. Macquarie (2014) however found that the average fee per principal generated in the 2014 year for these practice categories was marginally in excess of one million dollars. This represents a significant change over the thirteen years since ABS (2001-2002) was published. These numbers are supported by comments made by an industry consultant (IC) during an interview in February 2012. She stated that her contacts with accounting practices indicated that average fee per practitioner per annum is approaching one million dollars. This view is confirmed in interviews with accounting practitioners (APSP; APP). IC did observe however that some of the change results from fee acquisition rather than pure organic practice growth.

*Industry revenues by service category*

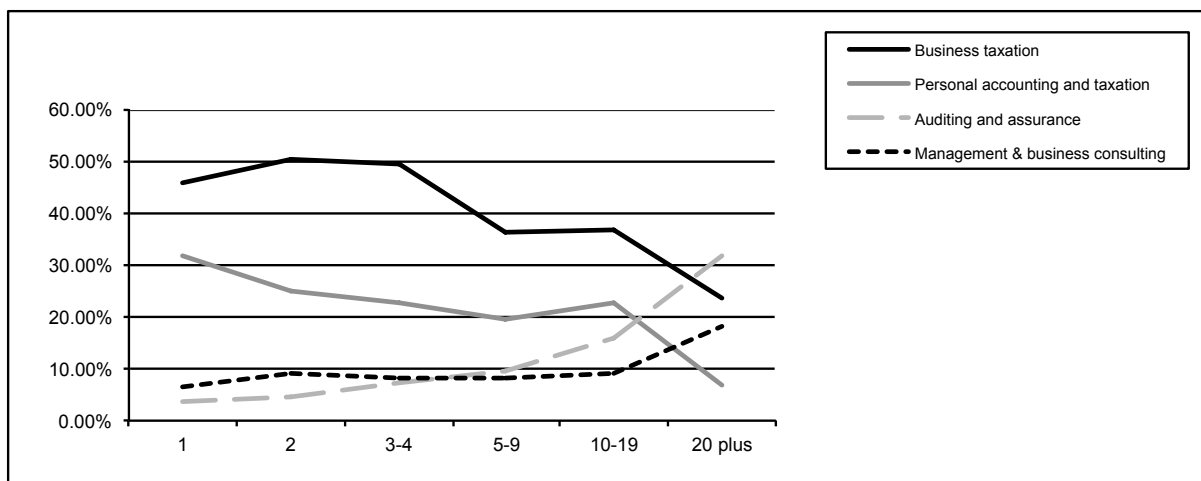
ABS(2001-2002) provides an analysis of practice income by service category for the year ended 30<sup>th</sup> June 2002. The percentages are listed in Table 4.5.

Service Category	NUMBER OF PRINCIPALS						Total
	1	2	3-4	5-9	10-19	> 20	
Business taxation	45.6%	50.5%	49.5%	36.3%	36.6%	23.5%	36.7%
Personal accounting and tax	31.9%	24.9%	22.9%	19.5%	22.9%	6.7%	18.0%
Audit and assurance	3.6%	4.5%	7.3%	9.6%	15.7%	31.8%	16.5%
Insolvency related	3.1%	.3%	4.9%	9.2%	5.6%	9.1%	6.2%
Consulting	6.5%	9.0%	8.0%	8.4%	10.9%	18.3%	12.1%
Financial planning	1.5%	4.4%	3.9%	3.6%	3.0%	2.3%	2.8%
Other (not described)	5.5%	4.1%	1.0%	11.8%	3.0%	6.1%	5.5%
Not quantified	2.3%	2.3%	2.5%	1.6%	2.3%	2.2%	2.2%
	100%	100%	100%	100%	100%	100%	100%

**Table 4.5**

Services provided by accounting practices for year to 30<sup>th</sup> June 2002 (ABS 2001-2002)

Based on the data shown in Table 4.5 the industry is generating 71.2% of its revenues from compliance represented by taxation, audit, and financial accounting services. As the number of principals increases, the weight of the fee mix tilts towards audit and consulting services rather than taxation and accounting. This trend is clearly illustrated by Chart 4.1. which also highlights the reliance placed on traditional compliance services by the practices with less than five principals.



**Chart 4.1**

Annual fees by size and service category for year to 30<sup>th</sup> June 2002 (ABS 2001-2002)

In the absence of a comprehensive survey of the industry other sources are used for updating the 2002 data, and Macquarie (2014) proved to be the most useful. Direct comparisons between ABS (2001-2002) and Macquarie (2014) are however difficult because the two do not use exactly the same service categories for reporting revenue streams. A significant difference is that Macquarie (2014) provides data for a self managed superannuation funds category, whereas there is no data available for this service category in ABS (2001-2002). To determine whether there is evidence of a material change occurring to the service mix between the years 2002 and 2014, the categories are therefore grouped under three headings. The first is traditional services, which includes taxation, accounting, audit, and the services related to SMSF's. The second is financial planning, and the third, described by the general term *other*, is a group that includes consulting services, forensic accounting, general advisory services, estate planning & insolvency. The results of the comparison are set out in Table 4.6 which shows that compliance related services not only remain the dominant service offer of the industry, they are also generating an additional 9% of the total fees.

	2002	2014
Traditional compliance services	71%	82%
Financial planning services	3%	1%
Other service	26%	17%
	100%	100%

**Table 4.6**

Comparison of percentage fees major service categories for the years 2002 and 2014 (ABS 2001-2002; Macquarie 2014)

### **Fee seasonality**

Interviews with industry stakeholders indicated that the industry copes with significant fee seasonality and this creates additional pressures for principals and employees. The seasonality arises from the lodgement deadlines imposed on accounting practice clients by the Australian Tax Office (ATO), ASIC, and various state and federal government authorities. The deadlines relate to the lodgement of annual income tax returns, monthly and quarterly business activity statements (BAS), annual fringe benefit tax returns, annual payroll tax reconciliations, annual work cover certifications, annual general purpose financial statements, audit reports, and the company secretarial form lodgements required from time to time. Larger clients employ internal accounting staff to manage many of the state government and statutory authority returns, and only delegate ATO and ASIC lodgements to the accounting practices. This seasonal workload is reflected in the fee patterns which build from a low base in July, to a high for the two months prior to final lodgement dates for income tax returns. Some practices are taking steps to smooth the income seasonality by striking an annual fee with the client, and billing this on a monthly basis (APP; IC).

### **Lifecycle expectation for the core service offering**

Industry stakeholders interviewed agreed that the core compliance related service offering of the industry is not under any threat. Governments would continue to impose and collect taxes, and enforce compliance with law and regulation. Australian accounting practices are a critical partner in the tax collection and compliance process because of the services they provide as registered tax agents. When confirming the absence of any existing or emerging threats to the tax agent services provided by accounting practices, APP, the senior in a five principal practice, commented that the industry considers the government its partner because it sustains the compliance services lifecycle.

### **Opportunities available for delivering additional services**

#### *Demand for additional services*

An important consideration for the analysis of context is to determine if there is evidence that a potential demand exists for additional services in market segments serviced by the practices with less than five principals. This is relevant to the first research question considered by this thesis which seeks to determine whether ambidextrous designs offer potential for delivering strategic benefit in stable environments. The delivery of strategic benefit is predicated on an ability to deliver

supplementary services, and to use the offer of new services for increasing competitive advantage. The principals of the accounting practice participating in Macquarie (2014) identified a number of new services to be opportunities for growth and diversification. Table 4.7 lists these opportunities.

Attending client board meetings
Acting in the capacity of external or virtual Chief Financial Officer
Provision of management accounting services
Managing transaction platforms and providing financial management reports
Budgeting and cash flow services together with regular progress reporting
Monitoring of Key Performance Indicators
Business and strategic planning
Business valuations
Business succession planning
Financial planning and investment advice

**Table 4.7**

Opportunities for growth and diversification (Macquarie 2014)

Two other information sources provide evidence that there is latent demand for additional services. These are a survey of small business in Australia undertaken by the ABS in 2001 (ABS 2002), and a survey in 2012 undertaken by MYOB, a software vendor to the SME business sector, and to the professional accounting industry (MYOB 2012). ABS (2002) identified a number of factors that the survey respondents considered as contributors to business bankruptcy. Eleven primary factors are listed of which six are within the notional capabilities of a professional accountant. These are managing equity requirements, improving business controls, supporting the maintenance of proper books of account, avoiding excessive interest payments, improving processes for collecting amounts owed by trade debtors, and avoiding excessive drawings of cash by the equity holders. Respondents to the MYOB (2012) survey identified a number of critical pressures they were contending with at the time. Many of these pressures also lie within the notional capabilities of an external accountant in professional practice. These include the management of cash flow, improving profitability and price margins, managing interest rates, the timing of customer payments, bad debts, selection of different funding options and managing foreign exchange rates. Whereas these latent opportunities may be present, there is no evidence to suggest that the industry is embracing new initiatives designed for developing the service offerings required.



### *Capacity for delivering additional services*

A number of the industry stakeholders interviewed indicated that although opportunities might be available they were not confident about the inherent capability of the practices to exploit them (SC; SUC; RQA; PB; IC). CL1 who is the CEO of a SME with a turnover of fifteen million dollars even remarked that he was doubtful his external accountant had the ability to deliver services outside of the compliance suite. This view has some support from SC, a strategic management consultant working in the SME market segment. He said that invariably when he commences a new consulting assignment with a client, current financial information detailing profitability and financial position are not available. Whereas the internal resources in the businesses he serviced did not usually have these skills, the support required from the external accountant to produce the reports is never available. He also observes that whereas he had attempted to establish strategic partnerships with accounting practices to facilitate preparation of the management accounts required, he had been continually rebuffed. Clearly this is another symptom of the possession paranoia complex which has been identified. A number of similar situations were commented on by other industry participants. CL2 told of a situation where his external accountants had suggested he purchase an accounting software package to facilitate record keeping. After the software was installed the accountants were unable to assist with the implementation process, and the result was that the package had never been used. These situations indicate that even if practices do possess capability, they are not communicating this to their clients. An observation from PB regarding the capability of the principals to deliver new services is relevant. She says that *“the profession has conditioned itself to believe it sells compliance services, and that is what the client has been conditioned to buy”*.

### **Market segments**

SUC, PB, and LAW all state that size, defined by principal numbers, is a significant factor for determining which market segments the various accounting practice categories described in ABS (2001-2002) will service. A consultant to the industry (IB), comments that the ability to specialise affords practices with more than five principals a capability for widening the scope of their offer. Specialisation also gives them access to larger clients with more sophisticated demands. The Australian Bureau of Statistics (ABS) defines business size according to the number of employees (ABS 2002). A small business is classified as one employing less than

twenty employees, a medium size enterprise employs between twenty and one hundred and ninety nine employees, and a large business over two hundred employees. Although there are exceptions, practices with less than five principals focus their services on individual taxpayers, medium size SME's, and the family units with beneficial ownership in those enterprises. The personnel resources available to practices that operate with between five and nineteen principals however, provide them with the capability for delivering services to large family businesses, smaller listed corporations and to high net worth individuals (LAW; PB). These practices also provide audit and consulting services to the non-government organisation (NGO) sector. The very large practices with more than twenty principals predominantly service the corporate sector, large family owned enterprises, government and government agencies, and large NGO's. They are also active in the segments serviced by the practices with less than nineteen principals, often for the purpose of undertaking specialist projects.

### **Marketing and promotional strategies**

In order to relate these findings to the case study accounting practice this review of marketing strategies focuses on the activities undertaken by practices with less than five principals. Of relevance also are comments from industry stakeholders who consider the competitive environment to be benign (APP; APSP), and regard individual reputation as the source for differentiation and competitive advantage (APP; APSP; CL1; RQA; SUC; TAC). APP, the senior in a four principal practice, even suggested that the name of his firm which has been established for over forty years delivers little advantage in the market segments where it has a presence. For these reasons marketing campaigns in the traditional sense are not extensively used by the smaller practices for attracting new clients or for promoting brand name. The reputation of the principals, and the strength of existing professional relationships, secures referrals from friends, family, and associates of existing clients, bringing new clients into the practices. Tangible evidence that the industry places a low priority on active marketing programs is shown by the fact that in the 2002 year, on average, only .8% of generated fees were appropriated by the total population for marketing or promotional purposes (ABS 2002). The view that reputation is the critical factor for acquiring new clients is supported by the findings from an unpublished survey commissioned for personal use by a group of accounting practices (Potts 2012). The aim of the survey is to examine the significant factors influencing the way SME's

purchase accounting services. The survey found that the key factor influencing SME owners and managers in their selection of accounting practice is the opinion of friends, family members or colleagues. Their endorsements, together with the quality of the service provided, is the most effective marketing tool for bringing new clients into the accounting practices.

This recognition by the practice principals of how important relationships are for strengthening the bond between themselves and the client encourages a relationship marketing approach. This emphasises client retention and satisfaction rather than focusing on increasing the number of sales transactions (Payne et al 1991). Newsletters containing regular updates about changes to tax law and regulation, and the frequent posting of relevant information on the practice website, reinforces the strength of the relationships. Client seminars are also used however, according to APP, the ultimate benefit accruing from them is questionable. Physical location is important for expanding relationships that can introduce new clients into the practice. The three accounting bodies support this by publishing lists on their websites showing where members in professional practice are located, and the specialisations of their principals. Location is also reinforced by advertorials in local suburban media publications, and by principals taking active roles in local community organisations.

### **Distribution channels used by the industry**

A number of informal distribution channels are potentially available to accounting practices seeking to grow from the acquisition of new clients. These include legal firms, financial planners, banks, and other secondary level providers of funding for businesses and individuals. These relationships are frequently on a quid pro quo basis where the referral process must be mutual. Pro bono assignments, business forums, and membership of community service organisations are also recognised at all levels of the industry to be valuable sources for networking. These relationships develop networks that over time can bring new clients into the practice. As discussed previously existing clients are the most valuable distribution channel available to the principals and the practices. Satisfied clients refer the practitioner to associates, colleagues, family and friends, and this is recognised as the most effective channel for securing organic growth (APP APSP).

### Services used by the industry

A survey of accounting practices undertaken in 2014 found that outsourcing is becoming more prevalent in the professional accounting industry albeit the number of participants is still low (Macquarie 2014). The outsource programs include the offshore processing of tax returns and financial statements (APP; IC). Table 4.8 lists the functions being outsourced, and the percentages of accounting practices surveyed that are participating in the programs.

Administration and personal assistant tasks	1.9%
Bookkeeping and data entry	9.3%
Marketing	.9%
Self managed superannuation fund audit	14.9%
Self managed superannuation fund compliance	15.8%
Tax and accounting	9.8%
Other	5.1%

**Table 4.8**

Accounting practice processes outsourced in 2014 (Macquarie 2014)

The industry does not function like the legal or medical professions both of which have a tradition for referring complex matters to specialists. As indicated by the percentages in Table 4.8 however some referral is occurring, the most widespread being the compliance requirements for self managed superannuation funds and pensions (SUC), and the statutory audits these funds require (Macquarie 2014). In addition complex legal matters involving taxation and corporate and commercial law are frequently referred to members of the legal profession, rather than to other accountants (LAW). The relatively low percentage involvement in outsourcing programs supports the view of SUC who maintains that the majority of accounting practices prefer to keep the service offer inside the firm. He explained this as a compulsion for keeping the client within the practice value chain and preventing external consultants access. These attitudes are motivated by the fear of client loss to the referred party, a symptom of the possession paranoia phenomenon.

### Growth expectations and limiting factors

#### *Growth strategies*

Four strategies are available to practice principals for driving growth. They are increasing hourly charge out rates, acquiring new clients, and expansion of the service offer. Smaller practices wishing to break free from the limits imposed by a conventional organic growth strategy may also consider merging with a culturally similar firm, or alternatively purchasing a parcel of fees from other practitioners.

### *Fee growth by increasing charge out rates*

Achieving growth by increasing hourly charge out rates is currently a limited option for the smaller practices because clients are generally showing a resistance to paying higher fees for compliance related services (APP; APSP; RQA; SC; TAC). A consultant to the industry said that practitioners had told him about frequent issues with clients who received their annual fee statements and complained that all the accountant had done was to “*fill out a couple of forms, the same forms as last year, and charged 33% more for the service*” (TAC). He personally understood that the reasons for the additional time requirements came about because of the greater levels of disclosure required by the ATO. The accountants however tend to be poor communicators (IC), and as a result are unable to explain to clients why fees are higher. Some larger practices are resolving this issue by switching clients to an annual prearranged fixed fee structure billed monthly in twelve equal instalments. The fee is designed to cover a package of different services in which the compliance service is just one component (IC; APP). This projected a message that compliance is not the focus for the relationship. Its cost to the client becomes submerged under a mix of other services, all of which are designed for delivering greater value to the practice and the client (APP). APP advised that his practice was one of the firms attempting to implement a fixed fee structure.

### *Growth from the acquisition of new clients*

New client acquisition is not only important for the growth of accounting practices, it is also required to replace the clients who are lost. Dissatisfaction is not the only cause of client loss, this is also a product of the natural economic lifecycle (APSP). Partnership dissolutions, business sales, business growth outstripping the ability of the practice to continue servicing the client, personal issues such as death, divorce and relocation, are all contributing factors. IC said that many practices have difficulty with developing the initiatives required to acquire new clients. She said that the principals in the smaller practices have poor communication skills, lack a strategic perspective, and do not have the ability to initiate new product innovation or to develop the marketing programs required for conducting a successful sales effort. As was noted previously, the most common sources for new client introduction are referrals from existing clients, and the personal networking activities of the principals.

### *Growth from expanding the service offering*

The third strategic option, growth by an expansion of the service offering, is the fundamental issue considered by this thesis. A comparison was made between

the services offered in 2002 (ABS 2001-2002) and in 2014 (Macquarie 2014), a period of fourteen years. It shows that other than an increased focus on self managed superannuation funds, the industry has not changed the essential nature of its service delivery over that period. This is clearly illustrated by Table 4.6. This lack of progress in developing additional services is significant given the findings in Macquarie (2014) which identifies a number of opportunities for service expansion. SUC provides this insight regarding this disconnect, he says that “*practice web sites offer a comprehensive service range in addition to the traditional compliance suite. When (he) probes behind the façade in most cases the services advertised are never actually sold or delivered*”. Although opportunities exist for expanding their service offer therefore, the practices at the smaller end of the industry have not done so.

Stakeholders requested to provide an opinion regarding the potential for smaller accounting practices to develop service offerings in the consulting and *other* categories are also not positive about their capacity for doing so (IC; SUC; CL1; RQA; PB). Various contributing factors are suggested for this opinion. In her role as a practice broker, PB gained extensive knowledge of the industry and its practitioners. Her view is that practitioners convince themselves they sell only compliance services. As a result this is what the client is conditioned to buy. PB also believes that the long hours practitioners are required to work in order to maintain the core offer creates a situation that is not conducive for developing an environment encouraging innovation (Farjoun 2010; O’Reilly et al 2004; O’Reilly et al 2008).

TAC is a tax specialist who provides workshops to accounting practices. The workshops are designed to update attendees on the latest legislative, regulatory and case law changes. Over a period of twenty years he has worked with the principals and employees of more than three hundred accounting practices. TAC’s view is that the principals in smaller practices do not readily embrace the concept of specialisation. They are also uncomfortable about introducing any outside specialists capable of delivering other services into the ambit of the client relationship. RQA, a recently qualified graduate accountant, tells of a specific situation supporting this attitude of possession paranoia. The principal he works under refused to consider establishing a strategic relationship with a specialist management accounting consultant. The consultant was keen to form a joint venture that would assist practice clients to prepare monthly management accounts, annual budgets and cash flow statements. It was suggested that the professional work required should be allocated

between the consultant and accounting practice. This enabled both parties to generate value from the relationship. RQA's practice was currently not offering this service to their clients, nor had they considered offering the service. If this incident is symptomatic of any prevailing attitude dominating the industry, it presents barriers for introducing ambidextrous designs using strategic alliances for undertaking the new service development (Stettner et al 2014).

A measure for ascertaining the amount of new service activity in the industry is to determine how much discontinuous innovation is in progress. Interviews with industry stakeholders did not provide any evidence to suggest that accounting practices with less than five principals were taking steps to initiate innovation programs designed for developing new service offerings. The literature has shown that emerging threats to the sustainability of lifecycles is an important antecedent condition motivating the introduction of ambidextrous designs (Raisch et al 2008). This threat is not a factor in this segment of the industry because of the inherent security provided by the core service offer. As a result the accounting practices do not have any existential imperative for introducing discontinuous innovation to develop new services offers.

Additional industry specific factors are also identified as contributing factors for the lack of innovation initiatives. These are the low level of marketing expertise, poor communication skills, a lack of understanding of new product innovation processes, and an inability to execute new strategies (IC; TAC). A recently qualified accountant (RQA) believes that a refocus of strategic vision is also required before practices can deliver new services outside of the traditional compliance service suite. He says that accountants in professional practice must first acknowledge that their clients have a need to understand the future, not only the compliance issues arising from the previous financial year. RQA considered this to be a difficult transformation because accountants in professional practice focus on the compliance demands of history rather than present outcomes. As a result they develop a mindset that is rearward rather than forward looking. He referred to the method used by his practice for processing the transactions required to prepare GPFS and tax returns. The procedure demands scrutiny of transactions to ensure compliance with accounting standards and taxation law and practice. No time was allocated in the job budget to analyse the profitability of the enterprise or to comment on its future financial viability.

## **Industry competitors**

Professional accountants who are members of an accounting membership body and are registered tax agents enjoy significant protection against the entry of competitors into their industry. These registration regimes provide effective barriers to entry. APSP, a sole practitioner, considers the financial planning industry to be a potential competitive threat. The reason, he says, is that many of its members extend their brief and provide taxation advice to clients in addition to investment strategy. Other professional accountants however view financial planning as an opportunity. APP advised that his practice has implemented a financial planning division to exploit the opportunity this offered.

Potential competitive forces are emerging for the smaller practices who generate the majority of their income from individual tax returns, and the returns prepared on behalf of micro businesses. The ATO is encouraging individual taxpayers to prepare and submit their returns online, and have developed smart applications to facilitate the data entry. The banking industry has also developed applications enabling bank account transactional data to be summarised under the traditional expenditure and income headings used for preparing simple financial statements and tax returns. Both applications remove the accountant from the process. An ironic situation is identified by SC, a strategic consultant to the SME business sector. Whereas accountants consider him to be a competitor, he regarded himself as an opportunity. This came from the three way relationship he could facilitate between client, practice and strategic consultant. This relationship offers the power to strengthen the bond between client and professional accountant, not weaken it. SC said that he is continually frustrated in his efforts to establish a combined service offer with professional accountants because he and his colleagues are immediately viewed as competitors.

The professional accounting industry has a unique position within the tax collection system in Australia. It is an important facilitator for the collection of taxes and is therefore the critical fulcrum between taxpayer and government revenue collection processes. The position the industry occupies as part of the tax gathering process is prescribed by legislation, and reinforced whenever necessary by the lobbying activities undertaken by the professional accounting membership bodies. It is therefore unlikely that the strategic realities, and the protective shields provided by



legislation and a powerful interest group, will allow the emergence of any significant industry competitors.

### **Operating costs and profitability**

ABS (2001-2002) disclosed that for the year ended 30<sup>th</sup> June 2002, personnel costs at 58.5% of fees generated, represented the most significant operating cost of an accounting practice. This is an expected ratio given the industry sells units of time provided by direct employees and principals. Occupancy and infrastructure costs at 8.1% of fees generated, and depreciation/amortisation at 4.1% of fees generated, are the most significant expenses after personnel costs. ABS (2001-2002) reported that operating profit of the practices was on average 18.8% of total fees. The profitability ranged from a low of 14.3%, to a high of 25.3%. There is however a significant difference between these results and the numbers reported in Macquarie (2014). The ratio of personnel costs as a percentage of fees generated in 2014 was 38.1%, a significant reduction from the 58.5% reported in ABS (2001-2002). The impact from this reduced ratio is that the practice profitability median as a percentage of fees in 2014 is reported to be 35.4% (Macquarie 2014), a significant increase over the 18.8% average reported in ABS 2001-2002. These results support findings that the average fee per principal increased significantly in the twelve years from 2002 to 2014. It is evidenced by the reduction of the personnel cost to income ratio which has translated into much improved profitability outcomes. A final observation from PB regarding practice profitability is worth recording. Her contacts with sole practitioners and principals in partnerships over many years indicated that profitability is achieved by working long hours. This commitment does not create an ideal environment for encouraging the flexibility necessary to experiment and develop new services (Farjoun 2010; O'Reilly et al 2004)

### **Specialised technology used by the industry<sup>5</sup>**

Professional accounting practices utilise specialised software specifically designed for the industry. The applications convert the transactional data provided by clients into GPFS format, compile tax returns, and manage the corporate secretarial files. The systems include a facility enabling client transactional data located on recognised accounting software platforms to be electronically imported. Report formats held in the system for the purpose of preparing GPFS are standardised. The software however does include a report generating facility which can be used to

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<sup>5</sup> This information is in the public domain and available on the websites of the software vendors

design management accounts tailored for individual requirements. The principals who were interviewed are not using this application and the clients interviewed are not receiving a tailored management accounting service from their external accountants. PB said that her extensive contact with the industry over many years as a practice broker indicated that some practices did provide periodic management accounts to their clients. She was however unaware of the method used for delivering this service. The practices also use the standardised software applications to electronically lodge tax returns via the internet and a special platform for tax agents developed by the ATO. Practices managing large numbers of company secretarial files also utilise an electronic facility for lodging forms with ASIC. The facility is included with their company secretarial software applications.

The standard industry software applications also provide users with a comprehensive suite of practice management modules. These include a time cost and work in progress system that integrates with a billing module and debtor ledger. The practice software suites also include a comprehensive client data base with customer relationship management (CRM) capabilities. The CRM applications can be used for marketing provided the practice personnel possess the knowledge required for developing the capability offered. Practices utilise spread sheet technology extensively, as well as word processing and email. Email technology is the predominant vehicle for both internal and external communication, and is the frequent method used for file transfer. The internet is used for the transmission of documentation and work papers, and is a critical knowledge search capability because of the access it provides to information that is available on specialised websites. A recent trend according to Macquarie (2014) is the use of cloud based applications by the industry. Table 4.9 shows what percentage of the practices included in the survey are using cloud based applications.

Internal accounting processes of the practice	45.1%
Customer Relationship Management (CRM)	12.6%
Document & email management	11.2%
Practice management	14.9%
Superannuation fund processing	21.4%
Backing up of client & practice data	27.4%
Other	8.8%
Percentage who say they don't use cloud applications	30.2%

**Table 4.9**

Percentage of practices surveyed utilising cloud applications (Macquarie 2014)

Macquarie (2014) also includes a question requesting participant practices to indicate the new technologies they intend to implement within twelve months. The findings are listed in Table 4.10.

Practice management software	17.2%
Document management software	18.6%
Integrated workpaper software	27.0%
Workflow management software	19.5%
Developing a client portal for the practice website	34.0%
Practices stating that they would not be undertaking any of this	34.4%

**Table 4.10**

Percentage of practices surveyed anticipating implementation of new technologies within twelve months (Macquarie 2014)

The stand out feature disclosed by the information in Tables 4.9 and 4.10, is that all applications listed are designed to support and improve the extant exploit capability.

### **Industry specific issues identified by analysis of context**

#### *Gaining a competitive advantage*

The only avenue available to the practices for differentiating their core compliance service offer is by promoting the knowledge and expertise of the principals. The physical outputs from the service are standard documents and reports that must comply with externally imposed regulation and law. This situation offers little differentiation opportunity. The primary source of competitive advantage for these practices at this time therefore is derived from the reputation of the practice principals, and the strength of the client relationships. The professional client bond also displays a tendency to strengthen over time because of the shared confidences it depends on. The relationships as a consequence become a complex knot that is not easily untied. An outcome from the inability to differentiate the core service offer is that the most effective marketing techniques available to the practices are the

networking activities undertaken by the principals, and personal referrals made by existing clients. This is a significant issue for this thesis because it is investigating the possibilities for acquiring competitive advantage from product differentiation which is not a tradition in this industry. Accordingly the ability of the accounting practice TMT to adopt a different strategic perspective becomes a critical area for consideration when undertaking the case study. This issue is considered in the process designed for collecting case data.

*Strategic focus is on the exploit capability*

The analysis of context identifies that to be successful accounting practices with less than five principals focus their strategy on securing existing client satisfaction, and improving the efficiency of their internal capabilities. This concentration is typical of an exploit capability focused on producing a principal cash generating output as efficiently and cost effectively as possible (O'Reilly 2004; Farjoun 2010). The analysis of context also confirms that lifecycles for the core service offer of the practices, the compliance suite, are not threatened by obsolescence or replacement. The management teams of the practices in the segment analysed have no imperative for replenishing or replacing the extant service offer. As a result the innovation activities they initiate and support focus on incremental rather than discontinuous development activities. The innovation programs are therefore designed to improve the extant capability, not to develop new services for exploiting any potential offered by emerging strategic windows (Jansen et al 2005). With respect to the use of technology the same situation applies. The practices utilise standardised software applications and focus them on maintaining the efficiency of the exploit capability. The systems are not generally used for marketing purposes, or for widening the service offer. The absence of a discontinuous innovation tradition in this segment of the professional accounting industry is of particular relevance to this thesis. The first question it considers is to understand whether ambidextrous designs can deliver strategic benefits to organisations competing under stable external conditions. The strategic benefit is potentially derived from the introduction of supplementary services. The evidence from the analysis of context however indicates that the case selected for study will be drawn from an industry with no extensive tradition of new service development using discontinuous innovation programs. Accordingly this potentially represents a significant disconnect between possible opportunity and the capacity to deliver.

### *Absence of a marketing tradition*

The benign competitive environment, reliance on product longevity, and competitive advantage derived from enduring personal relationships, are reasons for the industry placing a low priority on marketing activities. This is evidenced from the opinions expressed by industry stakeholders, and the relatively tiny appropriations on marketing expenditure. The analysis of context also identifies that widespread marketing inexperience, coupled with poor communication skills, are significant weaknesses in the smaller practice categories. An outcome from this weakness is that at this level of the industry there is little evidence of any effort to create a wider service offer.

The lack of a marketing perspective by the TMT's of these practice categories, and the absence of marketing expertise, are not conducive situations for achieving successful outcomes when introducing new services. Once more this becomes a relevant issue with direct implications for the research. If the practices lack the necessary expertise for developing and marketing new services, the possibilities offered by the presence of latent potential is difficult to realise. Understanding the level of marketing expertise in the selected case therefore represents a critical aspect of the analysis to be undertaken.

### *The complexity of the regulatory environment*

The pervasive nature of the compliance environment and the need to avoid risk by maintaining knowledge currency makes it extremely difficult for principals of the accounting practices to consider other opportunities (IC). Comparison between the latest issue of a Master Tax Guide to the version published in the year 1980 clearly illustrates the extent of the problem. The current version is at least double the number of pages, and is a publication that is designed to only summarise the legislation, case law, and various tax rulings (LAW). SUC described this as a situation that is *“out of control lurching from one externally imposed tax deadline to another”*. He says that *“the principals fight one fire after another, no sooner is one put out, than the next one starts”*. It is apparently not only the volume of legislation that is an issue, the situation is exacerbated by initiatives in place by the regulatory authorities to deal with non compliance. This in the words of TAC is creating a *“morass of regulatory requirements”* which adds to the frustrations experienced by the accounting practitioner. The prevailing view therefore is that the compliance environment is so demanding that it allows little opportunity for developing other

service offerings. A wry comment from TAC is noted in conclusion. For more than twenty years he has been delivering tax workshop updates to principals and their employees. His view is that he personally would not relish being a client reliant on the taxation knowledge of the average principal in the smaller firm!

#### *Recruitment and retention of professionally qualified employees*

PB explained that the smaller practices are experiencing difficulties in retaining good professional staff. Larger firms are able to attract the best professional staff because they offer career development. IC who is an industry consultant said that this competition for qualified staff made it difficult for the smaller practices to deliver the core service, never mind attempting to develop new ones. The inability to recruit suitably qualified and experienced professional employees capable of assuming control over work flows creates further pressures for principals in the smaller firms. LAW said that his contacts with the smaller practices indicated that employees below principals were totally blinkered and only focused on the task at hand. They understood this task as nothing more than the preparation and dispatch of large volumes of GPFS and tax returns. Referring to this level below the principal as “*blinkered employees*”, Law said that they also tended to “*up delegate*”. This meant that the principal is trapped into becoming involved with the “*bread and butter tax and compliance issues together with the lower level employee*”.

#### *Succession*

Succession for the principals in the smaller practices and the unavailability of younger accountants representing generations X & Y who are prepared to buy in and become principals was a significant issue. LAW said that generations X & Y employees do not wish to pay large sums of money for the goodwill demanded by the existing principals. IC agrees, observing that it is very difficult to find the capital required for goodwill payments and working capital contributions while meeting private school fees and heavy mortgage repayments. The larger practices with the ability to attract professional staff are able to allocate start up fees to young associates aspiring for partnership. This assisted them to bridge the initial funding gap. TAC also offers an alternative view, he says that his interaction with the practices indicates that many older practitioners want to retire. The younger accountants working in the practices however witness the demands forced on the principals by clients and the external compliance environment. Their frequent response is to say that it is not a situation worth striving for.

## CHAPTER 5

### CASE OVERVIEW

#### Chapter summary

The pseudonym used for identifying the case study accounting practice is Financial Health & Wealth Solutions abbreviated to FHW. This chapter introduces the FHW management team, and provides a brief summary of the important milestones in the forty year history of the practice. The corporate governance model is explained and the services provided outlined. The chapter concludes with a diagram of the organisation structure and explains the management hierarchy that controls practice operations.

#### Interview participants

*BW is the independent member of the FHW advisory board*

BW is the founder of a well known Australian retail brand. He built the business from one store into a national chain and sold it to a public company. A personal friend to two FHW principals, BH became involved with the practice when requested to assist with a merger negotiation in 2013. After the merger discussions broke down, BW was asked by the FHW principals to become a director on a restructured practice advisory board. He views his role as both oversight and strategic, and is also a mentor providing advice to the principals on demand. The mentor role is focused on encouraging the FHW principals to adopt a more entrepreneurial perspective to their vision and attitudes.

*BH is a principal of FHW and has responsibility for financial planning*

BH is a director of FHW's financial planning division and is a registered financial planner with over 14 years' experience. He states his professional mission as "*assisting clients to understand their financial decisions and ensuring their cash flow can support lifestyle choices in the future*". His management focus as the executive responsible for FHW financial planning is to maintain process efficiency, and to ensure the capability provides prompt client service.

*MW, is an accounting practice principal and the only female of the advisory board*

MW has been working as a professional accountant for nineteen years. She joined FHW in 1999 and was admitted as a principal in 2014. She is a member of the Australian CPA and has a Bachelor of Business (Accounting and Finance) degree from Swinburne University. Fluent in Cantonese, Hokkien, and basic Mandarin, MW is a taxation specialist, provides advice on estate planning, and assists executors of deceased estates with their administration and legal responsibilities. In addition to

her role as principal MW also manages the practice IT capability, and advises the principals on the future development of this resource.

*AP is a consultant assisting the principals to develop strategy*

AP is an HR and strategic management specialist with extensive experience in not for profit organisations and education institutions. A personal friend of two principals, AP's brief is to assist the advisory board in formulating future strategy. AP was interviewed in order to obtain an independent perspective of the principals, and to acquire some insights into what the future strategic direction of the practice might be.

*MS, one of the original foundation principals about to take early retirement*

MS has been a member of the FHW team since 1987. A Chartered Accountant with a Bachelor of Business (Accounting) degree, MS claims to specialise in self managed superannuation funds and *"the strategic planning requirements of legal practices, manufacturers and importers"*<sup>6</sup>. He says that this made him *"an invaluable partner to any business venture"*. MS has been a significant rainmaker for the practice. His input will be missed from the 30<sup>th</sup> June 2015 when he commences a gradual retirement process becoming a consultant to the practice rather than an equity principal.

*NS is a foundation principal considered by colleagues to be the managing principal*

Despite vehement denials to the contrary, NS is effectively the managing principal in FHW, a position filled by action rather than official appointment. He has a Bachelor of Economics degree from Monash University, and also holds a Graduate Certificate in Leadership and Organisation Dynamics undertaken through Swinburne University. NS has extensive experience in assisting SME's, particularly family businesses, and provides advice in income tax law and practice, strategic management, and corporate governance. NS is a respected workshop facilitator and a passionate sportsman. He also holds a position of responsibility on the national executive committee of the association he is affiliated with. Although he is a principal in an accounting practice, NS is not a member of any professional accounting body.

*AF is a principal and second in seniority after the retirement of MS*

After commencing his professional life as a teacher AF subsequently undertook a period of further study and qualified as a professional accountant. He joined the business services team of FHW in 1996, becoming a principal in 2006. A member of the Institute of Chartered Accountants of Australia and New Zealand, AF

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<sup>6</sup> A claim not corroborated during interviews with other principals!



plays an active role in its professional year program as a mentor to candidates. He is also a workshop leader for the taxation modules of the program. AF approaches professional practice by adopting what he refers to as “*the personable approach*” and says that he also extends this to his leadership role in the practice. AF advises clients on their taxation and accounting needs, values businesses, and is involved in estate planning and the restructuring of family affairs this often requires.

*SB is a supervisor and in this capacity represents practice middle management*

SB was promoted to the position of supervisor<sup>7</sup> after a six year period as an employee of FHW. She is one of five supervisors managing five production teams responsible for the processing of client transactional data and converting it into GPFS’s and income tax returns. In addition to her supervisory role, SB is the personal assistant to NS who is FHW’s proxy managing principal. In that capacity she has access to information not available to her colleagues. SB has a business and commerce degree which included courses in management accounting, management, and HR, and is a member of the Institute of Chartered Accountants of Australia and New Zealand.

#### **A brief history of FHW**

FHW was established by a sole practitioner in 1974. In 1976 he formed a partnership with another practitioner (XY), and by 1985 the practice had grown considerably, employing eight staff members in addition to the two principals. NS, currently FHW’s senior principal (by age), joined the practice in that year as an employee. Within a very short time he purchased equity and became its third principal. In 1987 emerging negative socio economic trends in their immediate environment, excessive travel demands, and the results from a rough survey to determine where the majority of their clients were domiciled, prompted the principals to relocate from the North to the South Eastern Suburbs of Melbourne. An interesting outcome from the relocation was that many persons who resided in the South Eastern Suburbs with a connection to the principals, either from school, university, or sporting relationships, moved their accounting and taxation requirements to FHW. Within a year of the move the annual fees had actually doubled.

In 1987, MS a younger brother of NS and connected to the original founders through a sport affiliation, joined the practice as a senior accountant. He was admitted as an equity principal in 1989 after the principals acquired another

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<sup>7</sup> The title supervisor equates to that of manager which is more commonly used by the industry

accounting practice. The acquisition increased the annual fees to a level that could support a fourth principal. Incorporating the purchased fees into FHW turned out to be a challenging project, the vendor had not kept any file notes, and there was very little information recorded regarding the clients who had been acquired. MS reminisces about the time when NS decided to visit a client to get a signature on a tax return assuming it was for a small association requiring only annual contact. To his surprise, he found himself outside one of largest friendly societies in Victoria. On arrival he was greeted with the comment, *“we have been wondering when someone would actually come and visit us!”* The particular client continues to be serviced by the practice and generates a substantial annual fee billed at regular intervals during the year.

In 2006 AF, who had been an employee since 1996, was admitted as a principal. He joined with XY, NS, and MS, to form a substantial four principal accounting practice<sup>8</sup>. From this date FHW experienced steady growth until a significant setback occurred in 2008. XY withdrew from the practice taking a large group of clients with him. His exit was the outcome from a substantial disagreement between the principals about future direction. NS & MS wished to reduce the concentration on compliance related services, whereas XY wanted to remain focused on the core offer of GPFS preparation, and taxation. After the withdrawal of XY the three principals consolidated their relationships with the clients retained, and began expanding the services offered by FHW. This expansion took the form of a strategic management consulting service delivered by NS, and a financial planning service managed by MS and an employee who was a registered financial planner.

In 2013 the FHW principals decided to open discussions with the six principals of another practice with a view to effecting a merger between the two firms. At the time FHW, with three principals, was generating annual fees of \$4.5 million. The proposed merger partner, with six principals, was generating fees of \$6 million. As the discussions proceeded differences began to emerge. The ultimate deal breaker terminating the negotiations was the difference in annual fees per principal. FHW was achieving an average fee per principal per annum of \$1.5 million, whereas the other practice, whose principals were demanding dominant status in the merger, only \$1 million.

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<sup>8</sup> The original founder had already withdrawn from the partnership.

After merger discussions were terminated the FHW principals constituted an advisory board with responsibility for strategy formulation, oversight, and governance. The board members were the three principals and BW, a respected Melbourne retailer who had assisted FHW during the merger negotiations. The advisory board initiated a detailed strategic review to decide on future options for the practice. One of the decisions taken was to retain AP as an external consultant with a mentoring and facilitating brief. As a result of the strategic review the practice was restructured and two female employees, employed by FHW in the role of supervisors, were admitted as principals and members of the advisory board<sup>9</sup>. The financial planning service was converted from a cost to a profit centre, and the incumbent planner who had not been successful replaced. The principals engaged BH, a registered financial planner to manage the restructured financial planning service, and assigned a majority of the equity share to him. The division now trades as FHW Financial Services and is presented to the market as a branded division of FHW.

During the strategic review process MS informed the advisory board that he wished to retire from professional practice over a period of time. As a result he stepped down as a principal on the 30<sup>th</sup> June 2015. From that date MS assumes the role of consultant and is employed by the practice for thirty hours per week. A further outcome from the strategic review was a decision to relocate the offices and accommodate the practice in a more efficient and aesthetically pleasing environment.

### **Practice corporate governance**

The accounting practice, and its minority interest in FHW Financial Solutions, are legally owned by a private company. Its directors are the principals and BW, who occupies the position as an independent third party. BH, a director of FHW Financial Services, attends board meetings and participates fully in its discussions. He does not however participate in formulating decisions related to the accounting practice. FHW's governance is more formalised than 87% of the professional accounting industry. The analysis of context found that in the year 2014 only 13% of practices surveyed were governed by a formal board that included independent directors (Macquarie 2014).

Beneficial ownership of the company assets and entitlement to its profit distributions vest with the accounting practice principals (or their associated entities).

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<sup>9</sup> One of the appointees withdrew from the practice in July 2015 and the implications are discussed in subsequent chapters

Governance is under the aegis of the directors who collectively refer to themselves as “the advisory board”. The board has responsibility for strategy formulation and prudential oversight. Meetings are held monthly in the early morning over breakfast and are relatively informal, however, the discussion is controlled to a certain extent by a formal agenda. Decisions are made by consensus, there is never a voting process to determine the majority view, and each board member assumes the role of chairman for one meeting. The practice manager attends the meetings as an observer and is responsible for recording and circulating minutes. Executive responsibility for practice management is delegated to the principals who take direct control of at least one portfolio, and are the back up manager for another.

### **The services provided by FHW**

The service offer of the accounting practice is described as being 70% compliance and 30% “other”. Compliance, regarded as the core offer, incorporates the same service classifications used throughout the professional accounting industry. It consists of a group of services which includes preparation and lodgement of income tax returns for individuals and incorporated entities, bookkeeping and accounting required for preparing annual GPFS’s, corporate secretarial services, advice on tax planning and minimisation, and negotiations with the ATO and other state and federal government agencies when intercession is required. The *other* services describes the strategic management consulting provided exclusively by NS, plus any general advice given by the principals not considered to be compliance related. The 30% other component is higher than the 9.2% industry average recorded by ABS (2001-2002).

### **The organisation structure of FHW**

The organisation is structured around a number of teams each with a specific task orientation under the direct management of a supervisor. The structure is illustrated in Table 5.1. Principals are allocated executive responsibility for one or more teams, however the objective of the structure is for control to be effectively in the hands of the supervisors who represent middle management. The advisory board is at the peak of the structure and IT, a critical function, supports the total capability, which includes operations and practice management.

GOVERNANCE -ADVISORY BOARD - PRINCIPALS & ONE INDEPENDENT MEMBER			
ORGANISATION TEAM	EXECUTIVE RESPONSIBLE	SUPERVISOR	TEAM MEMBERS
Client administration	NS	G	5
Bookkeeping	NS	G	4
Business services -Team 1	NS	S	2
Business services- Team 2	AF	K	4
Business services -Team 3	MW	H	4
Business services -Team 4	DD	J	4
Superannuation	NS	V	Offshore
Practice administration	NS	G	None
Consultant (ex principal)	MS		
Consultant (tax specialist)	Z		

**IT CAPABILITY MANAGED BY MW**

**Table 5.1**  
FHW organisation structure

Table 5.1 clearly illustrates how the total capability below principal level is exclusively focused on the compliance service suite. The client administration and bookkeeping services teams assist clients with any basic accounting and administration requirements. This includes the maintenance of the corporate registers required under the provisions of the Corporations Act 2001, and the Australian Securities and Investment Commission Act 2001. Business Services teams receive client accounting transaction data, and convert the information provided into annual GPFS's. The GPFS's provide the information required for the preparation and lodgement of taxation returns to the ATO. The superannuation team manages the offshore processing of the report packs, and the tax returns prepared on behalf of the trustees of self-managed superannuation funds. The compliance teams, together with the principals who head them, generate seventy percent of the annual practice fees. Principals and supervisors communicate informally on a daily basis often by using email. Formal communication is organised through a weekly management meeting which is attended by principals and supervisors.

## Chapter 6

### CASE STUDY FINDINGS

#### Chapter summary

The chapter describes the findings from the analysis of the case study data. Other than some modification to avoid duplications, the structural nodes listed in Table 3.6 are used as the headings for presenting the findings. The chapter describes the FHW competitive environment, its clients, and the source of competitive advantage. Objectives and strategies are described and discussed, followed by a section that identifies the key resources available. The prevailing patterns of behaviour of the TMT, their attitudes, and their priorities are examined in detail. A section is devoted to describing the activities that define the nature of the extant capability, followed by an examination of the risks faced, and the opportunities for growth. Two critical factors that limit strategic vision are discussed, and the chapter concludes with a brief summary of the key features of the practice which the analysis has identified.

#### The FHW competitive environment

The nature of the competitive environment is understood by AF as *“benign”*. He did believe however that there was a potential this would change if *“the very large accounting practices... move into the SME market space always dominated by practices like ours”*. Expressing a more positive opinion BW thought that *“there were no real competitors except for other (similar) accounting practices and that the competitive environment was essentially benign”*. MW expressed a more pessimistic view. She believed that *“the competitive environment has become quite intense especially over the previous 18 months”*. She explained that there are new entrants entering the FHW market segments who are pricing their services much lower than the established practices. Her concern regarding this emerging threat is that *“the industry is (already) experiencing price sensitivity, and this had become a real factor to contend with”*. MW also identified two further factors she believed will have an impact on the nature of the competitive environment. They are the software tools she refers to as *“do it yourself accounting and tax return applications”*, and *“Google searchable information”*. The *“Google searchable information”* provides anyone with internet access a powerful knowledge search capability allowing clients to do their own research rather than paying a professional. MW’s suggested defence against these emerging competitors is indicative of the way in which FHW approaches

strategy formulation. Her view is that the practice must “*focus on the consultative dimension to the service offer and reinforce a message that the advice provided evolved from the experience shaped by years of study and practice*”. She does not suggest broadening the service offer as a possible counter strategy. Her solution is to reinforce the professionalism of the existing compliance service suite, and to strengthen the direct relationship with the client.

### **Description of the clients**

The majority of FHW clients are SME’s drawn from a diverse range of business sectors ranging from the very small to the upper segment of the medium size category<sup>10</sup>. The practice does not provide services to any companies that are listed on the Australian stock exchange, but has a number of substantial not for profit organisations on its client list. Clients include many high net worth individuals, the majority of these being associated with the SME’s which they control and beneficially own. FHW financial planning provides services to the accounting practice clients but is also free to develop its own networks. This has allowed the planning division to develop a client list that is independent of the accounting practice. When asked whether any distinguishing characteristics define the client base, BW said that there is a “*definite ethnic concentration... representing a carry over from its origins*”. He also said that “*this may have some strategic implications for the transition of relationships from MS*” (the retiring principal).

MS had developed some speciality features to the compliance service offer he provided his clients. He explained that this took the form of “*a tailored service offer as an advisor to legal firms, and this had become a specialisation he had personally been able to exploit over the years*”. The ability to specialise is a feature of accounting practices with more than five principals, therefore this service would represent a unique offer by FHW. The qualification however is that unless another principal develops the knowledge required for delivering this speciality service, it will not continue after the retirement of MS. The interviews provided no evidence that the principals recognised a need for acquiring this speciality knowledge, and continuing the service after the ultimate withdrawal of MS.

Commenting on the large number of clients serviced who generate low annual fees, NS said that this cohort is “*often the source of work in progress and fee write offs, and were particularly demanding for the practice’s limited time and resources*”.

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<sup>10</sup> A medium size business employs from 20 to 199 employees (ABS 2002)

Expressing the opinion of a supervisor on this issue SB said that the tension represents *“one of the biggest risks faced by FHW”*. She explained that the reason is *“the incredible amount of time taken up by low value clients (which) invariably resulted in loss because of work in progress write offs, or fee non recovery”*.

The sensitivity to fee levels which both NS and SB are referring to also manifests in a reluctance on the part of the principals to increase hourly rates. BW explains that he had *“confronted enormous resistance at times when suggesting that hourly charge out rates be increased”*. He added that this situation is *“quite puzzling since an increase of say \$20 to an hourly rate would not be that noticeable in the eventual fee statements and yet, the directors would commit to lengthy analysis and discussion whenever this was proposed”*. The complexities involved in establishing value for service and managing high levels of fee sensitivity are not exclusive to FHW. These issues are identified in the analysis of context as an industry wide problem experienced by accounting practices with less than five principals.

### **Competitive advantage**

#### *Personal Relationships*

According to AF the competitive advantage for accounting practices like FHW *“is the strength of the personal relationships they have with their clients”*. This view corresponds with those expressed by the industry stakeholders who participated in the analysis of context. AF adds however that *“the relationships must be supported by a fee structure within the capacity of the SME to pay”*, and believes practice size to be an additional factor for reinforcing strength. He explains that *“because of its size, FHW has the resources to develop a greater level of expertise than the smaller practices, but is also small enough to maintain personal relationships”*.

Personal connections would appear to be a further source for competitive advantage. This is evidenced by the phenomenal fee growth experienced when FHW relocated to a suburb of Melbourne in which the principals actually resided. The personal relationships are also the source for recommendations and referrals, and represent important distribution channels for FHW to gain new clients. BW commented on this when asked about growth opportunities. He said that *“the process of gaining new clients was primarily by word of mouth recommendation”*. MW explains the strategy used by the principals for cementing client relationships and for securing the important referrals they are able to generate in the following way. She says that *“to preserve relationships the practice strives to look after the*



*needs of its clients and most importantly, to listen to them and to understand why they have those needs. This brought referrals and recommendations, key factors for growth and sustainability*". BW confirms the importance of this strategy observing that *"FHW has been able to grow steadily and consistently by delivering a client orientated service offer that is built on trust and supportive relationships"*.

The competitive advantage FHW secures for itself in its market segments is further strengthened by its reputation for professional expertise. The benefit from being able to communicate this expertise is commented on by SB who says that *"the variety of skills available in the practice, which comes from forty experienced people (is) a major competitive advantage. This variety of skills allowed the practice to broaden its offer and accordingly gave it a distinct advantage in its competitive segments"*. MW also stressed how important principal reputation is to FHW. She said that the *"the three older male partners are well known and respected; they are also heavily involved in community work and had a public profile"*

#### *Brand name*

When questioned about the contribution to competitive advantage from brand name the principals were somewhat ambivalent. The only definite comment came from MS who *"believed this had some relevance in the market place"*, but then said that *"personal relationships are probably more important"*. MW did recognise a benefit in the FHW brand name because *"the practice had been established for 40 years"*.

#### *Conclusions regarding sources for competitive advantage*

The opinions expressed by the various interview participants indicate that the primary source for competitive advantage in FHW is the personal relationship between principals and clients. The relationships however are not an absolute factor because in many cases fee levels are an issue and need to be minimised. Clients are attracted to the practice by professional reputation, recommendations from existing clients, and through a personal connection with principals and employees. The size of FHW also assists the acquisition of clients because it is able to present itself as a competitor that is large enough to manage complex issues. MS explained that FHW goes to enormous lengths to strengthen relationships by ensuring that any client contact with the practice is a positive experience. The strategy is referred to as *"a key component of the FHW service offer"* and achieved by ensuring that clients receive *"a 24 hour turnaround for all communications with the practice, be they phone call or*

*email*". MS does not understand however, that if it would communicate the benefits from this strategy the practice gains an effective tool for countering client complaints regarding fee levels. It is also recognised that FHW has two additional resources for enhancing its competitive advantage. These are the ability to refer clients to its associated financial planning service, and the strategic management consulting service delivered by NS.

### **Practice objectives**

With one exception, members of the advisory board do not mention any objectives for developing new supplementary service offers. The exception is a comment from NS who wants to move the practice away from *"form filling"* but in expressing this wish does not offer any specific details for how the aspiration is to be achieved. The most concise statement explaining the FHW objectives comes from BW. He understands the objectives to be *"drivers for growth"*, expressed as *"acquiring new clients, maximising billable hours, and achieving cost reduction through operational efficiencies"*. These three objectives according to BW *"grew both income and profitability"*, and are *"the ultimate financial goal"*. BW's articulation of the FHW objectives are subsequently referred to as *"the three pillars"* throughout the case study findings. Two of the three pillars focus on fee growth, and the third is directed to ensuring that practice capability operates efficiently, and at the lowest possible cost. The practice strategies, and the structures developed for executing those strategies, translate the three pillars into an action program. This will be explained in the section discussing strategy. The objectives exclude any consideration for expanding the offer by the introduction of new services.

The FHW growth objectives are expressed as a target percentage. AF quantified the percentage stating that *"the practice is targeting organic growth of 10% per annum"*. In his view this *"was an achievable target"*. MW expresses some concern about adopting unrestricted growth targets. Her view is that *"the objective was not to grow the practice so that it became too large and unmanageable"*. This possibility had apparently been discussed by the principal group because MW said *"there had been discussion as to whether the best strategy was to cull the client volume, reduce the resources, and just service the needs of the largest clients"*. This option is also mentioned by NS who said *"that one strategic option considered was to sell off a large parcel of those small fees and rationalise the client list"*. He added that *"this removes a large number of clients who generated low value, were often the*

*source of WIP and fee write offs, and were particularly demanding for the practice's limited time and resources". Neither AF nor BW, both members of the accounting practice advisory board, identified this as a potential strategy when interviewed.*

### **Strategies for achieving objectives**

#### *Human resources*

BW describes the HR strategy as *"a key strategic initiative adopted by the practice for achieving the goals of (efficiency and profitability)".* He explained that its components are the *"policies for recruiting, developing, and retaining, a loyal team of professional accountants and para accounting and administrative employees, and inculcating in them a high level of commitment to the cause of making the practice successful".* His explanation indicates that the practice human resources strategy is based on three initiatives, recruitment, development, and retention. The analysis of context identified that prevailing conditions within the professional accounting industry are impacting on the ability of the smaller practices to recruit suitably qualified professional employees. This is an important contributing factor that has motivated the FHW principals to make HR a priority strategy. The recruitment and development objectives are achieved by securing a regular intake of young recently qualified accountants as trainee graduates. They are encouraged to join the practice by the offer of competitive remuneration packages, and attractive employment conditions. The conditions include a mentoring program that supports trainees through the difficult process involved in attaining professional association membership. An additional component of the HR strategy is a program to develop the capability of middle management. According to MW this initiative is still a work in progress. She explained *"that the supervisor roles within the practice were in the process of development, and it was not clear at this stage if all those employed would achieve the benchmarks required".*

#### *Growth*

The practice has no documented strategic plan detailing how its organic growth target of ten percent per annum is to be achieved. An additional difficulty to be confronted in the coming year is the retirement of MS. The problem this creates is acknowledged, but no evidence was found for concluding that a formal action plan has been developed to implement replacement action. BW remarked that he recognises the MS contribution as *"rainmaker in the past"*, but is more concerned that the *"practice will now have to manage the orderly transfer of clients from the retiring to the new principals"*. He adds that *"the major objective in this delicate process is to*

*secure relationships, and prevent client withdrawals arising out of uncertainty*". It is possible therefore that growth targets in the foreseeable future may be affected by the retirement of MS. His contribution as rainmaker will be missed, and remaining principals will need to allocate hours for cementing existing relationships rather than seeking new ones.

The advisory board identified a number of potential growth opportunities for the practice and these are discussed under the relevant section in this chapter. It is however important to note AP's frustration with the principal group regarding their inability to execute new initiatives. He said that *"the discussion was awash with good ideas, but these are not evolving into deliverables that ultimately can generate additional fees"*. His frustration is vented during a strategy meeting when he responds to excuses regarding lack of progress with the rejoinder, *"why are you sitting in the office then"?*

#### *Efficiency and cost control*

The strategies for achieving efficiency and cost control, the third pillar of the three primary practice objectives, are comprehensively documented by the practice. MW explained that *"the TMT and supervisors set the procedure and processes to be followed within the operations function. Supervisors are responsible for ensuring that the staff under their span of control adhere to set procedure and process"*. FHW also successfully implemented a program to outsource processing of the complex report packs and tax returns required for self managed superannuation funds to an offshore provider. BW explained that outsourcing *"back office processes to India ....resulted in a significant improvement to profitability"*. Commenting on the success of the offshoring program MS said that *"the outsourcing of superannuation fund processing had now become an efficient aspect of the operations capability, and a significant cost saving initiative for the practice"*. He added that *"the principals are now assessing the possibility (to) outsource the processing of the individual tax returns prepared by the practice"*.

Table 5.1 illustrates the extent to which FHW relies on its IT resource for efficiency and cost control. This aspect of the organisation structure effectively underpins the total capability. MW who has executive responsibility for the IT capability explained that its objectives are to *"maintain operational efficiency and control costs"*. She also outlined three new programs that are designed to achieve continuous improvement objectives. The first is to ensure that FHW *"will ultimately*

*become totally paperless, and the practice is well down the track towards achieving that goal*". The second is to develop *"an intranet knowledge base that would allow all staff access to knowledge gained day by day in the performance of tasks, and the management of clients"*. The third program is *"to utilise cloud based software to capture transactional information which can then be imported into the practice systems electronically"*. It is noted however that despite BW's claim of cutting edge IT innovation which is implied by his comment that *"this accounting practice was one of the first to recognise the potential for cloud storage"*, all development is incremental and designed to improve the extant capability.

The practice is also attempting to overcome inefficiencies arising from the inadequate data provided by many clients who are in the 72% low fee, high number category of the pareto ratio. NS commented on the *"large number of clients who generated low value, were often the source of WIP and fee write offs, and were particularly demanding for the practice's limited time and resources"*. SB saw this problem as one of the greatest risks faced by the practice, a clear reflection of the problems she faces as a supervisor. The risk she said is *"the incredible amount of time taken up by low value clients (which) invariably resulted in loss because of work in progress write offs, or fee non recovery"*. The inefficiencies and cost over runs emanating from this source are clearly the reasons prompting NS and MW to consider selling off these clients.

### **Important strategic resources**

In addition to its HR capability, which was discussed previously, the practice possesses a number of valuable strategic resources. One of the most significant resources identified during the interviews is the surplus cash flow that has been generated over a number of years. BW advised that *"the practice was profitable, and also financially liquid. This (situation) was evidenced by its capacity for significantly reducing external debt, and an ability to absorb the capital required for the premises relocation out of available cash resources"*.

The financial planning division represents a further valuable strategic resource for FHW. Developed initially to be just a cost centre, financial planning is now an independent entity and has the potential to become a valuable investment for the principals. BH however outlined some of the challenges he faced in developing this division. He said that he has been *"forced to defend his position because he heads up a business that is slowly building its potential, and is not showing the same*

*returns generated by the established traditional accounting practice*". This remark clearly illustrates that although the potential is there, the realisation is still some way off.

The offshoring outsource relationship has been shown to be a significant resource and its extension is being planned. It also indicates that in terms of back office efficiency FHW is able to outperform many of its competitors. The analysis of context discloses that although offshoring is a topic for discussion amongst accounting practices in the same cohort, the number of participants is still low (Macquarie 2014). FHW also employs a tax specialist which is a resource that is more common in practices with more than five principals. The strategic management consulting advice provided by NS is another service not usually offered by practices of this size. It is noted however that this expertise resides with one principal only. If he were to withdraw from the practice the service terminates.

### **Opportunities**

Principals and external advisors are confident that many opportunities exist to support growth, however there is no consensus regarding the nature of the opportunities. AF and MW spoke generally about *"opportunities"* being available without expressly detailing what these were. NS, MS, and BW on the other hand expounded at length regarding their views on this issue. This lack of consensus is a source of some frustration to AP who observes that the TMT is *"awash with good ideas but these are not evolving into deliverables that ultimately can generate additional fees"*. The opportunities for which there are consensus are discussed below. It is noted that all initiatives under consideration are extensions of the existing service offer.

The opportunities identified are to increase the compliance fees generated by the existing capability, and to secure new users for the strategic management consulting service offered by NS. Increasing the compliance fees is to come from two initiatives. The first is an increased usage strategy, the idea being to increase the number of times clients are contacted over an annual cycle. AP explains that this is an initiative directed at *"the large fee contributors (who) were (to be) visited by a principal at least once every six months when their financial outcomes for the previous period would be reviewed in addition to providing some strategic input"*. The second initiative is to acquire new clients through the development of specialist expertise within selected segments. BW explains the specialisation opportunity in the

following way. He says that *“the process for acquiring new clients could be significantly assisted if individual partners would specialise and develop reputations for expertise and knowledge in specific market segments”*. The example of a specialised segment that he gave is veterinary surgeons. There is no evidence that the principals have made progress in the implementation of these programs, and AP’s frustrations in this regard have been commented on previously.

MS identified two other opportunities not discussed by other principals. The first is designed to release principals from the burden of practice administration, and to channel the hours released into chargeable time units. MS explained that *“an empowered practice administrator should be recruited to take all administrative management burdens away from the principals. This will free up time allocated to non productive activities, and provide more hours for engaging directly with clients”*. The second opportunity is for the accounting practice to obtain leverage from the reviews undertaken by the financial planning division. His view is *“the power of the financial planning service is the opportunity it brought for opening up the totality of clients affairs to the practice. This provided insights for developing a service offer specifically tailored to needs of the client”*. There are possible ethical repercussions arising out of the data sharing however, and these were not mentioned by MS.

## **Risks**

### *No threat to core offer longevity*

A fundamental factor explaining the way in which the FHW advisory board evaluates external risk is its belief in the enduring nature of the core compliance service offer. BW explained this belief as a presumption that *“there was a constant inflow of new work resulting from legislative and regulatory changes; the government was effectively a distribution channel”*. NS confirms that the compliance suite represents *“seventy percent of the FHW annual fees”*, and therefore the risk presented by potential income loss is very small. The inherent longevity of the lifecycle for the compliance service suite is a presumption underlying the issues considered by this thesis. It has been accepted as the feature which represents a stable external environment. The presumption of core offer permanence is expressed succinctly by BW’s assessment of practice risk which he simply states as, *“there is no risk”*.

### *Client loss*

Despite his comments regarding the absence of risk, BW does recognise that the possibility of fee reduction from client loss is always a risk faced by FHW. He

does however understand this as a risk capable of full mitigation because he says “*if work did drop off causing internal slack then the lever to pull was simply to retrench staff*”. AF also understood client loss as “*the biggest risk always faced (by FHW) especially the high value fee generators*”. He did not however offer BW’s mitigation strategy of staff reduction as a mechanism for offsetting the risk. The decision by MS to initiate a gradual retirement process from the 1st July 2015 has converted the potential for client loss into an active threat. BW views this as a program where “*the practice will now have to manage the orderly transfer of clients from the retiring, to the new principals*”. The risk crystallises when the remaining principals are unable to establish the required relationships with the MS clients allocated to them.

#### *Pareto ratio and client fee sensitivity*

NS confirmed “*that the pareto ratio for the practice was running around 72:28, where 72% of the fees in value were being generated by 28% of the clients in number*”. This imbalance in the ratio of client numbers to fee generation highlights the risk associated with client loss if the withdrawal were to come from the twenty eight percent high fee generators. This low fee generating cohort who make up the majority of the clients by number are also the significant contributors to fee sensitivity. This is confirmed by NS who observes that they “*were often the source of WIP and fee write offs, and were particularly demanding for the practice’s limited time and resources*”. SB even went further in her assessment of how this seventy two percent group affected the practice. In response to a question about practice risk she identified this as the biggest risk faced. The risk she says is “*the incredible amount of time taken up by low value clients. This invariably resulted in loss because of work in progress write offs or fee non recovery*”.

#### *Balancing fee sensitivity and quality of output*

The risks associated with potential client loss and fee sensitivity also manifest in the emphasis placed on finding an acceptable equilibrium between quality standards, and the cost for achieving that standard. MW describes this as the demand for “*moderating between high quality and the cost of production .. a constant balance they had to strive for in order to ensure that the job achieved a mandatory level of integrity on the one hand, but on the other, the eventual fee to the client was recoverable*”. The measure of quality is that every document, form, or memorandum of advice produced by the practice should comply with the relevant provisions of any statute or regulation applicable to it. The measure of cost is the number of time units



required for processing the job, and achieving the externally imposed compliance quality standards set from time to time. Inadequate quality standards resulting in a failure of the outputs to meet externally imposed compliance tests represent a significant practice risk. Clients rely on FHW to ensure that the documentation and forms prepared for their own use, or for lodgement with any government authority, will stand up to external scrutiny or audit. If these fail to meet the required test it will damage the reputation of the accounting practice and the principals. Failure also has potential legal consequences should the client or a third party recipient of the output decide to sue the principal and the practice for negligence. FHW covers the legal risk by using a professional indemnity insurance policy. This remedy is compulsory for all practitioners who advertise their association with one of the three professional membership bodies.

The quality obligations and the fee sensitivities are a significant tension for supervisors and processing staff. When outlining operation and control processes MW explained that *“the supervisors had responsibility for deciding if the balance achieved was acceptable”*. The supervisors are accordingly constantly caught up in a push and pull situation, striving to maintain the required professional standards while attempting to hold fees at a level acceptable to clients. SB referred to *“the sustained pressures everyone worked under on a daily basis”*. This tension becomes a significant factor for causing knowledge search objectives to focus exclusively on the areas associated with legal compliance. SB says that *“there was a constant demand to ensure technical skills were maintained, a never ending priority”*. The need to minimise time allocated to jobs is also a powerful driver for ensuring that the operations capability is maintained at peak efficiency.

#### *Weakness at middle management level*

MW and BW expressed views qualifying the inherent capability of the middle management level in FHW. Middle management is represented by the practice manager and the team supervisors. The expectation is for middle management to assume a level of responsibility that reduces the time units principals allocate to practice administration, operations control, and job review. With respect to the control over operations and job review, MW said that *“the supervisor roles within the practice were in the process of development, and it was not clear at this stage if all those employed would achieve the benchmarks required”*. MS also expressed some reservations regarding the ability of the incumbent practice manager and believes

that “*an empowered practice administrator should be recruited to take all administrative management burdens away from the principals*”. Weakness at middle management level will not allow principals to free themselves from direct practice management, controlling operational efficiencies, and performing detailed job output reviews. Their aspirations in this regard are expressed by MW who says that “*the organisation structure should allow the partners to work on the business*” (not in the business). In order to achieve this goal according to MW, “*the middle management capability must allow the business to continue when partners are not available*”. “*Not available*” implies being engaged with existing clients or seeking new avenues for fee generation. The principals have not been able to achieve either of these goals which is confirmed by AP’s rather exasperated question to them asking “*why are you sitting in the office then*”?

#### **External factors**

MW’s fears for price cutting entering what has previously been a relatively benign competitive environment is commented on previously. This represents a deliberate strategy by new entrants to use fee sensitivity as an inducement for seducing clients away from existing relationships. The potential for the larger practices to enter the market segments serviced by practices the size of FHW has also been identified. It is noted however that AF is not viewing the potential entry of the larger practices to be an opportunity for a merger which could facilitate the expansion of the FHW service offer. AF is the only principal who sees inherent risk from the attitudes of generations X & Y. He says “*these are generations that really do not understand or value long term relationships*”. In AF’s view this “*may completely change the competitive dynamics for practices like FHW that build competitive advantage on relationships*”. The risks perceived by MW arising from “*Google searchable information*”, and do it yourself software applications discussed in other sections, are also recognised here as possible risks to the practice.

#### **Top Management Team**

The literature dealing with organisational ambidexterity identifies a number of antecedent conditions that nurture conditions encouraging discontinuous innovation (Raisch et al 2008). Many of these conditions manifest as TMT behaviours and attitudes which then become important catalysts for the introduction of organisation ambidexterity (Beckman 2006; Raisch et al 2009). A group of behaviours with potential for becoming catalysts are referred to collectively as behavioural integration

(Lubatkin et al 2006). The specific behaviours included within this group are to encourage an atmosphere of collaboration, facilitate exchanges of information, possess risk averse attitudes to decision making, and to nurture a supportive organisation culture. Other behaviours suggested as being necessary for creating an exploratory perspective are identified in Farjoun (2010). They are a desire for experimentation, an appetite for risk, creating an open culture characterised by loose discipline, and the ability to find further stimulation from failure. O'Reilly et al (2004) adds the need for the strategic intent to include innovation, and for the TMT to be adaptive and receptive to the existence of loose structures. It is therefore necessary to understand the behaviours and attitudes of the FHW TMT, and to compare the findings with the behaviours and attitudes nurturing the emergence of OA that are described in the literature. The data collected is applied for a number of purposes. The first is to formulate an understanding of how a stable external environment has influenced TMT behaviour and attitudes. The second is to assess whether the TMT behaviours and attitudes in FHW facilitate, and encourage, the exploratory perspectives necessary for introducing a program of discontinuous innovation. A third purpose is to understand what modifications (if any) are necessary to evolve an environment that is conducive for the implementation of OA in FHW. The relevant behaviour patterns and attitudes identified from the analysis of the data collected are detailed in the sections that follow.

#### *Attitude to risk and decision making*

With the exception of NS, when asked to self-assess their tolerance for risk on a scale of 1-5 (1 being low and five high) all members of the principal group placed themselves at between 2 and 3. AP said that in his opinion "*this combined attitude to risk would be an effective barrier preventing the introduction of any innovative initiatives that presented higher risk profiles*". Aversion to risk is a critical factor that may prevent FHW from integrating an exploratory capability into its structures and culture. A tolerance for risk, and motivation stimulated by failure, are recognised in the literature as important antecedent behaviours for encouraging the implementation of OA (Farjoun 2010; O'Reilly et al 2004). There is also an underlying conservatism within some members of the principal group, and this becomes another exacerbating factor that could block any initiative to consider implementing new services. AP explains that "*AF is by nature very conservative and focused on the core service capability*". He adds that it is "*a fairly moot point whether he (AF) would be receptive*

*to implementing innovative ideas especially if they are originated by the younger female members of the team”.*

The low tolerance for risk is also an important factor influencing the approach to strategic decision making. This is illustrated by the responses of principals to a question about their view on missing out on possible opportunities. They are whether they are governed by the desire to avoid missing out on available opportunities (and losing competitive advantage), or by a fear of being wrong, (in which case losses would be incurred). The question is based on aspects of decision theory detailed in Berger (1985), which explains that decisions can be either governed by the desire to avoid missing out on available opportunities, errors of omission, or by the fear of being wrong, errors of commission. With the exception of NS, the response of the principal to the question is that they are governed by the fear of being wrong. This provides further evidence of the low tolerance for risk dominating the approach taken by the FHW principal group to strategy formulation.

#### *Toleration of dissenting views*

Differences in opinion and perceptions stimulate the discussions and debates that become catalysts for driving organisational change (O'Reilly et al 2004). Accordingly an aspect of the data analysis is to develop some understanding of how open the TMT are to different views and opinions. In this regard a significant incident occurred while the interviews were in progress. It provides an important insight into the attitudes towards dissent that prevail within the TMT. The incident referred to is the withdrawal from the practice by a recently admitted female principal we will name DD. NS advised in a telephone discussion that the reasons for the withdrawal are *“irreconcilable differences in opinion regarding practice management and future direction”*. The differences were apparently so fundamental that the protagonists ultimately decided the best course of action for all parties was for DD to exit. This is a significant event especially since the person concerned had proceeded through the ranks as an employee, rose to the position of supervisor, and was finally admitted as a principal. After this explanation from NS, a cone of silence descended until an email was received from him on the 17<sup>th</sup> January 2016. An extract from the email is shown in Appendix 6/9. The extract records a statement from NS in which he states *“we have come through a period of relative instability MS departure actually being the lesser of the two, whilst DD’S removal was handled, I think, as best as it could have been”*. The comment made by NS indicates how serious the dispute with DD was.

Comments made by MW during her interview provide some additional insights into the conditions leading to the exit of DD. To be noted is that when MW was interviewed the exit of DD had as yet not occurred. MW said that *“the partners must foster a culture that promotes transparency in their relationships”*. She did not elaborate any further but this comment, together with some oblique references to the issues taking place at the time within the advisory board, provide clues regarding the nature of the dispute. MW said that *“the younger (female) partners want to develop their own understanding of where they can now take the accounting practice”*. She added that *“whereas they (MW & DD) acknowledge there is a steep learning curve to confront, they also recognise they have implemented a number of procedural and process innovations into the practice that significantly improved efficiency”*. In another part of the interview MW also states that *“divisions are present because of differences in age, experience and sex”*. These observations by MW connect with a statement by AP who said that the gender issue is *“a real difficulty for AF and that the situation is made more complex by the fact that DD has a forceful personality”*.

These comments and observations provide some insights into the circumstances leading to the exit of DD. The conclusion is that a younger recently appointed principal, who also happened to be female, either reasonably or unreasonably tried to push an agenda into a male dominated board that previously held all power. This dominant group considered the intervention to be an unacceptable level of dissent, and took action to force its views to prevail. This incident is extremely important for gaining insights into the dynamics shaping behaviour in the principal group. It is particularly relevant for assessing whether a dominant coalition of key individuals is dictating the practice agenda (Prahalad et al 1986).

#### *Dominant Coalition of Key Individuals*

Conditions for nurturing behavioural integration and facilitating its emergence may not be possible if an organisation is dominated by a group referred to by Prahalad et al (1986) as a coalition of key individuals. The situation previously referred to which ultimately led to the withdrawal of a recently admitted principal, supports the view that a dominant coalition of key individuals does exist in FHW. This dominant group appears to hold ultimate power and authority, and will wield that power and authority if necessary for preserving its role. A further aspect to this dominance is whether it reaches into the lower tiers of the practice, blocking

contributions to strategy formulation and tactical decision making from these levels. If this situation prevails, the principal group will not be receptive to embracing upward knowledge flows emanating from middle management levels (Harry et al 2000; Mom et al 2007). These upward knowledge flows are recognised as an important factor for encouraging implementation of the discontinuous innovation programs necessary for new service introduction (Mom et al 2007). Questions were put to interview participants designed to understand the prevailing situation regarding knowledge flows. AF said that *“although there was bottom up knowledge feed it was limited, and that the primary direction of the knowledge flows was top down”*. He also said that discussion regarding the opportunities available *“are kept within the principal group”*. Harry et al (2000), and Mom et al (2007), explain that when knowledge is compressed into a downward flow it focuses the objectives to be purely on the attainment of extant efficiency. This reflects the situation described by AF implying that the internal environment within FHW is not very conducive for nurturing the implementation of discontinuous innovation programs (O’Reilly et al 2004; O’Reilly et al 2008; Farjoun 2010).

There is some disagreement in the views regarding this issue. SB believes *“that the supervisors were now evolving a significant body of knowledge which they were in turn feeding up into the principal group”*. She did however say in response to a question regarding supervisor level participation in formulating practice objectives that *“the principals tended not to share this level of confidence with the supervisors”*. It would appear from these comments that whereas middle management levels in the practice are not included in strategy formulation, they are involved in the tactical decisions influencing the operations capability. There is also a formal channel for directing knowledge flows upward from the lower tiers of the practice into the principal group. Supervisors and principals attend a weekly management meeting where operational issues are discussed. The strategic exclusion will however inhibit the transfer of discontinuous innovative ideas from the lower levels of the practice into the principal group (Mom et al 2007).

The episode leading to a principal withdrawal, and the fact that levels below principals are excluded from strategy formulation, is strong evidence to conclude that there is a dominant coalition of key individuals in FHW. This becomes an important feature of the accounting practice to be considered when examining its ability to implement OA. Whereas the dominant coalition does not appear to be the exclusive

custodian for knowledge in the practice, it does control all aspects of strategy formulation. As a result the knowledge flows emanating from the apex of the organisation structure in FHW are relatively tight and unambiguous. The objective is to focus organisation capability on maintaining efficiency and profitability (Harry et al 2000; Mom et al 2007) which reflects the objectives. The internal environment which results from this tight control will not easily nurture the attitudes of flexibility and experimentation necessary for implementing OA (Farjoun 2010; O'Reilly et al 2004).

#### *Shared beliefs*

Another characteristic evidencing the existence of a dominant coalition of key individuals is when the group shares common beliefs and conventional wisdom (Prahalad et al 1986). The comments and observations made by the principals indicate that although there are disagreements, there is nevertheless consensus on a number of substantive matters. Previous sections identified common understandings regarding the sources for competitive advantage and the strategic value of the practice HR capability. In addition the TMT believe in the longevity of the compliance service offer and the presumption that new legislation will continue to bring in new work. BW expresses this view on behalf of the TMT when he is asked as the independent member of the advisory board to explain the FHW risk model. His response is that *“the risk profile of the practice is basically not significant, and not a recognised strategic factor”*. He adds to this observation, *“there was a constant inflow of new work resulting from legislative and regulatory changes, the government was effectively a distribution channel”*. In addition to this statement from BW the actions of the principal group indicate that they accept a presumption of core offer longevity. All new opportunities identified focus on merely extending the scope of the core compliance suite. **No** new initiatives are considered, not to supplement the existing offer, nor to provide clients with alternative services. The opportunities identified by the TMT are to increase the number of times existing clients are contacted in a year (AP), specialising the compliance services for specific segments (BW), and reinforcing the strength of the relationships (MW). This represents a tangible expression of TMT faith in the continuity of the extant core compliance offer provided by FHW.

A shared low tolerance for risk among the principal group has been commented on previously. There is also evidence of consensus in the belief that client loss is one of the most tangible risks faced by the practice. This is expressed

directly by AF who in response to a question regarding risks faced by the practice responds by saying that the *“biggest risk always faced was the possibility of client loss”*. The fear of client loss is also reflected in the focus to secure an orderly transition of client relationships from MS to other principals. AP comments on the *“team’s imperative to manage the official retirement of a senior principal”*, and MS observes that the *“issue of personal relationships is one now being confronted by the practice because many of the clients (I service) will need to build relationships with other principals as (I) gradually loosen the bonds with them”*. An incident described previously when the principal group vacillated before agreeing to increase charge out rates is further evidence for this shared view of the risk presented by client loss.

A final area identifying this commonality of beliefs is represented by an acceptance that future profitability is underpinned by efficiency and cost control, not by diversifying the service offer. This perception is not only reflected in the second and third pillars of the statement of objective, but also in a number of comments made during interviews. Reinforcing the efficacy of the practice objectives MW said that *“the business must strive to attain peak efficiency in its operations capability”*. AP commented that one of his difficulties in working strategically with the principal group is *“to try and redirect the TMT focus away from an obsession with billable hours and work in progress, and to rather open their vision to the consideration of alternative opportunities”*. AF expressed the primary training objectives as ensuring that *“the level of technical training maintains knowledge levels in the primary service offer, and... to secure efficiency in the work environment”*. This exclusive internal focus shared by members of the principal group is understandable when related to the imperative for maintaining outputs at a mandatory level of compliance integrity.

#### *The influence of past experience*

Adaptability, flexibility, and experimentation are critically important attitudes for nurturing organisational ambidexterity (Lubatkin et al 2006). These attitudes are not readily accepted when the dominant force driving strategy and decisions is based on a belief that it was stability which delivered successful outcomes in past years. Reliance on the lessons of the past is also reinforced when schemas, or pre-existing knowledge systems, are the critical factors conditioning responses to external environment influences (Norman 1976). The question examined therefore is whether the dominant group’s past experience assumes aspects of a pre-existing knowledge



schema, thereby influencing the perspectives determining both objectives and the formulation of strategy.

When asked if the principals based their future perspectives on past knowledge and events, BW said that this was *“true of the two older principals”*, (NS and AF). The issue for consideration therefore is the degree of power and influence these two individuals are able to impose on the principal group. If they are capable of dominating the group, the lessons from past experience will play a role in determining practice objectives and formulating its strategy. It has been identified under a previous section that the association formed between NS, AF, and MS, within the principal group can be considered to be a dominant coalition of key individuals. It is also relevant to note the comments made by MW that principals *“must foster a culture that promotes transparency in their relationships”*, and that *“the three male partners fulfil mentor roles because of experience and age”*. Post the retirement of MS, and the withdrawal by the second female principal, NS and AF therefore together are a majority within the principal group. Their mentor role, identified by MW, is further evidence that they will continue to exert a strong influence in the advisory board and on the direction taken by the practice. A further significant factor mentioned by AP is that AF is *“by nature very conservative and focused on the core service capability. It is therefore a fairly moot point whether he would be receptive to implementing innovative ideas especially if they are originated by the younger female members of the team”*. It can therefore be concluded that the continued presence of NS and AF will ensure that the successes, failures, and lessons of past years will continue to influence strategic perspectives, both within the principal group, and in the advisory board.

#### *Reliance on core competencies*

The practice objectives illustrate how heavily the principal group relies on core competencies for determining the future direction of practice strategy. The three primary objectives are framed around tried and tested formulae that not only generated free cash flow in past years, but are expected to continue doing so into the future. Paraphrasing the words of BW, FHW’s three primary objectives are the acquisition of new clients, maximising the number of hours billed and maintaining operational and cost efficiency. The obvious omission from the objectives is any long term vision embracing a need for discontinuous innovation and the introduction of new services. The objectives indicate the presence of a presumption within the

principal group that the past is a reliable guide to what the future will be. This presumption is considered to represent a powerful historical schema that dominates direction and focuses strategy (Norman 1976). The schema in FHW translates into an imperative for maintaining, and wherever possible continuously improving, the excellence of the extant core capability. The understanding this brings is that the core competencies which generated cash flow in past years will continue to do so in the future, provided that the existing capability is maintained at peak efficiency.

The totality of this reliance on core competencies is confirmed by the explanation provided by AF about practice training aims. He says that the training strategy is made up from “*two primary objectives, to maintain knowledge levels in the primary service offer, and to secure efficiency in the work environment*”. Additional evidence that there is a strong reliance on the core competencies is contained within the objective for knowledge search. MW, who is responsible for the IT capability, outlined the parameters for a knowledge bank under development. She explained that “*developing an intranet knowledge base would allow all staff access to knowledge gained day by day in the performance of tasks and the management of clients*”. There is no consideration for using the intranet to develop a knowledge base that is outside of the core compliance offer. MW also mentioned “*a program.... to utilise cloud based software to capture transactional information which can then be imported into the practice systems electronically*”. The objective is to improve productivity and efficiency for the **existing offer**. It does not consider using the data transmission capability for extending the practice client reporting capability to facilitate the preparation of interim management reports. These examples are strong evidence for the existence of a presumption within the principal group that by maintaining the core offer, continued cash flow generation is sustainable. This presumption removes any imperative for developing new knowledge outside of the compliance requirements.

#### *Sensitivity to changes in the external environment*

Raisch et al (2008) identify environment and competitive dynamics as a catalyst for introducing discontinuous innovation projects into organisations in order to develop new products. Implementing discontinuous innovation into an extant established capability becomes a catalyst for encouraging management teams to consider using ambidextrous designs to overcome the structural anomalies this can cause (March 1991; Tushman et al 1996). Accordingly an aspect of TMT behaviour

investigated when collecting data is whether the principals display any sensitivity to environment dynamics. Pro-active responses to emerging factors that necessitate some directional change would indicate the presence of this sensitivity in the perspectives of the practice TMT. The first difficulty encountered is that as a group the advisory board does not have a consensus view on whether there are any external dynamics that require some consideration. AF and MW are both of the view that changes emerging in the competitive environment could stimulate greater rivalry and modify the current relatively benign conditions. This possibility is discussed in detail by the section explaining the nature of the competitive environment faced by FHW. It is noted however that this possibility is not acknowledged by either NS, MS, BW, or AP. A possible reason is that their tolerance for risk is not as low as that shown by AF, and consequently they are not as sensitive to emerging issues. It is possible to conclude therefore, that the views expressed by individual principals regarding environmental change tend to be a reflection of their own particular conservatism and risk tolerance. The personal views are not currently being converted into formal practice responses emanating out of comprehensive discussion within the FHW advisory board.

A different situation however does exist with respect to any external factors impacting on the core compliance service offer. The principals ensure that knowledge levels maintain currency. Formal monthly briefings are held for this purpose and all professional staff are required to attend. MW outlines the process as *“in house tax updates provided for all relevant staff once a month, and in addition training is provided on an ad hoc basis if any issues arise from time to time affecting the compliance and regulatory environment.”* Indicating how the practice maintained its IT at the cutting edge of the technology available to the professional accounting industry, BW explained that *“this accounting practice was one of the first to recognise the potential for cloud storage and around five years ago it had moved all internal data storage to this medium”*. These examples, and the move to offshore back office processing, illustrate that the TMT is sensitive to external environment dynamics when the impact is on the efficiency of the existing capability.

#### **Top management team priorities**

##### *Maintaining knowledge related to the compliance service offer*

In this regard an observation made by MW is noted. She comments on *“the difficulties faced when trying to maintain knowledge levels in the compliance*

*environment because of all the constant changes*". The difficulty MW is referring to is the complexity of federal and state taxation regimes and the associated compliance demands. This pervasive influence is also identified by industry stakeholders as a material factor impacting on the strategies and structures of the professional accounting industry. In the case of FHW, it is the reason why the principal group concentrates effort on maintaining knowledge currency in all aspects of law and regulation related to the compliance suite of services. Other than time units allocated by NS to the strategic consulting offer, the totality of the accounting practice capability is focused on the compliance service offer. This is evidenced by its organisation structure, its objectives, its existing and future IT capability, knowledge search activities, and the training objectives and strategies. Principals have difficulty in allocating hours for any other initiatives once more evidenced by AP's frustrated question *"why are you sitting in the office then?"*

#### *Output quality and fee sensitivity*

This is another significant factor occupying not only the attention of the TMT, but also the total operations capability. FHW has a professional obligation for ensuring that outputs possess the required level of compliance integrity. The more complex the areas associated with compliance become, the more time required to ensure they meet externally imposed tests for legal integrity. The time commitment for ensuring adequate level of compliance directly impacts on client fee levels. The result is often either the loss of a client or a loss of income. MW explains the tensions inherent within this control process as follows. *"Supervisors were responsible for driving production carried out by the staff members in their respective teams. Moderating between high quality and the cost of production was a constant balance they had to strive for in order to ensure that the job achieved a mandatory level of integrity on the one hand, but on the other, the eventual fee to the client determined from hours allocated to the job was recoverable. The supervisors had responsibility (in the first instance) for deciding if the balance achieved was acceptable"*. SB also refers to the *"constant demand to ensure technical skills were maintained, a never ending priority"*.

This need to maintain knowledge currency, maintain quality, and minimise fees, creates the equivalent of a vicious circle in the practice. It can absorb excessive amounts of chargeable time units, and result in fee increases that unless adjusted downwards make for a very dissatisfied client. In this respect it is also noted that

principals identify client loss as one of the most significant risks faced by the practice. It has been shown that a remedy FHW uses for avoiding excess time allocation is to ensure that knowledge is maintained at levels which minimise research time while the job is in progress. In addition, it has been explained how the practice concentrates effort to achieve greater efficiencies in the work place, and to minimise the time units allocated to jobs in progress.

#### *Human resources*

A significant focus for the FHW principals is to ensure that the practice is constantly visible to new graduates emerging from the business and commerce faculties of universities domiciled in and around Melbourne. This is a response to the fierce rivalry in the industry for acquiring the services of professional staff. The competition in the industry for good professional staff was identified during the analysis of context. It is a situation created (unintentionally) by the larger practices with over five principals who offer greater career opportunities, and consequently have a competitive advantage in this area. The strategic initiatives to secure HR resources are explained by BW as the *“policies for recruiting, developing, and retaining a loyal team of professional, accountants, para accounting and administrative employees, and inculcating in them a high level of commitment to the cause of making the practice successful”*. BW also explains that the HR initiatives are considered to be the *“key strategic initiative adopted by the practice for achieving these goals (of efficiency and profitability)”*.

#### *Time management*

The principals of FHW, and all its employees delivering services to clients, sell a six minute block of time. This represents a finite sale unit that is unable to be recovered if not allocated as a charge to work in progress. Profitability is determined not only by the time charge as a work in progress unit, it is also derived from the number of time units ultimately billed as services rendered to the clients. Efficiencies in the use of time are accordingly measured at two points, the first is when time units are initially charged to a job as work in progress, and the second is when the time units in work in progress convert into a chargeable fee. This creates an imperative for controlling the time units and ensuring they are used productively. Productivity is measured by the percentage that the time units actually recovered as fees represent of the available time units. This is a significant reason why employees are discouraged from allocating time units to activities that might be experimental or

exploratory, and consequently, not recoverable as fees rendered for services provided. This imperative is evidenced by a number of comments made during the interviews. BH says that the *“one KPI (key performance indicator) demanded, without any compromise, was that his people had to meet their (time) deadlines; it was a non-negotiable requirement”*. MW emphasises the need for the practice *“to attain peak efficiency in its operations capability”*, and SB commented on *“the sustained pressures everyone worked under on a daily basis tended to push higher level aspirations aside, and the focus really became more on efficiency and production output”*.

The result therefore is that personnel will be unlikely to attract praise for coming up with ideas that divert their focus from the core productivity objectives. Employees are valued for their ability to focus on the task at hand, and to minimise any allocations of time to non-productive areas. Further evidence for concluding this represents the prevailing obsession within the practice culture is the absence of any structured discontinuous innovation tradition within FHW.

### **Classifying the Capability: Monodextrous or Ambidextrous**

Lubatkin et al (2006) identify a number of distinguishing activities that would classify a capability within an organisation as being exclusively focused on either exploit or explore objectives. One of the aims for the case study data collection therefore is to determine if the accounting practice capability is dedicated to explore activities, exploit activities, or possibly both. The activities listed in Lubatkin et al (2006) describing the different activities that by their nature define a capability as being either focused on exploit, or explore, are used as a template for classifying the various capabilities within FHW. The various activities described in Lubatkin et al (2006) also become the headings for the findings that are detailed in this section. The findings show that the FHW capability, with some exceptions, is classified as monodextrous with an exclusive focus on exploit related activities.

### **Exploit activities**

#### *Commitment is quality and cost*

The FHW principal group concentrates its focus on activities that support the extant exploit capability producing the core compliance offer. A compelling reason for this exclusive focus is the significant potential for negligence claims if the quality of documentary outputs and professional advice is inadequate. Quality is measured by the ability to comply with relevant sections of law and regulation if at any time outputs are subject to external audit scrutiny. Previous sections in this chapter explain how

FHW maintains an extremely rigorous program for ensuring that documentary outputs and advice provided to clients do comply. The strategies in place for achieving this are the activities for ensuring knowledge levels in the compliance areas maintain currency, and the parameters set for the practice training program. Besides the concentration on quality, principals and supervisors focus heavily on controlling cost structures in the extant exploit capability, which is an emphasis incorporated into the primary objectives. A significant component of the quality and cost improvement program is the outsourcing of back office processes to an offshore provider.

#### *Continuous improvement of extant capability*

This aspect of the activities within FHW also show the practice focus is exclusively directed towards an exploit capability. The activities regulating knowledge search indicate these are designed purely for maintaining quality standards in the extant compliance areas. The planned introduction of a knowledge intranet is also designed to strengthen the capability of the knowledge search and retention processes related to the compliance service suite.

#### *Focus on automation*

FHW clients are effectively buying the knowledge possessed by the FHW principals and its professional staff. The sensitivity to fee levels indicates that a significant percentage of the client numbers do not actually focus on the knowledge they have purchased when a bill for services is rendered. They focus on the value of the time units accumulated for producing the output. Reduction of time units is therefore an extremely important KPI that all personnel in FHW focus on. Reduction of time units is assisted by automating the administrative and support processes used for importing data into the practice systems, and extracting the standard reports that are its outputs. The findings from the data analysis disclosed details of a new initiative to be managed by MW that utilises cloud technology for importing client source data into the practice systems. FHW also uses offshoring as a method for reducing the number of time units required for completing job processing. The initial successful program in which self-managed superannuation were outsourced to an offshore provider is to be extended. MS advised "*that the principals are now assessing the possibility where they would outsource the processing of the individual tax returns prepared by the practice*". These projects are representative of a

continuous improvement program exclusively designed to constantly improve the efficiency of the extant operations function in FHW.

#### *Surveying existing customers*

Lubatkin et al (2006) recognises that an important aspect for maintaining an exploit capability is to ensure that existing customers are satisfied with the current offer. NS says that FHW *“have done surveys in the past but not for a number of years; (they) intend to undertake (surveys) at some time in the future but currently not on the agenda”* NS outlined a new program the principals are instituting which is akin to a peer review designed for assessing client satisfaction levels. He explains that *“the client will be visited at times by a principal other than the one with whom they have the personal relationship. The purpose of the visit would be an informal interview to gauge satisfaction or any difficulties the client was experiencing with the firm. The rationale being that if there are any issues the client would be more likely to discuss them with a principal with no relationship”*. The focus of the program outlined is on existing customers and their needs.

#### *Maintain existing customer satisfaction*

A further dimension to the efforts designed to ensure existing customers are satisfied with the service offering is that activities focus on maintaining customer satisfaction. As noted previously, FHW struggles to communicate value for the service which has been provided to many of its clients, and principals are constantly seeking remedies to overcome this. The issue is further exacerbated by a recognition that the loss of clients is one of the largest threats faced by the practice. A program to increase the satisfaction levels of the larger clients is currently being implemented. NS understood this program as *“delivering value not hours”*. He observes that if the client *“translated the fee into hours they are inclined to question value, but if they relate it to outcome they will be satisfied with the result and not question the fee”*. NS explains the program as a fee restructuring initiative designed *“to convert the engagement to a fixed fee per annum, and this included all compliance and advisory work with no limit. The client was told that if the relationship was abused it could not work, but if both sides respected the needs of the other, the client would be able to use the professional with confidence without considering the cost of the hours”*.

#### *Existing customer leverage*

A further dimension to the range of activities characterising an exploit capability relates to the search for new income. The preferred exploit strategy for driving growth is to constantly mine opportunities within the existing customer base



rather than seeking new clients from new market segments. This is identified as one of the growth strategies adopted by the principals of FHW and explained in a previous section. The strategy involves increasing the number of contacts between client and practice over an annual cycle. An initiative involving specialisation and using this to attract new customers has been considered by the advisory board. The initiative has however not developed any traction and no progress has been made in its implementation.

### **Explore Activities**

Activities that develop new products and services for emerging markets are disengaged from the demands of the extant capability. They are designed to search for alternatives (Aston –Jones et al 2005), and to seek new knowledge rather than refining existing knowledge (Levinthal et al 1993). When explore activities are organised into a formal program and the objective is to produce radical advances that profoundly alter the basis for competition in an industry, the resulting innovation process is described as discontinuous (Cyert et al 1963). These defining characteristics are used as a point of reference for assessing whether any activities in the accounting practice could be representative of an exploratory capability.

#### *Seek novel ideas*

Two findings from interviews may be described as novel ideas (albeit not technologically novel) and evidence of thinking outside of the box. The first is NS's vision for creating a general practitioner accounting practice similar to that found in the medical profession. He explains that *"he wanted the firm to become the best general practitioners in accounting"*. Expanding this vision NS says, *"unlike the medical and legal professions professional accounting had not adopted this general practitioner model. Not only did it provide the client with a comprehensive service offer potentially catering for all requirements, it also opened up significant opportunities for add on services in the practice itself"*. This vision of NS is not referred to by any of the other interview participants, but it is mentioned by AP who is a confidant of NS. The realistic conclusion is that this vision for an accounting practice that operates as a typical family medical practice is merely an idea residing within the fertile mind of the most entrepreneurial member of the principal group.

MS is the contributor for the second idea. He believes the accounting practice should be given access to data collected by the FHW Financial Solutions para planners. This access delivers the possibility for *"opening up the totality of the clients*

*affairs to the practice*”, and will provide the insights “*for developing a service offer specifically tailored to needs of the client*”. This opportunity is also not mentioned by any other interview participant including BH, the principal heading the financial planning division. These ideas, although indicative of an exploratory perspective, are not evidence that an explore capability exists within FHW. The practice has not planned, designed, or implemented any discontinuous innovation programs that could evolve these ideas into saleable services.

#### *Explore new technologies*

Success in FHW is gauged by achievement relative to the three pillars making up its statement of objectives, the acquisition of new clients (who will be supplied with existing services), increasing chargeable hours, and containing cost through operational efficiency. The practice does explore new technologies but the objective is to support and improve the extant capability. Technology is considered a resource for facilitating achievement of the second and third primary objectives, efficiency and cost control. The new technologies being considered all fall under the category of incremental innovation.

#### *Innovation in service creation*

The strategic consulting service developed and provided by NS would classify as an FHW innovation. The result is that its ratio for “other” as opposed to compliance services is higher than practices of a similar size (ABS 2001-2002). FHW also developed a financial planning division which was initially treated as a cost centre and later evolved into an independent entity in which the accounting practice principals have an equity interest. These two innovative initiatives set FHW apart from the typical profiles displayed by similar size practices in the professional accounting industry. The creation of new services is a dimension to an exploratory capability that could be applied to FHW however some reservations are noted. BW confirmed that the first effort to establish financial planning ended in failure. He notes that “*the individual responsible had not been successful in his execution of the new division roll out, and some damage to client relationships had resulted*”. The result was a total restructure where control and equity were transferred to a new recruit who now heads up the division as its principal. The future of this division is still in doubt therefore it cannot be considered to have reached solid state status. BH alludes to this fluid situation while relating some of the challenges he faced in the advisory board. He said that BW “*who as would be expected takes the black and*

*white position (believes) that if a division cannot meet return hurdle rates it should be abandoned*". With respect to the strategic consulting service it is noteworthy that this is a specialty offered by one principal only. Although it is considered an additional FHW service, the knowledge has not been transferred to others. Consequently the service cannot really be described as a sustainable component of the total practice capability.

#### *Creativity brings client satisfaction*

The FHW advisory board has not adopted any new initiatives that may be described as creative ways for meeting client needs. An event described by SB actually provides evidence that creative initiatives are not encouraged. She tells of her frustration when an opportunity arose to develop a creative new service however, resources were not reassigned from the compliance capability to facilitate its development. She says that *"the practice had received a briefing on a very impressive cash flow modelling tool. Nothing had come of the exposure however, because everyone attending still had to deal with their day to day responsibilities and no one had time available to become a champion for a new service and take on its introduction"*.

#### *New markets new customer groups*

As previously noted BW expressed a great deal of confidence in the potential offered by a strategy to acquire new clients where principals establish reputations for expertise within specialty segments. The principals agree that this strategy presents an opportunity however, despite BW's exhortations, the strategy has not been implemented. The reason may lie in the observation made by AP that he has been unable to *"redirect the TMT focus away from an obsession with billable hours and work in progress and to rather open their vision to the consideration of alternative opportunities"*. He also says that the *"combined attitude to risk would be an effective barrier preventing the introduction of any innovative initiatives that presented higher risk profiles"*. Aggressively venturing into new markets and actively targeting new customer groups is therefore not an appropriate description of prevailing attitudes and initiatives within FHW

#### **Limiting factors**

Two internal factors that narrow the strategic perspectives of the FHW TMT are identified. They represent significant impediments that prevent the practice from evolving a more exploratory culture.

#### *Marketing skills*

The absence of an imperative to find new or replacement service offers, and a reliance on the permanence of the lifecycle for the compliance suite, obviates any requirement for developing a reliance on sophisticated marketing strategies. BW confirmed this to be the case observing *“that the practice did not have a formal marketing plan”*. Referring to previous marketing initiatives BW added that *“he was not confident that these initiatives added real value to the twin objectives of growth and profitability”*. The absence of any mature marketing tradition in the practice is a contributory factor preventing the principals from successfully initiating the growth strategies adopted by the advisory board. The absence of marketing perspectives is visible in other situations. Principals do not recognise the opportunities to be gained from leveraging off existing capabilities and resources, then using these as platforms for developing new services to existing clients. Many examples are identified providing evidence that this opaque perspective pervades the principal group. Three situations are selected to illustrate the inability to expand vision.

When jobs are processed the review process conducted by the supervisors does not include an analysis of profitability, liquidity, or solvency. This is valuable management information and its communication to clients offers potential for expanding the scope of the service offer. When asked why the supervisors do not analyse and communicate this information MW responded that *“it would happen if the individual had the skill sets to undertake this kind of analysis”*. No resources are allocated for developing these skills, and therefore existing conditions are not conducive for evolving the possible new service this opportunity has identified. A simple template based on management accounting principals could be made available to supervisors. The template is designed to report critical internal information for the exclusive use of management. Because the management accounting report accesses the same transactional data used for preparing the externally focused GPFS, its compilation does not create a need for any new base information. The management accounting report however will deliver valuable insights into business profitability, liquidity, and solvency. It can also create a new dimension for the FHW service offer. It is noted in this regard that BW was *“not positive about the practice capability for rolling out such a project”* and he also raised an important question, *“would clients be prepared to pay for the service”*?

The same attitude is identified in the way the practice is preparing to utilise the potential offered by cloud computing applications. The principals do not recognise

that the platform the practice is currently developing could provide an efficient and cost effective method for gaining control over client transactional data. This ability to effectively gain ownership of client data could facilitate the transfer of relevant data into the management accounting report template described previously. Instead the application is regarded as nothing more than a tool for speeding up the production of annual GPFS and income tax returns.

A final example comes from the interview with MS where he explained that a new KPI is being introduced which he refers to as *“a key component of the FHW service offer”*. Clients would receive *“a 24 hour turnaround for all communications with the practice, be they phone call or email”*. Fee sensitivity is identified as a significant pressure point for FHW. This service aim therefore represents an opportunity for reinforcing its service value, and deflecting resistance to fee levels. If the principals possessed a strong marketing culture they would be promoting this KPI as a service differentiation and using it as a justification for fee levels.

#### *Possession paranoia (PP)*

I personally coined this term while undertaking the analysis of context. It is used to describe an industry phenomenon where practitioners develop an attitude that they have exclusive possession of the clients they service. As a consequence they cannot bring themselves to allow third parties access to those clients for the purpose of providing alternative or additional services. This attitude can have implications for any practice considering ambidextrous options that may involve outsourcing, or forming alliances to introduce and maintain a new explore or exploit capability (Govindarajan et al 2005; Stettner et al 2014). Specific questions are directed to participants to determine if this attitude prevails within the FHW principal group.

The responses from interview participants revealed a lack of unanimity in the opinions whether attitudes of principals to client ownership are dictated by PP. MS said that *“FHW had been quite successful in breaking down this barrier and as a consequence had embraced the opportunity for outsourcing many areas of its operations”*. NS believed that FHW was *“trying to break the my client relationship and to expand the contact between client and all members of staff”*. AP indicated *“there was evidence that a my client possession paranoia existed in the minds of the principals, however that being said, it was an issue that the team identified and were working through”*. BW however believed that *“opening up relationships to outsiders*

*was a real risk to take into consideration and probably would not be well received by the principals*". The findings allow a conclusion that PP is a less pervasive force in FHW than the analysis of context identified for similar practices. It is nevertheless a factor to be taken into account if outsourcing or alliances are investigated as a potential mode (Stettner et al 2014) for introducing an ambidextrous approach into FHW.

### **Concluding comments**

The analysis provided in this chapter is extensive and detailed. To facilitate application of its findings to the research questions particular aspects it discusses and identifies are summarised in the chapter which follows. Chapter 7 also includes a compact profile of the practice presented as a data table. The table lists the relevant data required for considering the issues presented by the research questions.

## **CHAPTER 7**

### **SUMMARY OF FINDINGS**

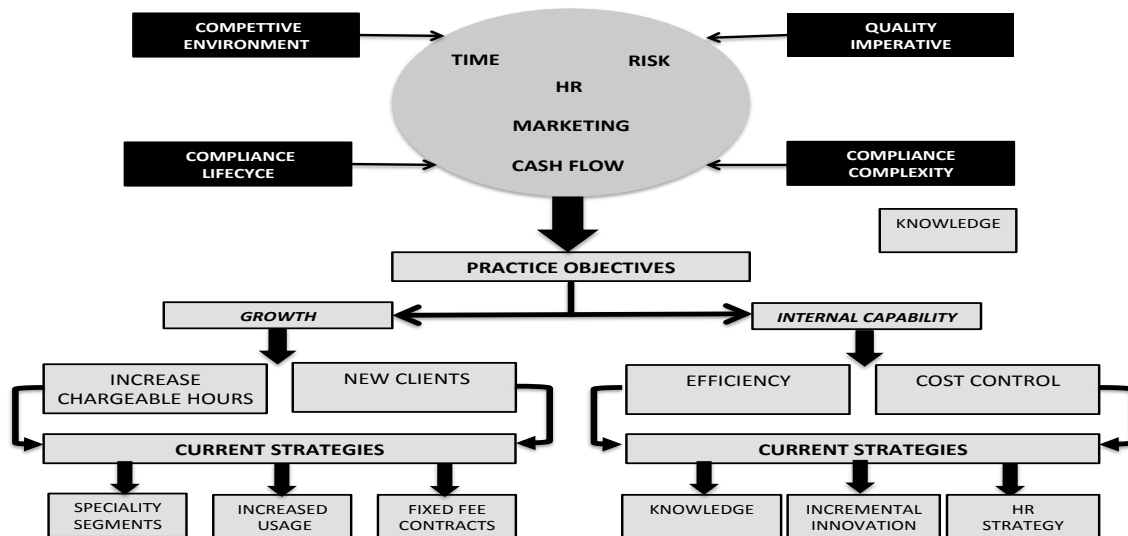
#### **Chapter outline**

The chapter opens with an explanation of the various external and internal factors which determine attitudes, behaviours and structures in FHW. It continues with a listing of the defining features describing the nature of the FHW principal group and the internal capability of the practice. These defining features have evolved in response to the external and internal influencing factors. The defining features are presented as a data table which is a compact profile describing the essential nature of the practice. The data table ultimately becomes the main information source used for considering the issues presented by the research questions. The chapter concludes by comparing the data table to the characteristics identified in the literature which define a capability as being explore or exploit focused. This comparison reveals that the FHW internal capability aligns with an archetypal monodextrous exploit structure described by the literature.

#### **The determinants of strategy**

The findings from the case study identified four external factors, and five internal drivers, that combine to influence how the TMT determines objectives for the accounting practice. The external influences are represented by a relatively benign competitive environment, a quality imperative measured by compliance integrity, the longevity of the compliance service lifecycle, and finally the increasingly inherent complexity of the compliance service offer. The internal drivers are the need to maximise time usage, the principal group's tolerance for risk, their marketing skills, the need to secure effective human resources, and the knowledge that sustained cash flow generation has come from embracing stability. The combined impact from these external influences and internal drivers have a material influence on the behaviour and attitudes within the principal group. As a result, objectives focus on ensuring that the internal capability is capable of delivering practice service outputs efficiently and cost effectively, and that growth is limited to a manageable level. The combination of external influences and drivers also affects strategy. Growth strategies are restricted to seeking additional fee generation from existing service offers. Knowledge search and development is restricted to incremental innovation activities that relate exclusively to the core capability. HR strategies are focused on securing the personnel resources necessary for achieving the twin objectives of

efficiency and cost control within the core capability. The cause and effect relationships emanating from the combined impact of external influences and internal drivers is illustrated in Figure 7.1.

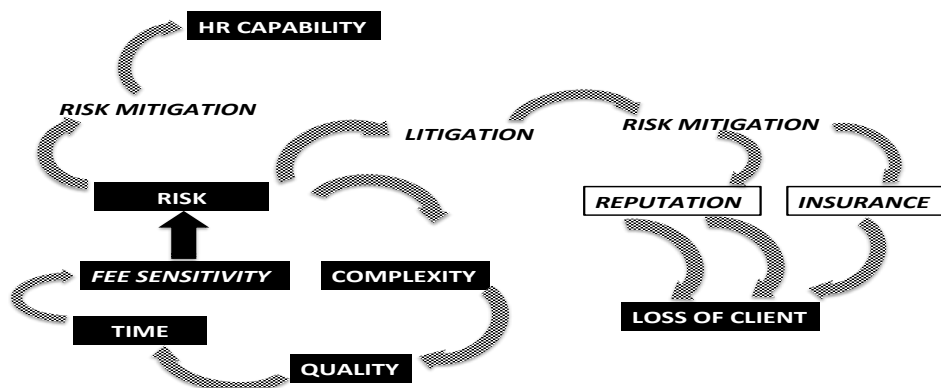


**Figure 7.1**

The factors influencing determination of objectives and formulation of strategy in FHW

**Compliance complexity, a pervasive influence**

The FHW internal capability uses specialised software applications to process transactional data provided by clients to generate outputs necessary for legal compliance purposes. The total capability is focused on compliance related activities. The reason for this one dimensional capability is illustrated by the model in Figure 7.2 which explains that it is a factor of compliance complexity.



**Figure 7.2**

The complexity effect in FHW



The model depicts the engine that drives the core of the operations capability in FHW. It also highlights the nature of the risk which will crystallise if internal control systems fail. The model shows that the continuous pressure exerted on the internal capability by the complexity of the compliance service offer mandates the practice HR to focus its attention exclusively on maintaining quality, and minimising the time required for doing so. This focus absorbs the finite time units available to the practice and is often the cause of cost overruns. The drive to maintain equilibrium between quality and cost will frequently require a need for critical operations decisions. Allowing inadequate quality to pass through check points can lead to professional negligence claims. Building up the excess time units necessary for meeting quality standards create cost overruns, higher than expected fee levels, and client dissatisfaction. These are significant issues for the practice. Accusations of professional negligence result in a loss of reputation which diminishes competitive advantage, and potentially leads to a significant loss of clients. Fee levels that exceed client expectations however can also lead to loss of clients, and this will have an immediate negative impact on profitability. The financial impact of litigation proceedings are capable of mitigation through professional indemnity insurance, however this does not protect against loss of reputation or the potential loss of clients. Positive risk mitigation is achieved by continuously improving the competency of the HR capability. If the HR capability possesses the knowledge, efficiency, and the commitment required for delivering outputs within time budgets, and at the required level of quality, the risks are positively mitigated.

### **FHW and stability, strategy, capability and TMT responses**

This research considers two questions in relation to organisation ambidexterity and external environments. The first examines whether ambidextrous designs can create strategic advantage opportunities for firms competing in environments presenting no existential threat to the lifecycle of the core offer. The second explores whether the absence of an existential threat to the core offer will cause a firm's internal environment to develop characteristics preventing integration of ambidextrous designs. Table 7.1 lists the defining features describing the FHW principal group and its internal capability. Each is considered to be of particular relevance to the issues considered by the research questions. The table is based on the case study findings appearing in Chapter 6, and represents the core information necessary for considering the issues presented by both research questions. The

defining features identified are sorted into two categories, a group relevant to the TMT, and a group relevant to the internal capability of the accounting practice.

Critical features relevant to top management team	Apex blocks new ideas coming from lower tiers
	Apex enforces downward information flows
	Conservatism
	Decisions based on consensus
	Dominated by a set of shared beliefs
	Entrepreneurial vision lacking
	Inertia
	Marketing tradition lacking
	Possession paranoia
	Reliance on core competencies
	Reliance on historical schemas
	Risk tolerance is low
	Stability is preferred vision
	Strategic myopia
Critical features relevant to internal capability	Adaptive culture discouraged
	Differentiation imperative absent
	Discontinuous innovation tradition absent
	Experimentation discouraged
	Focus is maintain knowledge of core offer
	Focus on cost containment
	Focus on existing capability
	Focus on maintaining efficiency
	Group response to emerging threat absent
	HR bound by efficient time usage imperative
	HR bound by process rules
	Incremental innovation exclusively
	Information flow blocks strategic ideas
	Structure is mechanistic

**Table 7.1**

Defining features of FHW relevant to research questions

### **Categorising the existing capability of the case study accounting practice**

O'Reilly et al (2004) describe how an organisation focused exclusively on either exploit, explore objectives aligns its activities. Six alignments are identified, strategic intent, critical tasks, competencies, structure, controls and rewards, culture and leadership. An organisation that is ambidextrous is capable of simultaneously

aligning its activities to include both explore and exploit capabilities. Specific characteristics determining whether a capability is aligned either on explore or exploit objectives is also defined in O'Reilly et al (2004). By comparing the defining features of FHW listed in Table 7.1 to the characteristics describing explore or exploit capabilities in O'Reilly et al (2004), a profile of the practice internal capability emerges. The profile which is shown in Table 7.2 depicts a monodextrous organisation with an exclusive exploit focus. The dark shaded areas signify that no relationship was found between the alignment and the corresponding characteristic.

Alignments	Strategic Intent	Critical Tasks	Competencies	Structure	Controls and Rewards	Culture	Leadership Roles	
Characteristics defining an exploit capability	Cost and profit	Operations efficiency, Incremental innovation	Formal and mechanistic	Operational	Margins and productivity	Efficiency, low risk, quality customers	Authoritative, top down	
Characteristics defining an explore capability	Innovation and growth	Adaptability, New Products, Discontinuous Innovation	Entrepreneurial	Adaptive and loose	Milestones and Growth	Risk taking, Speed, Flexibility, Experimentation	Visionary, Involved	
Characteristics of case study accounting practice identified by analysis of findings	Apex blocks new ideas coming from lower tier	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Apex enforces downward information flows	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Conservatism	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Decisions based on consensus	Case Specific Factor						
	Dominated by a set of shared beliefs						Exploit	
	Entrepreneurial vision lacking	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Inertia	Exploit					Exploit	
	Marketing tradition lacking	Exploit	Exploit	Exploit		Exploit	Exploit	
	Possession paranoia	Case Specific Factor						
	Reliance on core competencies	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Reliance on historical schemas	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Risk tolerance is low	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Stability is preferred vision	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Strategic myopia	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Adaptive culture discouraged	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Differentiation imperative absent	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Discontinuous innovation tradition absent	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Experimentation discouraged	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Focus is maintain knowledge of core offer	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Focus on cost containment	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Focus on existing capability	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Focus on maintaining efficiency	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Group response to emerging threat absent	Exploit		Exploit	Exploit		Exploit	
	HR bound by efficient time usage imperative	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	HR bound by process rules	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Incremental innovation exclusively	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Information flow blocks strategic ideas	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	
	Structure is mechanistic	Exploit	Exploit	Exploit	Exploit	Exploit	Exploit	

**Table 7.2**

Categorisation of the accounting practice – a classic monodextrous exploit organisation

**Chapter summary**

This chapter compresses the case study findings into a set of defining characteristics that are relevant to the issues presented by the research questions. The information identifies the attitudes and behaviours characterising the TMT which are ultimately applied for the purpose of formulating practice objectives and strategies. The chapter also contains a detailed profile of the existing FHW capability. This facilitates an examination of the practice capacity for introducing new service innovation programs. The profiles depicting the nature of the practice TMT and its internal capability, facilitate a consideration of the research questions, and provide support for the conclusions which are detailed in Chapters 8 and 9.

## CHAPTER 8

### INCREASING AND DEFENDING COMPETITIVE ADVANTAGE

#### Summary of conclusions

The first question considered by this thesis is stated as follows. *Can ambidextrous designs create strategic advantage opportunities for firms competing in environments presenting no existential threat to the lifecycle of the core offer?*

Based on the findings, which are discussed in this chapter, the answer to the question relative to the case study is an affirmative. Ambidextrous designs do offer opportunity for FHW, a firm competing with a stable core offer, to augment and if necessary defend its strategic advantage. The findings from the case study have also shown that although the core offer of FHW is not subject to an existential threat, the attribute of stability cannot be applied in an absolute sense to its competitive environment. Using new services to supplement the core offer creates potential for developing an effective defence strategy to counter emerging threats that could transform the benign competitive environment into one more volatile and dynamic.

The case study findings have shown that ambidextrous designs provide FHW a capability that could overcome the barriers to discontinuous innovation which its extant monodextrous capability has effectively created (March 1991; Benner et al 2003; Birkinshaw et al 2004). Introducing an ambidextrous design facilitates the introduction of new services by the practice (Tushman et al 1996; Gibson et al 2004), and this strategy could potentially change the nature of competition in its market segments (Cyert et al 1963). It has the potential to do this because the addition of new services adds another dimension to the source for competitive advantage. Under present conditions the core compliance service delivered by FHW is substantially homogeneous and unable to be distinguished from competitor offers. Competitive advantage is currently derived from the strength of the professional relationship, and the perception of trust this engenders. The introduction of new services creates an opportunity for service differentiation. It offers the possibility to enhance competitive advantage by offering a unique service package which removes uniformity from consumers perception. The findings also indicate that the larger SME clients serviced by FHW could be receptive to engaging the practice to undertake delivery of a set of specific new services assuming they were available. The human resources of the

practice do have the theoretical knowledge required for delivering the services identified.

The introduction of new services to supplement the existing core offer also brings into existence a capability able to mitigate against the risk presented by possible competitive environment changes. This is achieved by making new services available to existing users of the core offer and assisting them to reject advances from larger accounting practices who have the capability to deliver specialised services. Under these circumstances, the ambidextrous approach becomes a strategic response for combating an existential threat emanating from a transformation of the benign competitive environment.

### **Improving the strategic certitude of the stable core offer**

This first research question examines whether ambidextrous designs can create strategic benefits for firms competing in environments presenting no existential threat to the lifecycle of the core offer. This state of environment stability is not considered by the literature as the common catalyst for motivating organisations to implement any of the structural designs that typify ambidextrous structures. Organisation ambidexterity is generally considered as a strategic response to dynamic conditions in external environments that threaten the longevity of existing product lifecycles (Auh et al 2005; Jansen et al 2006; Raisch et al 2008). This existential risk mandates the introduction of innovation programs to develop replacement product (Tushman et al 1996). In ambidextrous organisations the discontinuous innovation programs required for developing new product are undertaken in parallel with an existing exploit capability which continues to generate cash flow (March 1991). The first research question therefore considers whether by utilising an ambidextrous design, an opportunity is created for deriving strategic benefit through the implementation of new services that supplement a stable core offer. If the answer is in the affirmative, the ambidextrous capability provides opportunity for creating a competitive advantage for that firm in its existing market segments. The issues contemplated by the research question are considered in relation to a professional accounting practice. The practice delivers a stable service offer that is not threatened by obsolescence or replacement.

### **Evidence for potential demand**

FHW competes primarily in market segments reflecting the needs of small to medium size enterprises (SME's). The analysis of context identified that the SME's in

these segments *are* seeking external assistance in a number of areas potentially within the scope of professional accounting practices to provide. Two relatively recent sources are cited supporting this finding, Macquarie (2014), and MYOB (2012). Of the service requirements listed in these surveys, four are included in the mandatory knowledge requirements necessary for candidates seeking membership of the professional accounting associations. These are knowledge of the budgetary control process, monitoring of performance using KPI's (Macquarie 2014), managing cash flow, and strategies for improving profitability and price margins MYOB (2012). Appendix 7.1 illustrates the educational and practical proficiency requirements CPA Australia, and the then Institute of Chartered Accountants<sup>11</sup> included as prerequisites for membership application in 2013. The appendices show that both associations demand a level of proficiency in management accounting. This is the body of knowledge within the finance and accounting disciplines where students can acquire the basic skills required for undertaking the four services identified in the Macquarie (2014) and the MYOB (2012) surveys. It may therefore be concluded there is latent demand for specific services that are not currently being delivered as structured offers by FHW. Not only is there latent demand, but the practice principals and its professional employees are equipped with the theoretical knowledge required for delivering the identified set of services.

### **Profile of the case study clients**

The analysis of case study findings identifies that the practice services a broad spectrum of clients that fall under the SME category. These include enterprises in the medium category which ABS (2001) defines as business entities employing between twenty and one hundred and ninety nine employees. The practice also includes a number of substantial not for profit organisations on its client list. These are both groups that Macquarie (2014), and MYOB (2012), identify as organisations seeking assistance in the four service categories of budgeting, performance monitoring, cash flow management, and performance improvement. The clients serviced by FHW therefore include categories considered to be potential users for the four service offers identified.

A specific example from the case study findings provides further evidence for an assumption that latent opportunity does reside in the client list of the practice. MS

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<sup>11</sup> The Institute of Chartered Accountants in Australia merged with the New Zealand Institute of Chartered Accountants on the 31<sup>st</sup> December 2014. It is now called Chartered Accountants Australia and New Zealand.

related a situation where a principal visited a client who was considered to be no more than a user of the annual tax return service. On arrival at the client for the first time the principal was greeted with the comment “*we have been wondering when someone would actually come and visit us*”? As a result of that visit the service offer was expanded to include professional advice which incorporates aspects of the four services identified. The principal group has also recognised the untapped income sources residing within the existing client list. This is reflected in the current growth strategy designed for increasing usage of practice services. The strategy involves the orchestration of more frequent but unsolicited contact between principals and the clients they service. Finally the level of trust involved in the professional relationship between principal and client will facilitate the ability to offer additional services. This trust factor is expressed by BW as a “*client orientated service offer that is built on trust and supportive relationships*”. This factor facilitates the future sale process because the offer will be seen as professional advice from a trusted advisor who is recommending beneficial action.

The findings discussed in this section have therefore identified that a group of clients currently serviced by the practice will potentially be receptive to the offer of new services. In addition, the professional relationship between client and practice includes an aspect of trust that can assist principals to sell a new service offer. These findings eliminate a perception that using an ambidextrous design for facilitating new service development represents a hypothetical situation unsupported by market realities. It confirms that an initiative taken by FHW to develop new services would be in response to an identified buyer need, and not purely focused on the needs of the seller (Levitt 1960).

### **Deriving competitive advantage from new service introduction**

The issue now considered is whether developing and delivering the set of new services will create a possibility for the accounting practice to derive strategic benefit from their introduction. In this regard it is noted that historically FHW has not been faced with a need for securing an advantage in its market segments through differentiation of the core service offer. This is a unique feature of the professional accounting industry in the size category of less than five principals. This was identified both in the analysis of context, and during analysis of the case study findings. The competitive strategies of FHW are accordingly shaped by a



presumption that compliance services, the core offer, are essentially homogeneous and do not require differentiation.

The analysis of case study findings did find that the practice achieves its differentiation by building strong personal relationships with clients, establishing a reputation for professional expertise, and by building and subsequently exploiting personal networks. The analysis of context disclosed that this approach typifies the strategic thinking for practices of this size. Competitive advantage is derived by applying available resources in ways that distinguish each practice from competitors. This process resonates with the assumptions underlying a resource based view (RBV) approach for developing understanding of the ways in which competitive advantage is achieved. Barney (1991) explains this as gaining competitive advantage by firms using the different bundles of resources available to them in ways that create value. Advantage is gained by either outperforming competitors or by reducing internal weaknesses.

Findings from the case also identified that the inability to differentiate the actual service offer leads to difficulties in substantiating value for the services delivered. This inability contributes to high levels of fee sensitivity from the largest client group. A change in strategy by introducing new services adds a further competitive dimension into the market segments serviced by the accounting practice. *It opens opportunities for creating a competitive advantage using service differentiation as the benchmark instead of just relationships and reputation* (Prahalad et al 1990). The strategy also provides the practice with a basis for validating the inherent value of its service. The motivation driving clients of FHW to use the compliance service offer is based on legislative compulsion. Introduction of supplementary services that can add value to clients converts the offer and introduces an element of choice into the purchase decision. An RBV perspective categorises this to be a strategy for securing competitive advantage by outperforming competitors (Barney 1991).

The scenario described represents a significant change to the competitive environment. *Instead of relying purely on relationships and reputation, the practice can consider its service offer as an additional means for deriving a competitive advantage.* The primary initiator of the change in strategy will also not be significantly disadvantaged when competing accounting practices inevitably enter the relevant market segments with new service offers. Even if an increase in competitive intensity

removes the initial advantage gained as the prime initiator, the new services introduced will have acted to strengthen the relationships FHW enjoys with clients. The expansion of the service scope, and the stronger bond which has resulted, will contribute to making the clients more resistant to overtures from competitors. It may also establish a perception of value for some clients who are currently fee sensitive. The introduction of new services into a market not traditionally driven by product differentiation therefore will have delivered sustainable strategic benefits to the primary initiator whose actions changed the basis of competition in the industry (Cyert et al 1963). The strategy also delivers benefits to later entrants forced to follow the prime initiator. By introducing new services they provide themselves with the added capacity required for competing in what will have become a very different competitive environment.

### **Deriving strategic benefit from risk mitigation**

The issues considered by this thesis proceed from acknowledgement that the external environment in which the case study accounting practice competes is inherently stable. The absence of an existential threat to the core service offer is the characteristic adopted by this thesis for applying the stability attribute. The findings from the analysis of the case study data indicate however that although the service offer may be inherently stable, this is not absolutely true with regard to the competitive environment. Whereas BW, NS, MS, and SB consider the competitive environment to be relatively benign, AF, and MW identify potential emerging threats which may disturb this situation. The significant threats are summarised as the entry of large accounting practices into the SME segments, knowledge access through the internet, do it yourself IT technologies, and the possibility that generations X and Y will place less value on a need for enduring relationships. The findings from the analysis show that the remedies proposed by the FHW principals who are alert to the issues, are to simply strengthen existing relationships, and to communicate the inherent value of the professional advice currently provided.

The risks identified by AF and MW may indicate that the competitive environment will not remain, in the words of BW, “*essentially benign*”. The identified threats are summarised under three specific categories, the potential for new competitors to enter the case study accounting practice market segments, advances in technology, and a challenge to the traditional source of competitive advantage. The traditional source for competitive advantage is the enduring nature of the

personal relationships between principal and client. The threat of new entrants represented by the larger accounting practices is probably the area of highest risk because it could erode the strength of the relationships. The analysis of context disclosed that these firms offer a range of specialised services which may offer value for the larger SME clients serviced by FHW. It is therefore quite possible that a broader service offer would be considered by some clients to have greater benefit than the existing relationship bonds with FHW principals. A potential outcome from this scenario is a change to the competitive environment. Clients begin to focus on service differentiation and not exclusively on relationships and reputation. If this situation were to eventuate, and FHW was not capable of matching the competitive offer, the practice could lose a number of the larger clients it currently services. The level of exposure is exacerbated by the fact that the case study findings identified the highest fee generators of the practice to be a group of larger SME's and not for profit organisations. This group, which represents only twenty eight percent of the clients in number, generates seventy two percent of its income. The threat presented by the possible entry of larger practices offering a more diverse range of services therefore has potential to create significant consequences for FHW. Initiating pre-emptory action to introduce a wider service offer offers a strategy that could counter the threat before it materialises.

The advances in technology will affect the competitive environment in two ways. It moves knowledge that was traditionally "owned" by the professional accountant into the public domain. It also provides relatively cheap user friendly software applications to untrained persons allowing them to undertake tasks previously performed by professional accountants. In this regard the observation by Frey et al (2013) regarding the threat to existing jobs by the growing reach and power of computerisation cited in the first chapter of this thesis becomes relevant. It is possible that the cost effective solutions offered by advances in technology will become a catalyst for client loss from the large numerical cohort generating only twenty eight percent of the practice annual fee income. Initiating a strategy to introduce new services that are used by the relatively small number of clients generating seventy two percent of the annual fees will therefore not only strengthen the relationship bond it also has potential for replacing fees lost to technology advances. It may also provide some impetus for executing the simplification strategy mentioned by NS and MW. This involves selling off a block of clients in the low fee

category and rationalising the capability around the higher fee generators. In all situations identified strategic benefit results.

The conclusion is that if the perceived threats are realised they will disturb the existing status quo, changing the nature of what is still a relatively benign competitive environment. This will challenge the existing primacy of personal relationships as the essential source for competitive advantage in the market segments in which FHW competes. The mere possibility that this threat is real becomes a significant factor. It implies that whereas there is no existential threat to the compliance offer itself, the competitive environment may not be as stable. This implies that any presumption that the case study accounting practice is competing within a stable environment becomes a relative not an absolute assumption. It is correct with respect to the core offer, but incorrect regarding the competitive environment. The implications are substantial because the TMT of the accounting practice is therefore unable to rely on a presumption that the existence of core offer longevity delivers an external environment which BW considers as presenting “*no risk*”. A presumption that stable conditions prevail encourage a TMT to focus exclusively on modifying the existing capability to maintain its efficiency (Pettigrew et al 2000; O’Reilly et al 2004). If however the state of continued stability is altered, the TMT will need to take action to combat competitive threats (Tushman et al 1996; Lin et al 2011), and an expansion of the service offer is a strategy for achieving this (Barney 1991; Prahalad et al 1990). The introduction of new service offers therefore becomes not only a voluntary strategy to enhance a competitive edge in relatively benign market segments. The development and introduction of new services becomes a risk mitigation strategy designed to counter an existential threat by strengthening the ability to compete in dynamic competitive conditions.

### **The strategic benefit provided by organisational ambidexterity**

The critical consideration arising out of these findings however is what capability is required to develop and introduce new services that supplement the core compliance offer. The findings from the analysis of the case study reveal that the existing practice capability is exclusively monodextrous (Table 7.2). Two compelling influences force the principal group to concentrate their focus on maintaining and improving the effectiveness of the monodextrous capability. These are the inherent complexity of the core service offer, and the continuous pressure required for maintaining its quality measured by the level of compliance integrity attained. Two of

the three practice primary objectives are aimed at maintaining the efficiency and cost effectiveness of the extant capability which generates seventy percent of the FHW annual fee generation. There is also a compelling existential reason for maintaining this focus. The fees derived from the core compliance offer are sustainable, and the TMT does not require sophisticated or costly marketing campaigns to support the sale effort. There is an implied sale guarantee because the client is compelled to contact the practice annually to provide the information necessary for preparing returns demanded by legislative fiat. The perception of security this brings for the TMT contributes to the reasons why resource allocation in the practice is diverted away from any new project presenting a higher risk profile (Lin et al 2011).

The demands which the extant capability makes on the finite time units available also restricts any ability for expanding the scope of the knowledge search and training activities in FHW. The inability to engage in a wider search program hampers the ability to broaden strategic vision, and to seek opportunities for developing and implementing new services (Mom et al 2007). This is clearly evidenced by SB's explanation of a situation where the supervisor group were unable to secure the resources required for developing a saleable service offer from a cash flow management tool. There is evidence that some members of the principal group have a desire to develop a new dimension to the existing service offer. In this regard the comment by NS who wants to move the practice away from "*form filling*" is relevant. NS may express the desire to affect change, but as yet he has not discovered the means for achieving it.

The compelling need to maintain an enduring extant capability, an expressed desire to expand the service offer for gaining additional competitive advantage, and the potential for using new offers to mitigate competitive environment risk, are reasons why FHW could derive strategic benefit from organisation ambidexterity. The existing monodextrous structure is unable to nurture and support the exploratory dimension necessary for developing new services (March 1991; Tushman et al 1996). Organisation ambidexterity is designed precisely for that purpose (Duncan 1976; March 1991; Tushman et al 1996). It facilitates the introduction of an exploratory capability that will host the discontinuous innovation programs required for creating new service offers. Simultaneously however, the ambidextrous designs are capable of supporting an existing exploit capability that continues to produce the core offer (Tushman et al 1996). With respect to FHW the value of the ambidextrous

approach is substantially enhanced because the extant capability is a permanent not a transitory resource. When ambidextrous designs are introduced for the purpose of developing new products to replace those that will become obsolete, the extant capability will ultimately disappear together with the outputs it previously produced. In the situation examined by this thesis, the existing capability is not expendable, it is retained because of its enduring ability to generate value. The ambidextrous approach to structural design facilitates this imperative. It allows the exploratory activities necessary for developing new services to be conducted in tandem with the exploit activities supporting the core extant capability that is also enduring (Tushman et al 1996; Benner et al 2003; Gibson et al 2004).

### **Opportunity identified**

The analysis of findings indicates that there is opportunity for developing a new service from the group of four identified in Macquarie (2014) and MYOB (2012). The opportunity arises from leveraging off a project currently under development in FHW. It is designed to facilitate the electronic import of client annual transactional data into the practice systems used for preparing GPFS and tax returns. Utilising cloud technology, the application reduces the number of time units required for preparing the GPFS and the tax returns that are their by-product. This project is reported on and discussed in the analysis of case study findings. It was noted there that the application offers opportunity to utilise the same platform to prepare interim management accounting reports. These are designed for internal use only for the purpose of monitoring interim performance outcomes, a required service identified in Macquarie (2014). The transactional data transferred into the FHW systems also contains core information that could enable future expansion of the service scope. The expansion would enable inclusion of the other three services identified in the group of four, budgetary control (Macquarie 2014), managing cash flow, and improving profitability and price margins (MYOB 2012).

Implementation of the new service will require a discontinuous innovation program to undertake the development. The innovation program will design and develop a generic report template that has flexible elements allowing for specific case customisation. The template will become the recipient of client transactional data that is exported into the application at agreed closure points over a twelve month cycle. These closure points may be monthly, quarterly, or bi-annually. The template is designed for preparing and publishing income and expenditure

statements, and a balance sheet. Both will be designed under management accounting conventions rather than having to be bound by the accounting standards mandated by the GPFs format. Additional schedules containing a set of key performance indicators are included to expand the value of the information provided to the client. Initial development is restricted to only one new service offer, the preparation of interim reports facilitating periodic performance monitoring. This adopts a minimalist approach, allowing the practice to gain proficiency in the activities required for new service design and implementation. The existing monodextrous exploit capability of FHW has not been able to incorporate and nurture this type of innovation in the past. The inability is evidenced by the inability of the practice to facilitate implementation of the cash management software application, a failure explained by SB as part of the case study findings. An ambidextrous approach offers FHW a number of structural design choices that could overcome the barriers to discontinuous innovation imposed by the limitations of an existing exploit capability (March 1991).

#### **Alternative approaches to organisation ambidexterity**

This section identifies the various alternatives available if FHW chose to proceed with a discontinuous innovation program facilitated by the use of an ambidextrous design. Chapter 9 will discuss aspects of the practice internal environment that may prevent integration of the possible ambidextrous designs into the existing exploit capability. This is the issue considered by research question two. The actual discontinuous innovation development process for the project identified in the previous section will proceed through a number of stages. These stages are design, development, testing, bringing to solid state, training the human resources entrusted with delivery, marketing, selling and finally delivery. The ambidextrous options identified in the literature provide the practice with four alternatives for undertaking all, or part of the innovation program. The four are the creation of an internal capability, outsourcing, using alliances with other firms to undertake development, or purchasing the required explore capability (Stettner et al 2014).

#### **Achieving organisational ambidexterity through internal organisation**

Two internal approaches for achieving organisation ambidexterity are identified in the literature. The first is a structural or spatial ambidextrous design (Smith et al 2005) necessitating the creation of a new exploratory capability to undertake the discontinuous innovation program. Although the new capability is to be

removed from direct involvement with existing operations supporting the compliance offer, a number of interdependencies between the two must be recognised and provided for (Farjoun 2010). Interdependencies between the explore and exploit capabilities allow the respective capabilities to leverage off each other for mutual benefit (Tushman et al 1996; Govindarajan et al 2005), a mandatory requirement for this particular situation.

The second internal approach available to the practice is described in the literature as a behavioural or contextual solution for achieving organisation ambidexterity (Raisch et al 2008). Implementation will require the practice to encourage a supportive context within its existing capability, and encourage employees to periodically switch their focus away from compliance demands to explore alternative services. It necessitates the fashioning of an internal environment that is both flexible and adaptive (Gibson et al 2004). This approach has relevance to FHW specifically at the supervisor level of the practice. Two situations involving supervisors identified in the case study findings are noted here, review of the annual client GPFS, and the inability to proceed with development of a software application for managing client cash flow. With regard to the review process a contextual approach will provide employees with the flexibility to examine client information from both compliance and management perspectives. If the supervisors are allowed some flexibility in managing time allocations and given the freedom to widen learning experiences and explore alternative service offers, it will stimulate the group to source, assess and develop alternative service offers (Burgelman 2002; Gupta et al 2006; Raisch et al 2008). This supportive context, which must also emanate from the TMT (He et al 2004; Raisch et al 2008), will ensure that potential projects like the cash flow management tool are capable of being brought to solid state and allowed to evolve into new service offers.

### **Achieving organisational ambidexterity through outsourcing and external alliances**

This approach provides FHW with two options. It can contract with a third party to develop and deliver the new capability and retain ownership of the intellectual property. Alternatively it can enter into a strategic alliance with a third party where ownership of the intellectual property is shared. The strategic alliance mode for organisational ambidexterity envisages that exploit or explore activity is capable of being outsourced (Stettner et al 2014). The implications for this approach



are examined in the next chapter however it is noted that if the model includes both development and delivery a number of difficulties involving relationships will need to be overcome. This is intimated by AP who in relation to outsourcing makes the following observation. *“(PP) might become a significant barrier preventing the introduction of any innovative new service offer because the practice would have to deal with a fee allocation problem, does the fee belong to the principal who owns the client, or the capability delivering the new service”?*

### **Achieving organisational ambidexterity by acquisition**

A number of iterations are possible if FHW were to choose acquisition as the means for achieving organisation ambidexterity. Discussed in Stettner et al (2014) the possibilities are these. FHW could purchase a capability that is exclusively development focused. The acquired resource will undertake development and bring the project to solid state whereupon exploitation is handed over to the practice. Alternatively, FHW could undertake the development internally and purchase a marketing and selling orientated resource to exploit the resulting capability.

### **Concluding remarks**

The conclusions discussed in this chapter have identified a number of situations where FHW could potentially derive strategic benefits from using ambidextrous designs. The benefit offers both the possibility for delivering enhanced competitive advantage in existing market segments, and risk mitigation potential if competitive environments become more intense. Implementation of ambidextrous designs is difficult (Csazar 2013), and it is possible that although the approach could provide benefits, the TMT of FHW may not have the capacity for executing this new strategic dimension. This issue is considered by research question two of this thesis, and discussed in Chapter 9.

## CHAPTER 9

### OBSTACLES TO ORGANISATIONAL AMBIDEXTERITY

#### Summary of conclusions

The issues considered by question one of this thesis are discussed in Chapter 8. The conclusion is that OA offers FHW a structural capability for increasing and defending its competitive position by facilitating the introduction of supplementary services. A second question is now considered, does the FHW internal capability incorporate features that represent obstacles or obstructions for the introduction of OA? The question examines whether the absence of existential threat to an enduring core offer creates an internal environment that prevents introduction of ambidextrous designs. Previous research has found that stable situations tend to focus managerial effort on activities that are designed to support the capability producing the core offer (Pettigrew et al 2000). This nurtures an organisation structure that is mechanistic, characterised by clear lines of command, centralisation, and a plethora of rules designed to support the efficiency of the existing capability (Burns et al 1961, Csazar 2013). These conditions will not readily divert resources into the higher risk and uncertainty which characterises the nature of exploratory activities (Pettigrew et al 2000).

The behaviour and attitudes of the FHW management team becomes the central issue for determining the answer to research question two. Previous research has already recognised the critical role of the TMT for creating conditions that nurture environments conducive for the implementation of OA (Beckman 2006; Raisch et al 2008; Lin et al 2011; Benner et al 2015). The analysis of FHW found evidence that its principal group have a dominating influence over the practice. Therefore their attitudes and behaviours represent the primary drivers for introducing an exploratory dimension into FHW (Prahalad et al 1986). Chapter 7 explained how the attitudes and behaviours of the FHW principal group are effectively shaped by the nature of the enduring core offer. Assessing the proclivity of the principal group for embracing exploratory initiatives therefore proxies any nexus between external stability, and the propensity of FHW for introducing OA.

The case findings indicate that a critical aspect influencing forward planning in the practice is the knowledge that the core offer is enduring. It is also recognised that the enduring core offer provides a proven capacity for delivering economic security.

This promise of security inculcates a strong motivation within the practice TMT to maintain the effectiveness of the existing capability producing both core offer, and positive economic outcomes. The economic security provided by the core offer is further reinforced by its homogeneity, effectively negating any need for service differentiation in the practice market segments. As a consequence, the principals in the practice possess low levels of marketing expertise, and display a definite attitude of inertia when it comes to executing new strategic initiatives.

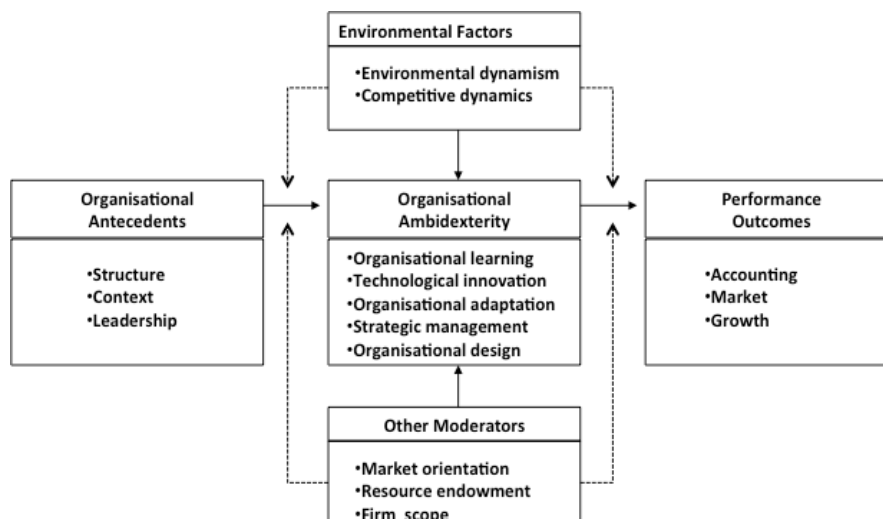
The analysis of the case findings identifies that the outcome from this amalgam of different factors is an FHW principal group which favours stability, familiarity, and a strong proclivity for maintaining the existing status quo. This formulates a strategic vision that is not conducive for the introduction of new service initiatives (Pettigrew et al 2000). Stability, inertia, low marketing expertise, and the inexorable lure of economic success, are not conducive for encouraging the emergence of an exploratory culture in FHW (Gibson et al 2004). New service development involves risk and uncertainty, and both are factors that the stable offer has allowed the principal group to avoid (Farjoun 2010). Accordingly, significant attitude change is required before the principal group will transform from an exclusively exploit focused team, into one that embraces experimentation and exploration (He et al 2004; Laureiro-Martinez et al 2014). The knowledge that historical precedent delivers economic success and is likely to continue doing so in the future, is a significant disincentive for abandoning the strategic certainty embedded within existing conditions (Laureiro-Martinez et al 2014). Significant modification of attitude and strategic intent will be necessary therefore before the principal group might be motivated to consider new service introduction (Smith et al 2005).

This indicates that the presence of an enduring core offer, and the relative stability this engenders within the external environment, nurtures attitudes in the TMT of FHW that are not conducive for supporting strategic initiatives to develop new services. The absence of motivation to voluntarily introduce new service offers also obviates any need for the TMT of FHW to consider the use of ambidextrous designs. Accordingly, although new service introduction offers potential for the enhancement of the competitive advantage enjoyed by FHW, prevailing TMT attitudes represent obstructions that will block implementation. Competitive environment dynamics threatening economic security however are a strong motivating factor for modifying

prevailing attitudes (Raisch et al 2008). The case study findings did identify this as a potential threat to FHW. A discussion in Chapter 9 explains that introduction of new services becomes a possible defence for FHW if new entrants disturb the current benign state of the competitive environment. Crystallisation of this scenario into a practical reality effectively transforms the existing state of stability enjoyed by the practice into one characterised by dynamic instability. Dynamic instability is recognised by previous research as a prime catalyst giving rise to a need for OA (Floyd et al 2000; Jansen et al 2005; Raisch et al 2008). Under these conditions the environment in which FHW is competing typifies the existential threat scenario which is described in the literature as giving rise to a need for OA (Atuahene-Gima 2005). It removes a presumption of absolute stability from perceptions about the external environment. It should also change TMT views regarding the voluntary nature of new service development. These perceptions are overturned by external volatility which introduces an urgency for initiating new service development in order to overcome an existential threat.

### Assessment of FHW propensity for implementing OA

Raisch et al (2008) illustrate the antecedents, outcomes, and distinguishing features for OA in the form of a model which is reproduced in Figure 9.1.

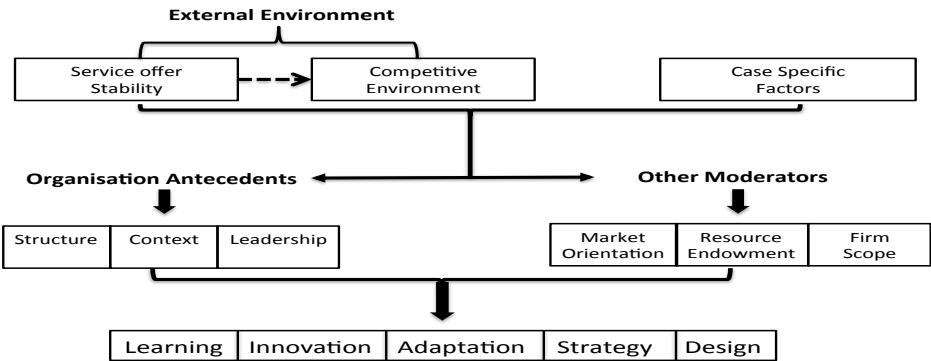


**Figure 9.1**

Ambidexterity in organisations – antecedents, features, and outcomes (Raisch et al 2008). Two external catalysts motivating the use of ambidextrous designs are identified, rapid change threatening the lifecycles of existing products, and competitive environment dynamics. The model also acknowledges the importance of internal conditions and identifies three antecedent factors that facilitate a decision to implement OA. The three are the nature of the organisation structure, a supportive

organisational context, and the leadership provided by the TMT. The model also recognises three moderators for the implementation decision, the market orientation of the firm, its resources and scope. The capacity of the TMT for adapting to changing conditions, reflected by the way in which it responds to the external catalysts and the moderating factors, determines how the possible iterations and combinations of structure, context, and leadership are moulded to create the organisation’s architecture (Raisch et al 2008). At the core of Figure 9.1 are five organisational architecture components considered central for nurturing a capability conducive for the introduction of OA. The five are the nature of the organisational learning, the technological innovation, strategic vision, organisation design, and ability to adapt to change.

The Raisch (2008) model in Figure 9.1 assumes that the nature of the OA antecedents, moderating factors, and outcomes reflect responses to dynamic environments. Therefore in order to apply the cause and effect relationships outlined in Figure 9.1 to FHW, a firm competing under stable conditions, modifications are required. The modified outcome is illustrated in the form of a model which is shown in Figure 9.2. The model assumes that the catalyst for the cause and effect relationships in FHW is external stability, not the environmental and competitive dynamics shown in Figure 9.1. Other modifications are the inclusion of case specific factors which were found to contribute towards shaping the FHW capability, and a recognition that the stable core offer also influences the competitive environment. This connection was discovered while analysing the findings from the case study.



**Figure 9.2**

External and internal stimuli illustrating propensity of FHW for implementing ambidextrous designs

The model represented by Figure 9.2 is designed to depict the cause and effect relationships specific to FHW. It illustrates a sequence whereby in response to its external environment, the practice TMT create an appropriate organisation structure and internal context, and evolve a particular leadership style. These three antecedent conditions, together with any specific factors determined by features peculiar to the case itself, provide an initial insight into the propensity for FHW to implement an OA capability. The initial insight is gained by developing profiles for the OA antecedent factors in FHW, and comparing them to those identified as conducive for nurturing OA described in the literature. A further assessment is then performed by undertaking the same examination and comparison process on the five components of the FHW organisation architecture identified in Raisch et al (2008) as being critical for nurturing conditions conducive to OA introduction. For the sake of brevity these are referred to as OA facilitators. The five are the organisation learning and knowledge search activities (Burgelman 2002; Gupta et al 2006), innovation and technology (Raisch et al 2008), the ability to adapt (Gibson et al 2004), formulation of strategy and strategic vision (Lubatkin et al 2006; He et al 2004; Lin et al 2011), and the organisation design (March 1991; Stettner et al 2014). The sections which follow detail the process used for populating the model illustrated in Figure 9.2 with relevant data extracted from the case study findings. Other sections in the chapter discuss the outcomes from comparing the FHW antecedent and facilitator profiles to those described in the literature as conducive for OA implementation. The assessments of the propensity displayed by the nature of the FHW OA antecedents and the five facilitators provide the insights required for considering the issues presented by research question two.

### **Profiles of antecedents**

Table 7.1 in Chapter 7 lists the defining features of FHW that the analysis of case findings revealed to be of particular relevance to the issues considered by the research questions. These defining features are used as base data for developing profiles describing the three antecedent conditions with propensity for facilitating a decision to implement OA. The three are the FHW structure, its organisation context and the nature of its leadership. The result is shown in Table 9.1 which illustrates how the defining features of FHW are used to develop profiles for each antecedent. The profiles emerge from the overall perspectives presented by the list of assigned characteristics. The cause and effect relationships depicted in the model shown in

Figure 9.2 are built around an assumption that two catalysts are the activators determining the nature of antecedents. The two are the external environment and the case specific factors identified during analysis of the case study findings. These are incorporated into Table 9.1 so that the originating factors determining the specific nature of each defining feature of FHW are also recognised. The relationships are necessary for formulating conclusions to the issues presented in research question two. The question specifically considers the impact of environment stability on the propensity of FHW for implementing OA. Accordingly case specific factors which specifically affect that propensity need to be excluded from the assessment.

DEFINING FEATURES OF FHW (ORIGIN TABLE 7.1)		
Catalyst	External Environment	Case Specific Factors
<b>Characteristics describing catalyst</b>	Homogeneous core offer not differentiated	Dominant management group
	No existential threat to core offer	Possession paranoia
	Competitive advantage from relationships	
	Benign competitive environment	
	Core offer complexity	
	Mandatory quality obligations	
<b>Impact on Structure Antecedent</b>	Has delivered sustained economic success	
	Differentiation imperative absent	
	Discontinuous innovation tradition absent	
	Focus is maintain knowledge of core offer	
	Focus on cost containment	
	Focus on existing capability	
	Focus on maintaining efficiency	
	Group response to emerging threat absent	
	HR bound by efficient time usage imperative	
	HR bound by process rules	
	Incremental innovation exclusively	
	Information flow blocks strategic ideas	
Structure is mechanistic		
<b>Impact on Context Antecedent</b>	Apex blocks new ideas coming from lower tier	Apex block on new ideas from lower tiers
	Apex enforces downward information flows	Apex enforces downward information flows
	Adaptive culture discouraged	Adaptive culture discouraged
	Experimentation discouraged	Experimentation discouraged
	Focus is maintain knowledge of core offer	Focus is maintain knowledge of core offer
	Focus on cost containment	Focus on cost containment
	Focus on existing capability	Focus on existing capability
	Focus on maintaining efficiency	Focus on maintaining efficiency
	HR bound by efficient time usage imperative	HR bound by efficient time usage imperative
	HR bound by process rules	HR bound by process rules
	Incremental innovation exclusively	Incremental innovation exclusively
	Information flow blocks strategic ideas	Information flow blocks strategic ideas
Structure is mechanistic	Structure is mechanistic	
<b>Impact on Leadership Antecedent</b>	Conservatism	
	Decisions based on consensus	
	Dominated by a set of shared beliefs	Dominated by a set of shared beliefs
	Differentiation imperative absent	
	Discontinuous innovation tradition absent	
	Entrepreneurial vision lacking	
	Group response to emerging threat absent	
	Inertia	
	Marketing tradition lacking	
	Possession paranoia	
	Reliance on core competencies	
	Reliance on historical schemas	
	Risk tolerance is low	
	Stability is preferred vision	
Strategic myopia		

**Table 9.1**

Impact of internal and external stimuli on practice structure, leadership and context



### *Profile of the structure antecedent*

Firms in stable environments adapt to external stimuli by utilising a process of incremental adjustments to the extant capability (Amabile et al. 2001). The outcome from this one dimensional perspective is that focus becomes exclusively directed into the support required for the extant exploit capability rather than redirecting resources into exploration (Pettigrew et al 2000). As a result the structure becomes mechanistic (Burns et al 1961), characterised by clear lines of command, centralisation, and a plethora of rules to ensure an efficient exploit capability (Csazar 2013). This internally focused perspective encourages the implementation of the incremental innovation projects (Leonard-Barton 1990) that are designed to improve short term efficiencies, and to modify the extant product range and the capability producing it (O'Reilly et al 2004; O'Reilly et al 2008; Farjoun 2010; Csazar 2013).

This scenario is a comprehensive description of the prevailing situation in FHW. It is clearly illustrated by the profile that emerges by an examination of characteristics for this antecedent shown in Table 9.1. The profile presented shows that the presence of an enduring core offer with no requirement for differentiation removes any imperative for initiating new service development. As a result the exclusive focus of the TMT is to ensure efficiency and cost control within the existing capability. This is achieved through mechanistic processes, and an incremental innovation program. HR strategies are focused on ensuring knowledge currency is related to the needs of the core offer only. Exploration of new ideas is discouraged because of the need to ensure efficiency in the usage of time units. The three pillars making up FHW objectives are the prime instigator for the situation described here. The case study findings identified these three pillars as an organic growth objective plus two imperatives for the internal capability, its efficiency and containing its cost structures. The exclusive focus on the internal capability is a direct outcome from the promise of future income streams which FHW's TMT regard as a benefit delivered by the stable core offer, and the relatively benign competitive environment.

The nexus between complexity, quality, and time, discussed in Chapter 6 and illustrated in Diagram 6.2, is an additional factor exercising a pervasive influence on the practice structure. For the purpose of brevity and clarity this nexus is referred to as the complexity factor. It is a complication arising out of the core compliance service offer, and must be categorised as an external moderator limiting the capacity

for introducing OA in FHW. Its TMT has no power to influence the causes giving rise to the complexity of the core service offer, it can only moderate the affect. Complexity is a product of continuing amendment to the law and regulation affecting individuals, business entities, and not for profit organisations. The number of amendments are determined by legislative and judicial activity, and by changes or additions to the regulatory regimes. This situation is therefore not a case specific factor, it is an issue confronted by the professional accounting industry particularly for participants that have less than five principals. The analysis of context indicated that these practices have not evolved the levels of specialisation which enable larger firms to focus their principals and professional staff on specialised aspects of the legal and compliance framework. This reduces the pressure experienced by the generalists in the smaller practices who attempt to maintain knowledge currency across the total compliance spectrum.

*Profile of the organisational context antecedent*

The listed features in Table 9.1 that create the profile for this OA antecedent illustrate how the disciplines inserted into the organisation's context discourage employees and middle management from diverting focus away from efficiency and cost containment objectives. The TMT drive to contain costs, maintain the efficiency of the existing capability, and ensure core offer knowledge levels are up to date, discourages experimentation and the emergence of an adaptive culture (Guttel et al 2009; Roberts 2004). This situation is exacerbated by the constraints imposed by the imperative for using time units effectively, and the discipline necessary for adhering strictly to the rules governing processes. Innovation is exclusively incremental, and because knowledge flows are controlled from the practice apex, upward flow of new ideas from the lower tiers is discouraged.

These constraints effectively prevent the emergence of an experimental culture and block any motivation for knowledge search activities to extend beyond the needs imposed by the core compliance offer (Mom et al 2007). These conditions are reinforced by the fact that the apex of the practice discourages upward flow of strategic information. This makes it very difficult for the coal face to communicate ideas into the dominant leadership group (Mom et al 2007). The case specific factors represented by the existence of a dominant management group (Prahalad et al 1986), and attitudes of possession paranoia in the principal group, also have an affect on context. Their impact is not unique however, and Table 9.2 shows that each

defining feature attributed is duplicated in the section related to the external environment.

### **Propensity of structure and organisation context antecedents for initiating new service development**

#### *Structure antecedent*

The analysis of case study findings determined that the practice capability is a monodextrous structure exclusively focused on exploit activities. These structures are not conducive for nurturing the essential characteristics required to support exploratory activity (March 1991; Smith et al 2005; He et al 2004; Aston-Jones et al 2005). The exploratory culture facilitating new service development is characterised by experimentation and loose discipline, where failure arising from taking risks is acceptable (Farjoun 2010). This is the antithesis of the prevailing situation in the existing FHW capability. Attempting to initiate new service development programs into its environment will trigger tensions. The tensions will emanate from introducing exploratory activities into the FHW capability which is currently focused exclusively on exploiting the enduring core offer (March 1991; Tushman et al 1996).

Ambidextrous structures designed for hosting discontinuous innovation programs in tandem with an existing exploit capability emerged as the means for resolving these tensions (Tushman et al 1996). They overcome the tensions that arise when two conflicting activities are hosted within one holistic structure (Tushman et al 1996).

The ambidextrous designs therefore facilitate new service development. They offer a capability allowing new product development to proceed in parallel with an existing exploit capability without causing structural tensions (Govindarajan et al 2005; O'Reilly et al 2004). The various structural ambidextrous designs identified in the literature therefore offer the TMT of FHW a number of different capabilities that could overcome the restrictions imposed by its existing monodextrous exploit capability.

The options available are a spatial design, which requires the creation of a parallel capability (Govindarajan et al 2005), entering into an alliance with a third party who would undertake the required development, or purchasing a development capability (Stettner et al 2014). Therefore the FHW organisation structure per se, is not an obstruction for the implementation of OA. The critical factor affecting new service implementation is the proclivity displayed by its TMT for making a decision to initiate a development program, and utilising an OA design as the facilitator.

### *Context*

The profile of the organisation context portrayed in Table 9.1 is the product of two influences, external environment stability, and the case specific factor represented by a dominant management group. The resulting organisation context is not at all conducive for supporting the introduction of a contextual ambidextrous approach in FHW. Gibson et al (2004) identify the characteristics which support an organisation context that nurtures behavioural ambidexterity. Individual employees are able to allocate their time between the demands of an existing exploit capability and the experimentation required for initiating new service development. Important decisions are able to be made on the front line, and a key aspect of the TMT role is to foster the development of a context allowing individuals to act independently. This necessitates some flexibility in role definition and requires more generalised skills. In FHW however the demands of the core compliance offer prohibit employees from diverting time into exploration activities. The dominant group makes all critical decisions, flexibility is not encouraged, and valuable employees complete the specific tasks allocated to them quickly and efficiently. An appropriate context requires an environment that encourages flexibility and adaptation, where motivated employees will consider opportunities beyond that prescribed by their daily tasks (Birkinshaw et al 2004; Gibson et al 2004). Whereas the existence of a monodextrous exploit capability is not of itself a barrier for the implementation of OA, the same cannot be said of the existing organisation context. The profile outlined here describing the nature of this antecedent factor in FHW will effectively block the possibility for employees and supervisory management to embrace the flexibility and adaptation required for a supportive behavioural ambidexterity context.

### **The practice leadership antecedent**

#### *Leadership profile*

The leadership profile described by the features listed for this OA antecedent in Table 9.1 indicates a low tolerance for risk, inherent conservatism, and the absence of any motivation for developing an entrepreneurial vision. The inherent conservatism and low tolerance for risk is clearly demonstrated by comments made by AF, MW, and MS. They insist that their decisions are not driven by the fear of missing out. Their decisions “*are driven by the fear of being wrong*”, and incurring monetary loss as a result. The lack of an entrepreneurial vision is clearly expressed by the nature of the practice objectives. These aim for organic growth together with maintaining an efficient and cost effective internal capability. No consideration is

given to new service development indicating that the principal group is unwilling to focus on both sustaining and exploring activities (Lin et al 2011). The inability to approach strategy with an entrepreneurial perspective is further hampered by the absence of any marketing tradition within the principal group. This is evidenced in the analysis of findings by the absence of a marketing plan, and by BW who says that past marketing efforts were unsuccessful. He observes that he is not confident *“these (marketing) initiatives added real value to the twin objectives of growth and profitability”*, adding that, *“a marketing consultant had been retained in the past but the program had not yielded any significant outcomes”*. These findings indicate that existing attitudes which determine the perspectives of the FHW principal group are not at all conducive for nurturing conditions that support implementation of OA. The presence of a stable core offer is the significant influence shaping the low tolerance for risk, conservatism, and the lack of entrepreneurial imagination.

#### *The desire for stability*

Knowledge that the core offer is enduring and that the competitive environment has historically been benign are critical factors shaping the perspectives of the principal group. They encourage its low tolerance for risk, conservatism, a myopic strategic vision, and the absence of a marketing tradition. These attitudes emerge because the practice TMT is not required to continually seek ways for differentiating the primary service offer. The team is also able to approach its forward planning with the confidence that the core offer will continue generating cash flow into the future. The absence of any need to replenish the offer encourages the conservatism characterising the FHW objectives which aim for organic growth, and the protection of the existing capability. The objectives do not contemplate any need for new service development. These attitudes and beliefs develop a strategic perspective that is unwilling to focus on both sustaining and exploring activities (Lin et al 2011). Consequently the features that form the leadership antecedent profile in Table 9.1 portray a team driven by a strong preference for maintaining stability. This desire for stability motivates the TMT to focus exclusively on modifying the existing product range, and ensuring that the capability producing it is efficient (O'Reilly et al 2004). The desire for stability encourages the myopic strategic vision that characterises forward planning, and is a significant contributory factor for ensuring the new initiatives are risk averse, and contained within familiar environments. This is attested to by AF who concludes that the *“combined attitude to risk (by the principal*

*group) would be an effective barrier preventing the introduction of any innovative initiatives that presented higher risk profiles".* The opinion of AF is supported by the nature of the current strategic initiatives under consideration by the leadership group. The case study findings indicate that these are all designed to increase usage of existing service offers. The situation outlined could describe a leadership group that is unreceptive to the notion of new service development because of the possible affect this would have on the existing capability producing the practice cash flow (Argyris et al 1978; Benner et al 2003; Voss et al 2013).

#### *Reliance on the experience of history and emergence of inertia*

Previous research has found that a TMT not forced to continually reformulate strategy in response to product volatility will tend to use history as its indicator for the future (Norman 1976). This attitude may encourage a reliance on pre-existing knowledge systems or schemas when deciding how to respond to external environment influences (Norman 1976). Reliance on the experience of past years is also reinforced by the stabilising influences coming from successive years of economic success (Sherman 1993), and a leadership that prefers the consistency of history to the inconsistencies presented by discontinuous innovation (Denison et al 1995; Lewis 2000; Lin et al 2011). The case study findings have shown that the security provided by historical precedent has made it unnecessary for the TMT of FHW to develop perspectives that include adaptability, flexibility, and experimentation. Lubatkin et al (2006) identify these to be critically important for implementing OA. The tendency of the leadership group in FHW to rely on the comfort offered by past success because it is likely to be replicated in the future is discussed in the analysis of the case study findings. As an example, BW is quoted as saying that this reliance on the lessons of the past is particularly "*true of the two older principals*". AP observes that it is a "*moot point*" whether AF would be receptive to the implementation of new ideas since he is "*conservative and focused exclusively on the core service*". BW also confirmed that the practice is particularly profitable reinforcing the economic benefit delivered from proven strategy.

The desire for stability (which has been commented on), and the comfort afforded by a proven successful formula, represent powerful incentives for maintaining the status quo and avoiding the risks associated with uncertainty. This situation stimulates the development of another attitude that is not conducive for nurturing an exploratory perspective in FHW, tendencies towards organisation inertia.

This is evidenced by the case study findings which disclosed that the principal group members are unable to execute agreed strategies even though these are limited to increasing client usage of existing offers. AP is extensively quoted on this specific issue as is BW who complains about the inability of the principals to expedite the development of service specialisations. The presence of a stable core offer, a benign competitive environment, and the absence of a need to differentiate, contribute to this state of inertia. It is a significant negative factor that will act to dissuade the TMT of FHW from voluntarily adopting strategies to differentiate their offer by developing and introducing new services.

*A dominant group with a dominant management logic*

Previous research has identified a number of specific outcomes which emanate from the influence of a dominant TMT group. Of significance for this thesis is the finding that a TMT controlled by a powerful group will make it very difficult for ideas originating from outside the dominant group to penetrate (Prahalad et al 1986). The inability for new ideas to penetrate is reinforced when a team is focused on the stabilising influences represented by successive years of previous economic success (Sherman 1993), and a leadership that prefers the consistency of history to the inconsistencies of discontinuous innovation (Denison et al 1995; Lewis 2000; Lin et al 2011). When these factors combine they create a paradigm that dominates TMT perspectives. It manifests as a set of shared beliefs or conventional wisdom about the world representing the secrets of past success that are expected to continue delivering the same outcomes into the future (Kuhn 1970).

These characteristics are evident in FHW and discussed in the detailed findings set out in Chapter 6. There is a dominant core that controls the principal group, and when necessary it exerts its power to block new ideas. This is evidenced by the case of DD who withdrew from the practice after a short period as principal when her particular vision clashed with that of the dominant principal group. The findings in Chapter 6 also reveal that FHW has experienced many years of sustained cash flow and successive years of economic success. This is identified in Sherman (1993) to be a significant barrier preventing the adoption of new ideas. The reluctance to accept new ideas is a significant factor relevant to the issues considered by research question two, because it represents an obstruction for the implementation of OA (Gupta et al 2006). This reluctance to accept new ideas is succinctly expressed by AP in reference to AF, a member of the dominant group. AP

observes that it is “*a fairly moot point whether he (AF) would be receptive to implementing innovative ideas especially if they are originated by the younger female members of the team*”. The desire for stability, which has been commented on, is another important factor encouraging reliance on the capability that delivered economic success in the past. This reliance would tend to encourage rejection of any consideration for introducing the inconsistencies involved with discontinuous innovation (Denison et al 1995; Lewis 2000; Lin et al 2011), and reinforce a preference for maintaining the status quo. This is another factor which contributes to the exclusion of new service development from the practice objectives.

The power of the dominant group means that the decision to implement new service development will require its imprimatur. The situation is exacerbated by the protocols for decision making in the practice. BW advises that “*decisions are decided on by consensus rather than a vote*”. AF is a member of the dominant group and AP observes that he is “*by nature very conservative and focused on the core service capability*”. He then says that “*it is therefore a fairly moot point whether he would be receptive to implementing innovative ideas especially if they are originated by the younger female members of the team*”. This combination of decision protocols, governance dynamics, and decision protocols, is not conducive for creating conditions that would promote new service development and introduction. It is recognised however that they are case specific factors and not directly related to the impact from a stable external environment.

#### *Knowledge flows*

The case study findings determined that the principal group in FHW tend to exercise a degree of control over the direction of knowledge flows in the practice. As a rule the flow is downward, emanating from the apex to the lower tiers. This is relevant because knowledge flows streaming in one direction only, either upward or downward through the organisation hierarchy, can have a profound impact on the nature of organisation learning (Harry et al 2000). The implications from this directional effect are comprehensively discussed in Mom et al (2007). They found that in situations where knowledge emanates from the apex of the organisation pyramid it tends to be tight and unambiguous. The result is that when TMT objectives are concentrated on maintaining efficiency and profitability the resulting learning parameters in the organisation also focus on capability efficiency. At the lower levels of the pyramid employees are forced to deal with evolving circumstances directly. As



a result they have first hand knowledge of the situation, and are more inclined to look for improvement by experimentation. Mom et al (2007) explain that the learning attitudes that originate from this lower level are therefore more conducive for creating an atmosphere of discontinuous innovation. The relevance of these findings to FHW is that dominant teams fixated on efficiency and cost control objectives will discourage upward knowledge flows. Learning objectives in these conditions will therefore become narrower and more restricted, inhibiting the ability of the organisation to broaden the vision for its knowledge parameters (Mom et al 2007).

The situation described here reflects the actual position prevailing in FHW. Principals restrict upward flows of knowledge to tactical issues only, ensuring that all aspects of strategy formulation are kept within the advisory group. This situation is attested to by AF who remarks that opportunities are *“kept within the principal group”*, and also by SB who says that principals tend *“not to share this level of confidence (strategy) with the supervisors”*. The restriction of knowledge flows to a downward trajectory in the practice allows the principal group to maintain tight control over the extant capability (Mom et al 2007). The desire for exercising tight control is reflected in two of the three primary objectives and by AF who says that practice operation aims are to *“achieve the most efficient capability possible”*. This focus encourages the desire to avoid negative influences which could affect efficiency (Mom et al 2007). With respect to FHW, a negative influence would be represented by knowledge emanating from the lower echelons which may encourage creativity, but in so doing reduces practice efficiency. This specific scenario is clearly illustrated by the incident related in the case study findings where the supervisors identified an opportunity to develop a new service, and the principal group did not allocate resources for its development.

The control exercised by the principal group over knowledge flows therefore is not conducive for the implementation of OA. It affects context by blocking a channel that would facilitate the experiences gained at the lower tiers of the practice to feed through into strategy formulation (Mom et al 2007). Organisation learning activities are focused exclusively on supporting the dual objectives of efficiency and cost effectiveness. This encourages a tightening of routines, a culture that values discipline, and avoids failure. These demands are antithetical to the attitudes of experimentation, innovation, and entrepreneurship necessary for fostering exploration and new service development (O’Reilly et al 2004; Farjoun 2010). This

exclusive focus on maintaining efficiency and discouraging the emergence of a context which encourages experimentation is a further obstruction for the implementation of OA.

#### *Decision making process*

The governance procedures in FHW are outlined in Chapter 5. The findings indicate that governance is structured through an advisory board where decisions are made by consensus rather than majority vote. In Scandura et al (2000) it was shown that a structure where decisions require approval from all decision makers before proceeding (a hierarchy), records a lower probability for achieving agreement than one where each decision maker is able to approve independently (a polyarchy). This governance protocol is a further obstacle which will complicate any attempt by the advisory board of FHW to modify its strategic intent. The inherent conservatism of AF has been commented on previously as well as his reluctance to countenance change. Accordingly if AF was reluctant to accept a change in strategic direction because of his inherent conservatism, he has the power to block any new service development initiatives because of the governance protocols. This is however not an obstacle to OA implementation originating from the presence of a stable core offer, it is a case specific factor.

#### *Focus on core competencies and low adaptation tendencies*

The stability of the core offer has encouraged the principal group in FHW to develop a dependency on consistency. This manifests in objectives which aim to reduce inconsistencies within the capability producing the core offer so that peak efficiency is maintained (Denison et al 1995; Lewis 2000; Lin et al 2011). This internally focused strategic perspective removes any urgency for the principal group to initiate a formal review of the competitive environment. The result is the absence of advisory board consensus about emerging inconsistencies in the competitive environment, areas of concern identified by both AF and MW. This is another example where the exclusive focus on core competencies, a product of the core offer inherent stability, is restricting the strategic vision of the practice TMT. In the situation described, the inward focus dominating the attention of the TMT appears to have removed any urgency for discussing circumstances that may require significant strategic adaptation. The potential threat of new entrants with the capacity to materially alter the nature of the competitive environment is identified in the case study findings. If this situation were to eventuate strategic adaptation would be

required to counter the potential existential threat it presented. The ability of a TMT to adapt to changing external circumstances is recognised as a critical leadership attribute required for nurturing the antecedent perspectives necessary for implementing OA (Gibson et al 2004; O'Reilly et al 2004). The case study findings show that the FHW TMT is extremely adept at adapting to changes occurring within the core compliance service suite. The same attribute however does not appear to be present with respect to its capacity for assessing the responses required in order to adapt to emerging environment dynamics.

### **Conclusions regarding propensity of antecedents for nurturing OA**

#### *Structure of the FHW internal capability.*

The existing capability is the product of the principal group's exclusive focus on efficiency and cost control. This is an outcome from the presence of an enduring stable core offer. Efficiency and cost control in FHW are achieved by developing and maintaining mechanistic processes, and concentrating innovation programs on the continuous improvement of the resources producing the stable core offer. The inherent complexity of the core compliance service offer is a further exacerbating factor mandating the need for an exclusive focus on internal efficiency. The outcome is that the existing capability is not conducive for undertaking new service development. The various structural ambidextrous designs however offer structures that would allow the restrictions imposed by the existing monodextrous exploit capability to be overcome.

#### *Organisation Context*

The existing organisation context is not at all conducive for supporting the introduction of a contextual ambidextrous approach in FHW. The context that has been described in this chapter will effectively block any possibility for employees and supervisors to embrace the flexibility and adaptation required for a supportive behavioural ambidexterity context.

#### *Leadership*

The current perspectives of the FHW principal group are not conducive for nurturing conditions that will encourage the implementation of OA. The presence of a stable core offer and the perception that the competitive environment is benign represents a significant influence for shaping these perspectives. The principal group has low tolerance for risk, is conservative, and lacks entrepreneurial imagination. There is a strong preference for maintaining stability which promotes a myopic strategic vision exacerbated by symptoms of inertia. The attitudes described are

negative factors that will act to dissuade the TMT of FHW from voluntarily adopting strategies to differentiate their offer and develop new services. Other characteristics of the principal group create further negative conditions that will act to obstruct any decision for implementing OA. These are the power of a dominant management group, the protocols for decision making, the control over knowledge flows, and principal group's adaptation inertia. These negative characteristics are not the product of a stable core offer. They are case specific characteristics found within the leadership group of FHW.

### Profiles of facilitators

The FHW defining features listed in Table 7.1 are also used for developing the OA facilitator profiles. Understanding the nature of the OA facilitators enables each to be assessed and its propensity for nurturing or obstructing OA implementation understood. These findings, together with those related to the OA antecedents, provide the information necessary for formulating conclusions regarding the issues presented by research question two. The application of the FHW defining features to the five OA facilitators is illustrated in Table 9.2. Wherever a feature is considered to have relevance to a particular facilitator, it is acknowledged in the table as "relevant".

	Five Ambidexterity Facilitators	Learning	Technological Innovation	Organisation Adaptation	Strategic Management	Organisation Design
	Aspects of organisation they influence	Knowledge search & training	Application of Technology	Flexibility & adaptability	Strategy formulation & vision	Structure
Key features of FHW listed in Table 7.1	Apex blocks new ideas coming from lower tiers	Relevant	Relevant	Relevant	Relevant	Relevant
	Apex enforces downward information flows	Relevant	Relevant	Relevant	Relevant	Relevant
	Conservatism	Relevant	Relevant	Relevant	Relevant	Neutral
	Decisions based on consensus	Neutral	Neutral	Relevant	Relevant	Neutral
	Dominated by a set of shared beliefs	Neutral	Neutral	Relevant	Relevant	Neutral
	Entrepreneurial vision lacking	Relevant	Relevant	Relevant	Relevant	Neutral
	Inertia	Neutral	Neutral	Relevant	Relevant	Neutral
	Marketing tradition lacking	Neutral	Relevant	Neutral	Relevant	Neutral
	Possession paranoia	Neutral	Neutral	Relevant	Relevant	Neutral
	Reliance on core competencies	Relevant	Relevant	Relevant	Relevant	Relevant
	Reliance on historical schemas	Relevant	Relevant	Relevant	Relevant	Relevant
	Risk tolerance is low	Neutral	Relevant	Relevant	Relevant	Neutral
	Stability is preferred vision	Neutral	Relevant	Relevant	Relevant	Neutral
	Strategic myopia	Neutral	Relevant	Relevant	Relevant	Neutral
	Adaptive culture discouraged	Neutral	Neutral	Relevant	Relevant	Relevant
	Differentiation imperative absent	Relevant	Relevant	Relevant	Relevant	Relevant
	Discontinuous innovation tradition absent	Relevant	Relevant	Relevant	Relevant	Relevant
	Experimentation discouraged	Relevant	Relevant	Relevant	Relevant	Relevant
	Focus is maintain knowledge of core offer	Relevant	Relevant	Relevant	Relevant	Relevant
	Focus on cost containment	Relevant	Relevant	Relevant	Relevant	Relevant
Focus on existing capability	Relevant	Relevant	Relevant	Relevant	Relevant	
Focus on maintaining efficiency	Relevant	Relevant	Relevant	Relevant	Relevant	
Group response to emerging threat absent	Neutral	Neutral	Relevant	Relevant	Neutral	
HR bound by efficient time usage imperative	Relevant	Relevant	Relevant	Relevant	Relevant	
HR bound by process rules	Relevant	Relevant	Relevant	Relevant	Relevant	
Incremental innovation exclusively	Relevant	Relevant	Relevant	Relevant	Relevant	
Structure is mechanistic	Relevant	Relevant	Relevant	Neutral	Relevant	

**Table 9.2**  
Profiles of the five OA facilitators in FHW

### *The learning facilitator*

Stability and the absence of necessity for differentiating its services is a significant contributing factor for learning activity in FHW to be focused exclusively on the existing core compliance offer. The complexity factor which dominates the compliance service suite is further impetus for this facilitator to be so one dimensionally focused. All knowledge search, organisation learning, and training in FHW as a consequence, is directed for maintaining core competencies. There are no programs designed to widen search objectives for accumulating knowledge that could encourage the development of new services. This effectively blocks the possibility for developing an exploratory dimension to the practice culture (Rosenkopf et al 2001). Existing organisation learning, knowledge search, and training in FHW is therefore currently incapable of nurturing an environment conducive for new service development (Gupta et al 2006). This situation is not per se an insurmountable barrier for the implementation of OA. The spatial design for implementing ambidexterity (O'Reilly et al 2004; Govindarajan et al 2005), and the alliance and acquisition modes (Stettner et al 2014), offer capabilities for overcoming this one dimensional approach to organisation learning. This could be accomplished by incorporating the wider knowledge search and training activities required into the exploratory capability chosen by FHW for developing new services. Existing learning demands necessary for supporting the core offer continue uninterrupted under the aegis of the exploit capability operating in parallel with its exploratory counterpart .

### *Technological innovation facilitator*

The analysis of the case study findings identified that the technological innovation programs in FHW focus effort on ensuring continuous improvement of the capability producing the core compliance offer. The profile presented in Table 9.2 clearly illustrates this to be the case, however, this exclusive focus is once more not an insurmountable barrier preventing the implementation of OA. The discontinuous innovation project identified in Chapter 6 is effectively an extension to a technology innovation program about to be initiated by the practice. Undertaking the technological innovation required for developing the new service is relatively simple, it merely extends the scope of what is currently being planned. The effective barrier for initiating the action required to do this is the leadership group in the practice. The leadership must identify the opportunity and recognise the differentiation it offers to a market segment accustomed to receiving a homogeneous offer. Therefore, although

the way in which FHW currently uses technology is not conducive for the introduction of OA, its leadership group has the power to modify the innovation objectives.

Consequently the current nature of the technology facilitator, although it is exclusively focused on the needs of the existing capability, cannot be considered a factor preventing the implementation of OA.

#### *The organisation design facilitator*

It has been established that the existing capability of the accounting practice is monodextrous and exclusively focused on exploit activities. The inherent difficulties involved in attempting to maintain both exploration and exploitation activities within the one capability has also been discussed at length in this thesis. Whereas the literature recognises the inherent tensions involved when attempting to host exploratory activities within a classic exploit structure, it also identifies the purpose of ambidextrous structures is to resolve the inherent contradictions (Tushman et al 1996; Tushman et al 1997). Therefore although the OA facilitator represented by the nature of the organisation design is not itself a nurturing factor for OA, it is also not an obstruction that prevents the implementation of an ambidextrous design.

#### *The organisation adaptation and strategic management facilitators*

The profiles of the OA adaptation and strategic management facilitators match the description of the leadership antecedent dealt with in a previous section of this chapter. The profiles reflected in Table 9.2 and that of the leadership antecedent are finally recognised to be the ultimate barriers to an OA implementation. These profiles portray a principal group in FHW that is risk averse, keen to preserve status quo, lacks entrepreneurial skills, favours stability, is adept at maintaining the excellence of the existing capability, and not motivated to voluntarily adopt unfamiliar strategies. These perspectives are constantly reinforced by the proven ability of the existing core offer to sustain generation of superior cash flow outcomes. Therefore before the members of the FHW principal group can initiate formal discussion to use an OA design for facilitating new service development, they need to disengage from their current task focus, and to begin searching for alternatives (Aston-Jones 2005). The inherent inertia dominating the principal group would seem to represent an insurmountable obstacle preventing the team's ability for actually make this disengagement a reality. The inertia is bolstered by the absence of any urgency to develop any new services because concentrating all effort on the stable core offer delivers a promise of income security.

Research question two considered whether the absence of an existential threat to the core offer nurtures characteristics in an internal environment preventing the integration of ambidextrous designs. With regard to the facilitators represented by organisation design, learning, and technology innovation, the ambidextrous designs offer solutions for overcoming the restrictions they may impose. The barriers imposed by the attitudes and perspectives dominating the FHW leadership are however not able to be overcome by the solutions offered by ambidextrous designs. The importance of the TMT as an OA facilitator is recognised in the literature (Beckman 2006; Virany et al 2002; He et al 2004; Lin et al 2011). The conclusions formulated here resonate with this conclusion. The leadership of FHW, represented by its principal group, is the pivotal factor for considering the issues contained in research question two.

### **Proclivity of the principal group for considering new service development**

The conclusions to be drawn from the description of the principal group are these. The exclusive focus on core competencies has delivered economic success in the past and there is no reason to assume it will not do so in the future. The core compliance offer also involves relatively little risk, and the practice has the necessary expertise and experience required for maintaining the effectiveness of the existing capability. Accordingly it is logical for the principal group to continue pursuing a strategic vision which avoids the inherent uncertainties involved in developing and implementing new services. The security that stability provides, and the value it generates, represents a significant economic reason not to disturb the status quo by adopting strategies involving uncertainty and risk. This scenario reflects the thrust of the current practice objectives and the strategies for achieving those objectives.

Assuming that the principal group was to recognise the potential new services offered for obtaining strategic advantage in their market segments, they would have to confront and overcome a number of significant obstacles before executing a new strategy. These obstacles include the inherent inertia pervading the group, its low tolerance for risk, the preference to avoid errors of commission, and the tendency to value stability and familiarity. Assuming that these obstacles can be overcome, the group will also confront a number of difficulties in the selection of an appropriate ambidextrous design. The complexity of the core offer precludes the possibility for including the existing capability as a component of the ambidextrous design. This effectively excludes an ambidextrous design based on creating a favourable

behavioural context within the extant exploit capability. The total separation of any future explore capability is therefore required and this necessitates the use of a spatial design, forming strategic alliances with development partners, or acquiring the explore capability by purchase. Whereas an assessment of the proclivity for actually executing these alternatives is not within the scope of this thesis, they are appropriate structures for hosting the discontinuous innovation project identified in Chapter 7. It is however noted that any involvement of third parties in the development process may create possession paranoia issues if the partners are introduced directly into the client relationship.

### **Conclusions**

The FHW market segments provide opportunity for enhancing competitive advantage through the introduction of new service offers. A specific new service offer has been identified with the potential for creating advantage, and delivering a strategic benefit to the practice. Three ambidextrous designs offer a capability for facilitating implementation of the discontinuous innovation program necessary for developing the new offer. The existing capability however is not supportive of a contextual ambidextrous approach. The FHW principal group is identified to be a major obstruction for implementing any of the possible ambidextrous designs. The economic certainty delivered by the stable core offer has encouraged attitudes within the principal group that will act to reinforce stability and discourage initiatives that may involve risk and uncertainty. It is therefore unlikely that the principal group will exchange the prevailing situation of relative strategic certainty for the inherent risks involved in new service development.

Accordingly, with respect to research question two, the following has been established. External environment stability has instilled leadership attitudes in the case study accounting practice that are not conducive for nurturing conditions favouring the implementation of ambidextrous designs. It is also the catalyst for creating an existing capability that will not encourage behaviour facilitating the introduction of ambidexterity in context. The conclusion therefore is that with respect to the case study accounting practice, the presence of a stable external environment creates an internal capability containing elements that will prevent the nurturing of conditions favourable for the introduction of organisational ambidexterity.



## **CHAPTER 10**

### **CONCLUSIONS**

#### **Chapter summary**

This chapter details the contributions to the literature which have come out of the research. The findings have theoretical, empirical, methodological, and managerial implications. Aspects of organisational ambidexterity that appear in the existing literature have been confirmed, and the research has also developed a number of previous findings. New perspectives for organisational ambidexterity have also emerged, some of which have significant potential for managerial application. The chapter also explains the limitations of the research and concludes with a section that recommends a number of new directions for future investigation.

#### **Theoretical and empirical contributions**

Dynamic external environments are considered to be one of the primary catalysts for motivating management teams to use ambidextrous designs (Auh et al 2005; Jansen et al 2005; Jansen et al 2006). The phenomenon of shortening product lifecycles is a typical representation of this volatility. Product obsolescence in the absence of replenishment strategies represents an existential threat to an organisation (Eisenhardt 1989b; Roberts 2004; Atuahene-Gima 2005), and therefore the possibility of having nothing to sell forces management to initiate replacement programs (Jansen et al 2006; Raisch et al 2009). When new product development is forced to proceed in parallel with the activities maintaining production and distribution of the waning range, structural and behavioural tensions can act to obstruct the organisation's ability to undertake both capabilities simultaneously (Duncan 1976; March 1991). Organisational ambidexterity is offered as a structural solution for overcoming the tensions. It enables new product development to proceed in tandem with the activities required for maintaining the existing core capability (Jansen et al 2005; Raisch et al 2008).

My research examined an ambidextrous organisation causation principle from the inverse perspective of a dynamic external environment. It investigates if there are any applications for the structures when external environment conditions do not represent an existential threat to the core offer. My examination of an accounting practice currently delivering an enduring service offer not subject to existential threat, found potential for increasing competitive advantage by introducing new services. The analysis of the practice however also found that core offer stability created a

monodextrous internal capability focused exclusively on producing the core offer efficiently and cost effectively. This capability demonstrates no capacity for undertaking the innovation activities required for developing and introducing new services. Therefore, although the case findings identify opportunity for increasing competitive advantage, attempts to implement new service development initiatives would be obstructed by the limitations of the existing capability. In this regard however the fundamental premise underlying organisational ambidexterity emerges as being relevant to the case study. The premise is that ambidextrous designs are capable of overcoming the obstructions caused by the nature of an extant capability (Duncan 1976; March 1991; Tushman et al 1996). With respect to FHW therefore the question for consideration is the following. Can an ambidextrous design provide a structural solution for facilitating new service development despite the nature of its extant capability? Analysis of the case study findings determined that three ambidextrous designs do offer a structural solution for overcoming the obstructions imposed by the monodextrous exploit capability (Govindarajan et al 2005; Stettner et al 2014). My research therefore confirms the ability of organisational ambidexterity to support new product development when existing capabilities are incompatible with discontinuous innovation programs (O'Reilly et al 2004; Govindarajan et al 2005; Smith et al 2005). It also confirms the ability of ambidextrous designs for overcoming obstructions to new product development arising out of incompatibility with operating exploit capabilities (Duncan 1976; March 1991). My research provides additional understanding regarding circumstances where organisation ambidexterity may be applicable. I identify conditions where a decision to introduce organisational ambidexterity is not limited to urgent and mandatory responses for overcoming an existential threat. A decision by the accounting practice management team to introduce any of the possible ambidextrous designs for enhancing competitive advantage would be motivated by choice, not existential imperative.

The threat of diminishing lifecycles is not the only catalyst motivating management teams to consider organisational ambidexterity. Previous research also recognises competitive environment dynamics as a factor (Raisch et al 2008). My investigation of the accounting practice competitive environment disclosed that the potential threat presented by new entrants could disturb its current benign state. If this were to eventuate, the nature of these implied threats will require a strategic response from the practice management to defend the accounting practice market

share. My research found that the introduction of new services into any of the market segments affected offers a possible defence strategy against new entry incursions. Recognition that the nature of the existing capability will act to obstruct new service development has been previously noted (Duncan 1976; March 1991). In the situation identified, where competitive circumstances are changing and emerging threats need to be counteracted by new service introduction, organisational ambidexterity again offers a capability for overcoming the obstructions. My research therefore confirms the findings in Raisch et al (2008) that organisational ambidexterity offers a strategy for combating the possible existential threats presented by dynamic competitive environments.

Previous research found a relationship between the meta construct of behavioural integration, and the ability to implement organisational ambidextrous approaches successfully (Simsek et al 2005; Lubatkin et al 2006; Carmeli et al 2009). Behavioural integration is represented as the nature of the social relationships between members of a TMT, how they exchange information, the tasks allotted to team members, and their decision making process (Hambrick 1994). My examination of TMT attitudes and behaviours in the accounting practice determined that behavioural integration can assume characteristics that obstruct the capacity for introducing an ambidextrous design. I was also able to conclude that the nature of the TMT behaviour and attitudes I identified are a product of the influences exerted by the presence of external environment stability. My research therefore indicates that the relationship between external stability, behavioural integration, and the capacity for successfully implementing organisational ambidexterity, can possibly result in negative conditions for the implementation of organisational ambidexterity. This represents a new development of the theory regarding the relationship between behavioural integration and the successful implementation of organisational ambidexterity. It is also a new perspective for the antecedent factors which nurture conditions conducive for the introduction of ambidextrous designs albeit, my findings identify a relationship which has a negative rather than a positive impact.

I have also been able to provide additional confirmation regarding the relationship that Roberts (2004) refers to as the standard conceptualisation of management studies, the axiom that structure is a product of an organisation's strategy (Chandler 1962). The accounting practice is a classic representation of this relationship. Its strategies are based on objectives formulated for securing internal

efficiency and cost control. These strategies shape the essence of the accounting practice internal capability, practice structure, knowledge search, organisation learning and training, HR policies, innovation initiatives and use of technologies.

Previous research stresses the critical role of the TMT for creating the conditions that nurture the introduction of OA (Beckman 2006; Raisch et al 2008; Lin et al 2011). The findings from my research confirm this pivotal role, however they also identify that TMT attitudes and behaviour can become the principal factors obstructing implementation of an ambidextrous design. Of particular importance is the recognition that organisational inertia is a prime inhibitor for new service implementation in the accounting practice. There is evidence from the case study findings that organisation inertia is present in FHW. Leonard-Barton (1992) discuss the effect of organisation inertia which leads to rigidity, and the undermining of any value being placed on exploratory activities. The case study findings have disclosed the presence of rigidity in attitude and behaviour within the FHW principal group. In addition, the principals undermined a program the supervisors had identified which offered the potential for new service development. The inertia in FHW not only obstructs new service development, it also impedes expansion of the existing offer. Exhortations from the external advisors to execute agreed strategy are countered by the members of the FHW principal group with an excuse that total focus is required on the core capability. This retreat into the comfort and security provided by the existing capability is identified by previous research as an outcome from the presence of organisation inertia (Danneels 2002). My research has therefore confirmed a previous finding regarding an outcome from the presence of organisation inertia. It has however also identified the negative impact from organisation inertia on the capacity of the FHW management team for introducing organisational ambidexterity.

A behaviour attribute found in the practice which contributes significantly to the nature of its organisation context is the proclivity for the principal group to control knowledge flows by focusing its trajectory downward from the apex to the lower tiers. Downward knowledge flows tend to be tight and unambiguous, the organisation learning which results will usually focus exclusively on maintaining the efficiency of the extant capability (Mom et al 2007; Harry et al 2000). This reflects the precise situation prevailing within FHW. It is one of the contributory factors for ensuring that its internal capability is monodextrous and forced to concentrate exclusively on

exploit activities. Whereas my findings confirm the effect of downward knowledge flows pointed out by the previous research, it also extends knowledge in this area. I identified a connection between the propensity for controlling knowledge flows, and the existence of a dominant coalition of individuals within SME environments. This represents a development in the understanding regarding the impact made by a dominant management group within the flat structures characterising small to medium size enterprises (Lubatkin et al 2006).

Another attitude identified by the case study findings that discourages the implementation of new service development is a fear that economic returns could be significantly diminished as a result. This recognition provides a potential for applying my findings to examine the linkage between the introduction of organisational ambidexterity and economic outcomes. Raisch et al (2008) and Simsek (2009) comment on the lack of research in this area, and although this relationship is not a specific aim of my research, some insights have emerged from the findings that are relevant and worth commenting on. Previous research suggests that tightly structured organisations focused on achieving efficiency may underperform because they either miss, or cannot adapt, to new opportunities (Eisenhardt et al 2010; Bryce et al 2010; Rothamaerl et al 2006). The solution suggested in Eisenhardt et al (2010) is to create moderate structures that balance between the conflicting demands of efficiency (the exploit capability) and flexibility (the explore capability). Introducing a moderate structure in FHW requires the introduction of strategies and activities that will develop new services to expand the service offer. The question this raises is will a change in strategic direction requiring structural modification for the development of new services actually improve existing performance outcomes? Consideration of this question is not within the scope of my research, however I did consider whether the internal capability resulting from the presence of a stable core offer would obstruct the implementation of an ambidextrous design. The case study findings have shown that the internal capability in FHW is a representation of a tight structure focused on achieving efficiency. In contra distinction to the view in Eisenhardt et al (2010) it has also proved its capacity for sustaining the generation of surplus cash flows. Initiating a new service development program would necessitate investment, incurring risk and involves a high probability that the initial outcome will be reflected in lower cash flows. The strategy introduces the possibility for failure and non-recovery of the resources committed. The practice TMT would need to be convinced that introducing

a “moderate structure” would enhance its capability for achieving sustained competitive advantage by the implementation of fresh value-creating strategies (Eisenhardt et al 2010). This represents a resource based view regarding the sources for competitive advantage, and it would also be predicated on an assumption that the new strategy is not easily duplicated by competing firms (Barney 1991; Conner et al 1996; Peteraf 1993).

The findings from my research have indicated that the presence of a stable core offer has inculcated attitudes and behaviours within the FHW principal group that are not conducive for encouraging this resource based view with respect to competitive advantage. The presence of inertia and the security from the sustained ability of the core offer to continue generating surplus cash flows is an effective barrier discouraging a broadening of strategic vision. In addition the stable offer has encouraged the emergence of a competitive environment which is at present relatively benign. My findings in FHW therefore suggest that when conditions are stable a TMT would tend to view organisational ambidexterity as having a negative rather than a positive influence on economic performance. This represents a new perspective regarding the relationship between OA and economic outcomes. It suggests that if the choice to implement an ambidextrous design is voluntary rather than mandatory, the potential immediate reduction of economic outcomes becomes a negative antecedent and blocks a decision for using organisational ambidexterity. These findings have therefore added additional understanding to the issue of any relationship between organisational ambidexterity and economic outcomes. My findings also indicate that the potential for moderate structures to produce superior returns which is suggested in Eisenhardt et al (2010) is not necessarily correct when the offer is enduring and competitive environments are benign.

### **Methodological approaches**

Case study is recognised as a useful research method for its ability to develop deeper understandings of the dynamics present within single settings (Eisenhardt 1989a; Yin 1994; Allison 1999). Its efficacy in this context is also noted in the organisational ambidextrous literature (Mom et al 2009; Raisch et al 2008; and Nosella et al 2012). The literature suggests that case study method is capable of developing greater understanding at the individual level of the organisation (Mom et al 2009). Focusing analysis at this level is claimed to assist the ability for gaining deeper insights into the conditions necessary for nurturing behaviours that facilitate

contextual ambidexterity (Raisch et al 2008; and Nosella et al 2012). My findings confirm the recommendations for future research using the case study method. The concentrated analysis it entailed, performed on a single organisation (Eisenhardt 1989a; Yin 1994; Allison et al 1999), became invaluable for developing comprehensive understanding of how the enduring core offer impacted on every aspect of the internal capability in FHW. This understanding enabled me to determine how the presence of a stable offer shaped the behaviours, attitudes, and relationship dynamics prevailing within the FHW TMT. The choice of case study method also allowed me to determine how the enduring core offer influenced the development of an organisation context that is inimical to behavioural ambidexterity. This confirms the views in Raisch et al (2008) and Nosella et al (2012) who recommend using case study method for developing conceptual and empirical understanding of ambidexterity at the individual level of organisations.

My analysis of FHW included an examination of its organisational practices and routines at the micro level. This is an area of research for organisational ambidexterity recommended in Nosella et al (2012). They suggest that this level of analysis assists understanding about the artefacts and processes underlying the development of an ambidextrous capability. Analysing process and routine at the operational level of FHW greatly facilitated my ability to create a profile of the organisation context. The profile subsequently assisted my ability to formulate the conclusions regarding the unsuitability of the organisation context for supporting ambidextrous behaviour. Accordingly my research confirms the suggestion in Nosella et al (2012) for analysing routine and practice at the micro level to develop greater understanding of the conditions nurturing organisational ambidexterity.

My research was undertaken on an accounting practice which is classified as a medium size enterprise (ABS 2002). Lubatkin et al (2006) recommend using SME environments for developing greater understanding of the role played by a TMT in the implementation of ambidextrous designs. Their reason is that small to medium size enterprises typically have flat structures, and their organisation architectures offer greater transparency. The flat structures also mean that the management teams are frequently the focal point for both strategic and operational decisions. These characteristics greatly facilitate the ability to identify the essential features which the research is focusing on. The selection of a medium size organisation for in depth analysis assisted me to identify how an external environment conditioned TMT

attitudes and behaviours in FHW. The resulting profiles facilitated developing an understanding of the reasons why they were incompatible with the requirements for introducing ambidextrous designs. This conclusion was facilitated by the fact that the principal group in FHW effectively dictates strategy and determines the nature of the internal capability. In addition it operates with a flat structure, and the nature of the critical decisions were easily identified because they were limited to the principal group and the supervisors accountable to them. The features identified in Lubatkin et al (2006) which suggest that small to medium size enterprise are useful entities for studying the TMT role in the implementation of organisational ambidexterity are therefore confirmed by my research.

### **Managerial implications**

An outcome from my research is the comprehensive insight gained into the nature of the Australian professional accounting industry both from a macro, and from a micro perspective. The analysis of context represents a macro view, and the case study findings provide a micro view. The micro view, which allowed a comprehensive insight to be developed into the nature of one accounting practice, has produced some positive implications for its TMT. An area of particular relevance is the potential offered for assisting the principal group to introduce new services to supplement the core offer. Members of the team expressed a desire to expand their current service offer, however the research findings identified that they have little understanding for the process required. NS, the senior principal, wants to “*move the practice away from form filling*” and AF, the most conservative member of the team, wants to become “*more entrepreneurial*” but they are both unable to articulate the means for achieving these aims. Neither NS, AF, or any other person interviewed was familiar with the potential offered by the ambidextrous designs identified in the literature. The first encounter which the interviewees had with the concept of organisational ambidexterity was the outline contained in the explanatory memorandum (Appendix 3.8) provided to them prior to interview. Developments however post my circulation of the case study findings to NS indicate that he recognises the possibilities organisational ambidexterity offers FHW for facilitating new service introduction. The qualification however is that realisation of this potential is predicated on the TMT of the practice being able to modify the negative behaviours and attitudes currently obstructing the introduction of new service development.



The case study research findings were sent to NS in August 2015 with a dual purpose in mind. The first was to ensure that a key representative of FHW agrees with the findings, and the second for gauging whether he recognised the structural capability they offered for facilitating new service development. In December 2015, NS replied with a written response in email form. He said *“thank you for your previous email. We will be discussing its contents at our strategy session first week in January. It proved very insightful and may be just the jolt we need to become that flexible organisation we want to be”*. A further email dated 7<sup>th</sup> March 2016 advised that the practice would be restructuring its advisory board to include outside members who could assist with the formulation of a new strategic direction. The emails from NS do not dispute the case study findings. They do however confirm the assessment I made regarding the principal group’s inability to introduce the steps required for moving the practice away from *“form filling”*. The response from NS is tangible evidence that in the nine months since the findings were circulated, the TMT had been unable to break the shackles imposed by organisational inertia. This inability occurred despite the fact that the management team were provided with the detailed findings identifying the reasons inertia was present in their firm. This inability to move away from status quo vindicates my conclusion that the attitudes and behaviours prevailing in the principal group of FHW are a barrier for the implementation of an organisational ambidextrous approach in the practice. The positive implications my research offers for its management are however now apparent from the action taken by NS. He has recognised the factors contributing to the existence of a myopic strategic vision which I identified in the practice. As a result he is acting to restructure the advisory board in order to introduce the necessary impetus for securing a strategic directional change. Both AP and I have been asked to assist with this process by accepting positions as ex officio members of the reconstituted advisory board. Our primary role is to assist the principal group formulate a new strategic direction that incorporates new service development. AP, who is an experienced change management facilitator, has also been requested to conduct workshops that will help the principals modify the behaviours and attitudes which lead to inertia and impede the introduction of new initiatives.

The findings from my research have therefore stimulated a process in FHW which may ultimately develop a capability which uses ambidextrous designs for introducing new services. In addition the behaviours and attitudes in the practice

which act to block new service development programs have been identified, and the principal group has been made aware of them. My research has provided the principal group in FHW with the structural means for developing new services. It has also identified the impediments to be overcome before that goal can be realised. In short, the implications for the FHW management team are now represented by the simple axiom, if there is a will there is now a way.

The situation I identified in FHW is not unique to the case because it actually reflects the situation prevailing in the industry. SUC, a consultant to the industry that I interviewed for the purpose of the analysis of context, made the following observation regarding supplementary services provided by practices with less than five principals. *“The practices publish a menu of services offered including tax returns, advice on tax, tax planning, accounting, business advice, estate planning to quote but a few. The reality is the menu existed to ensure that the practice looked competitive, in fact the principals may never actually promote or deliver many of the services on offer, they are just on the menu”*. Whereas the aim of this research was never to generalise beyond the conclusions formulated with respect to one case, the findings provided by the analysis of context indicate that FHW reflects many characteristics typifying the industry.

### **Limitations of the research**

The conclusions from this research are based on the data from a single case study on one firm selected from the competing practices making up the professional accounting industry in Australia. The case study practice was chosen because the firms with between two and four principals were identified as being large enough to consider ambidextrous designs, but small enough not to have already initiated their development. Decisions regarding case study suitability and size were made after completing a comprehensive analysis of the industry context (Pettigrew 1988; Eisenhardt 1989a; Harris et al 1986). The close similarities between the findings revealed by the case data and the information obtained from the analysis of context afford some possibility that conclusions may have applicability beyond that of the individual case (Harris et al 1986; Pettigrew 1988; Yin 1994). While recognising the similarities however, it is understood that case studies are not suitable for generalising outcomes into a wider population (Yin 1994). Accordingly any attempt to apply the findings from the case to the wider industry or to other industries must

recognise the limitations imposed by the method I chose for undertaking my research.

The enduring nature of the compliance service offer, and its unique features, also complicate the ability for the findings of this research to be applied to other stable situations. The right to deliver the compliance service offer is ensconced within a protective silo which is based on government legislation and regulation. The service itself is the product of regulation and legislation, and compliance with law and regulation is mandatory not choice. The service is therefore not only enduring, but providers can rely on significant barriers that protect entry to their industry. The nature of the compliance service is also inherently complex which my research has shown has a significant influence on the nature of the case study internal capability. The unique characteristics of the compliance offer means that relating the findings from this one case as being representative for the situations applicable universally to stable external environments is not possible. Any attempt to use the findings for establishing commonality must recognise this qualification.

#### **Further research directions**

The findings and conclusions from the case study offer a number of opportunities for future researchers interested in pursuing the aspects of organisational ambidexterity that it highlighted. An area which has been opened up for further study is the question of exercising choice in the decision to implement an ambidextrous design rather than doing so out of necessity. My research only examined the topic from a single industry perspective, therefore it would be of interest to compare the findings to other situations where the lifecycle of a core offer is not threatened by obsolescence or replacement. Of particular relevance for further research is to extend understanding of what impact other stable environments tend to have on TMT behaviours and attitudes. Information from other situations would facilitate an ability to assess the proclivity for these environments to obstruct or nurture new service or product development.

My research on the accounting practice also revealed how the inherent characteristics of the enduring core offer affected the nature of the internal capability making it inimical for the introduction of a contextual ambidextrous approach. Further research into other stable core offer situations would reveal whether the specific nature of the compliance suite caused the organisation context to block behavioural ambidexterity or whether it is a feature of stable external environments. I also

discovered a number of attitudes that are negative antecedents for the implementation of ambidextrous designs. Extending these findings to expand knowledge and understanding about negative antecedent factors provides the potential for gaining insights into why implementation of organisational ambidexterity is difficult (Govindarajan et al 2005; Csazar 2013). This avenue of research also has potential for developing further understanding about why implementation of the designs may fail (Csazar 2013), and could be extended to incorporate investigation into any correlation between organisational ambidexterity and economic returns.

The discussion regarding the managerial implications flowing from my research contains a number of important practical applications for the findings. The possibility for developing a process for introducing new service or product development voluntarily into stable environments for the purpose of augmenting competitive advantage of defending market share are particularly noted. In these situations ambidextrous designs would be critical for overcoming structural obstructions (Tushman et al 1996; Smith et al 2005; Farjoun 2010). Enormous benefit could result if practical projects of this type were able to be documented by academic researchers and the outcomes published in relevant academic journals. Access to this knowledge will facilitate the development of knowledge on the ability of organisations to introduce innovation programs when their internal environments are not conducive for these initiatives (March 1991).

### **Conclusions**

I have contributed to the literature about organisational ambidexterity by confirming the value of ambidextrous designs for integrating new product development into mature extant capabilities (O'Reilly et al 2004; Farjoun 2010). My research also supported previous findings regarding the application of organisational ambidexterity to dynamic competitive environments, and the pivotal role occupied by the TMT in facilitating introduction of ambidextrous designs (Auh et al 2005; Jansen et al 2006 Raisch et al 2008). I was also able to confirm the impact from knowledge flow direction on the nature of internal capabilities (Harry et al 2000; Mom et al 2007). The findings and conclusions produced by the case study support recommendations for using this research method to analyse organisations at the individual or micro level (Raisch et al 2008; Nosella et al 2012). The choice of a small to medium size organisation for study and the richness of the information that resulted also confirms

recommendation to use these entities to examine the role of top management teams (Lubatkin et al 2006).

I was also able to expand understanding of how antecedent factors (Raisch et al 2008) can become negative influences for the introduction of organisational ambidexterity. The specific negative factors I identified were the impact from behavioural integration (Hambrick 1994), and the relationship between stable conditions, organisation inertia (Barton 1992; Danneels 2002), and the inability to implement new service development. My focus on the power exerted by dominant management coalitions (Prahalad et al 1986) also augmented understanding of their influence over the flow of knowledge, and how this contributes to an organisation context that becomes inimical for implementing behavioural ambidexterity (Gibson et al 2004). An important expansion of understanding I was able to establish regarding the negative side of antecedent factors is a recognition that these may represent the reason for ambidextrous design implementations to be unsuccessful.

My research also developed new understandings about the catalysts which are the causation factors motivating management teams to consider implementing organisational ambidexterity. The new insights refer particularly to the possible use for organisational ambidexterity in situations where management is not compelled to innovate. In these conditions ambidextrous designs could represent a means for developing competitive advantage by introducing new product into market segments rather than overcoming existential threat. My research was also able to develop a number of new insights into the impact made by stable conditions on structure, strategy (Chandler 1962; Roberts 2004), and behaviour. Appropriately communicated, my research also offers management teams competing under conditions of product stability a capability for initiating new product or service innovation as means for augmenting their competitive advantage.

## Appendix 3.1

### ***Explanatory Statement provided to participants of analysis of context***

My name is Leon Duval and I am conducting a research project towards a PhD at Monash University together with Associated Professor Vivek Chaudhri in the Department of Management. This means that I will be writing a thesis, which is the equivalent of a 300 page book. The aim of this project is to investigate whether external environments have the potential to shape and influence the services provided by a professional services firm. Professional accounting has been chosen as the industry to be studied. The prime data source for the project will be a case study conducted in a carefully selected accounting firm. Prior to undertaking this detailed case study I will be conducting a comprehensive analysis of the professional accounting industry in Australia. An important source of data will be the views and insights gained from key stakeholders of the industry. It would be extremely valuable therefore to understand more about the services you provide and also how you view your strategic position relative to the accounting firms.

### **The aim/purpose of the research**

There are many impediments preventing an organisation from delivering multiple service suites especially when these are generated by culturally dissimilar infrastructures. One of the suggested solutions for solving the structural incompatibility is to evolve the firm into an ***ambidextrous*** or ***dual-purpose*** form. The aim of this research project will be to study the strategies, organisation architecture and external environments of firms currently delivering a single homogeneous suite of services, and to consider the process facilitating an evolution into a dual service offering. The project will also consider whether the process of change from unitary into dual purpose is strategically and structurally feasible. The study will be relevant to accountants in professional practice interested in providing a range of value added services, in addition to the compliance and regulatory services traditionally regarded as the core service delivery for the industry. As an example, the delivery of management accounting services requires a culture more entrepreneurial than one supporting the delivery of a compliance and regulatory offering. Accordingly the development of a capability to sustain this dual service suite is only possible when the many structural incompatibilities are resolved. One of the aims for this study will be to develop an understanding how any incompatibilities can be bridged to facilitate the implementation and sustainment of a value adding dual-purpose service suite.

**Possible benefits**

A potential outcome from this research project may therefore be the design of an ambidextrous organisation architecture that could be adapted for the use of Australian professional accounting firms to facilitate the introduction of value adding services in addition to the traditional core compliance offering.

**What does this interview involve?**

The interview will be based on a number of specific questions. These can be provided to the interviewee prior to the actual meeting. With the permission of the interviewee the proceedings will be audiotaped.

**How much time will the interview take?**

I would envisage the interview extending over a maximum of one and a half hours.

**Confidentiality - Storage of data**



Storage of the data collected will adhere to the University regulations and kept on University premises in a locked cupboard/filing cabinet for 5 years. A report of the study may be submitted for publication, but individual participants will not be identifiable in such a report.

**Confidentiality - Use of data for other purposes**

It is possible that the results of the research undertaken in this project may have relevance to other researchers who are interested in gaining access to the data. Because of the safeguards being taken with the original data, and the preservation of anonymity, it will not be possible for any subsequent researcher utilising the information to identify any participant or any firm, which becomes a case study. The same protections will apply if the data collected forms the basis for any journal article, conference paper, book, or book chapter that may be a further outcome from this research project.

**Results**

If you would like to be informed of the aggregate research finding, please contact Leon Duval on [REDACTED]. The findings are accessible for five years.

<p>If you would like to contact the researchers about any aspect of this study, please contact the Chief Investigator:</p>	<p>If you have a <b>complaint</b> concerning the manner in which this research (<b>ref -MUHREC LR CF11/0684 – 2011000327</b>) is being conducted, please contact:</p>
<p><b>Associated Professor Vivek Chaudhri</b>  <b>Building N, Rm6: 18</b>  <b>Monash University, Caulfield Victoria</b>  </p>	<p><a href="#">Executive Officer, Human Research Ethics, Monash University Human Research Ethics Committee (MUHREC)</a>  <a href="#">Building 3e Room 111 Research Office</a>  <a href="#">Monash University VIC 3800</a>  </p>



### Consent to be interviewed – participants analysis of context

**Title: The applicability of ambidextrous designs for service firms competing within stable external environments: The Case study of an Australian Accounting practice.**

**NOTE:** This consent form will remain with the Monash University researcher for their records

I agree to take part in the Monash University research project specified above. I have had the project explained to me, and I have read the Explanatory Statement, which I keep for my records. I understand that agreeing to take part means that:

I agree to be interviewed by the researcher  **Yes**

**No**

I agree to allow the interview to be audio-taped  **Yes**

**No**

I agree to make myself available for a further interview if required

**Yes**

**No**

I agree to complete questionnaires seeking information regarding the potential for organisation structures to shape and influence the services provided by a professional services firm.

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way.

I understand that any data that the researcher extracts from the interview for use in reports or published findings will not, under any circumstances, contain names or identifying characteristics.

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the research.

I understand that any information I provide is confidential, and that no information that could lead to the identification of any individual will be disclosed in any reports on the project, or to any other party.

I understand that data from the **interview, transcript and audio-tape** will be kept in a secure storage and accessible to the research team. I also understand that the data will be destroyed after a 5 year period unless I consent to it being used in future research.

Participant Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date            /            /

### Appendix 3.3

INTERVIEW GROUP	SPECIALIST CONSULTANTS
1	<b>Question:</b> Could you describe the consulting services your firm provides to Accountants in professional practice?
2	<b>Question:</b> Are there a number of similar consulting businesses supplying the same services & if so what percentage of the market do you hold?
3	<b>Question:</b> Your firm has been providing consulting services to the Accountants in professional practice for over 30 years. How has the profession changed in that time and in your view what do you think are the most significant changes?
4	<b>Question:</b> A survey of accounting firms undertaken by the ABS in 2001-2002 divided the firms into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and > 20 principals. I confirmed prior to this interview you provide consulting to all groups with < 9 principals, do you also service the firms in the 10> category?
5	<b>Question:</b> If you do service the larger firms do you think that the issues they face are the same as those faced by the smaller firms or are there any clear differences and if so what are those differences?
5	<b>Question:</b> You have had relationships with practitioners over many years. With these ABS classifications in mind would you say that the core strategies deployed in the various firms, the client services they offer, and their individual firm cultures differ based on size?
6	<b>Question:</b> What factors are in your view do create points of difference between the competing firms in the respective market segments
7	<b>Question:</b> The ABS survey referred indicated that the service offering of firms with less than five partners was heavily weighted to taxation assurance and compliance. In your view is there a reason for this?
8	<b>Question:</b> Do you believe that Australian accountants in professional practice structured in firms with less than five partners could realistically be expected to provide their clients with services that are outside of the conventional compliance suite. In this category I would include monthly management accounts, budgets and cash flow projections?
9	<b>Question:</b> Are you aware of any firms that provide this type of service and if so how many principals do they have?
10	<b>Question:</b> If you do know of firms in this category what in your view allows them to deliver a dual service offering
11	<b>Question:</b> Do you believe that the GFC had any impact on the objectives strategies and performance outcomes of the firms you work with
12	<b>Question:</b> Would you say that the majority of practitioners are generating contributions after expenses that deliver a commercial salary to principals plus a return on capital employed? Would the quantum of both differ significantly based on the number of partners?

**Appendix 3.4/1**

<b>INTERVIEW GROUP</b>	<i>PRINCIPALS OF ACCOUNTING PRACTICES</i>
1	<b>Question:</b> A survey of accounting firms undertaken by the ABS in 2001-2002 divided the firms into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and > 20 principals. Which category is your firm?
2	<b>Question:</b> How is the firm managed- consider the corporate governance model, the strategic decision making, and finally the executive management and operations levels?
3	<b>Question:</b> What market segments would the majority of your clients be drawn from? Use these classifications for your answer - public companies, large and complex family business turnover in excess of \$20 mill - SME's with turnover between \$10 and \$20 mill -SME's with turnover less than \$10 mill - the not for profit sector- local state and federal government- high net worth individuals?
4	<b>Question:</b> Do you outsource any of the back or front office processes and if so which ones and to what type of organisation?
5	<b>Question:</b> What services are provided by your firm and what approximate % of fees would these each represent?
6	<b>Question:</b> Are your Directors/Principals members of the Chartered Institute, CPA, NIA or a mixture of all?
7	<b>Question:</b> Are your professional employees predominantly drawn from either of the three institutes and if so which one?
8	<b>Question:</b> Would you describe your competitive environment as fiercely competitive, moderately competitive, not really competitive?
9	<b>Question:</b> Are all of your competitors accounting firms or are there other existing or emerging competitors. As an example, legal practitioners, financial planners, management consultants or others?
10	<b>Question:</b> What significant external factors do you believe impact on your firm's strategic decision making?
11	<b>Question:</b> What strategies and processes would describe your HR initiatives and how would you describe the state of the market place for recruiting professional staff does it favour the employer or employee?
12	<b>Question:</b> Have your professional staff salaries remained static or increased materially over the last five years. The question does not relate to the quantum of the salaries it is to the salary paid per professional?
13	<b>Question:</b> Do you recruit professional staff using an external consultant or internal resources. If you use an external consultant do you have a preferred provider and who is that preferred provider?
14	<b>Question:</b> All members of the three accounting bodies are required to undertake a certain number of professional development hours. Do you have any data as to the weighting of the programs attended. The broad headings I am interested in are these, taxation, audit and assurance, legal and compliance, management accounting and management consulting?

**Appendix 3.4/2**

15	<b>Question:</b> Can you describe the emerging threats in the external environment that could have a significant impact on accountants in professional practice generally and your firm specifically?
16	<b>Question:</b> Besides the emerging threats there are also emerging opportunities. Can you describe the opportunities emerging in the external environment that could have a significant impact on accountants in professional practice generally and your firm specifically?
17	<b>Question:</b> What are the points of differentiation that provide your firm with a competitive edge in its market segment. Is pricing a factor?
18	<b>Question:</b> Over the last three years have you experienced growth or decline in your fee base?
19	<b>Question:</b> If you have had growth was it the result of an increase in client numbers, higher rates per hour or the provision of additional services. If the latter are you able to provide some indication of the nature of these services?
20	<b>Question:</b> If you have had no growth or a decline in fees what factors can you pinpoint the reasons for this?
21	<b>Question:</b> The 2002 survey of accounting practises provided a comprehensive insight into the profession at the time. It has not been updated since and I am trying to assess the trends over the last 8 years. I have summarised some data out of the survey which is on the form I am handing to you. Can you indicate how your firm rates against the 2002 data?
22	<b>Question:</b> Do you market your services and if so what medium is used?
23	<b>Question:</b> Does the firm have a formal succession plan in place and if not do you intend formulating one in the near future?
24	<b>Question:</b> What are the age ranges of your partners <35, 35-45, 45-55, >55?
25	<b>Question:</b> In the absence of a succession plan what contingencies are in place for partner retirements incapacity or death?
26	<b>Question:</b> Would you describe it as easy or difficult to hang up a shingle and commence professional practice briefly outlining the reasons for your opinion?

INTERVIEW GROUP	CLIENTS OF ACCOUNTING PRACTICES
1	<b>Question:</b> Can you describe the nature of your business and your role in that business?
2	<b>Question:</b> How many staff members are employed in your administration/ accounting function and what are their roles and formal qualifications?
3	<b>Question:</b> How many persons does your organisation employ?
4	<b>Question:</b> Is your turnover per annum <\$5 mill, between \$5 and \$10 mill, between \$10 and \$20 mill, >\$20 mill per annum?
5	<b>Question:</b> Can you list what information systems are used throughout your business.
6	<b>Question:</b> How many principals are in the accounting firm you use and where is it situated?
7	<b>Question:</b> How long have you been using this firm?
8	<b>Question:</b> Are you able to explain briefly why this firm was selected?
9	<b>Question:</b> Have you at any time changed accounting firms and if so what were the reasons for the change?
10	<b>Question:</b> Is your relationship only with the partner or do you work with other members of the firm. If you do, can you describe the position those other persons hold in the firm and the services you receive from them?
11	<b>Question:</b> Can you briefly list all the services you receive from your professional accountant?
12	<b>Question:</b> Which of the following applications are incorporated into your management and control processes? Business plan, Annual Budget, Monthly or quarterly management accountants, Determination of product costs
17	Did you consider using the firm to assist with the preparation of business plans, budgets, cash flows, regular management accounts and cost management? If you did consider utilising them why were they not involved and if you did not consider utilising them, why not?
18	<b>Question: Do you use</b> the services of external consultants to assist you with your financial management and control. Can you briefly outline how you chose these consultants and whether you find their services to be excellent, competent, average or poor?
20	<b>Question:</b> How would you rate the usefulness of the services received from your external accountant on a scale of 1-5, where 1 is not at all useful and five is very useful.

INTERVIEW GROUP	ADVISORS TO THE INDUSTRY (LEGAL)
1	<b>Question:</b> Could you describe the services that are offered to accounting firms by your firm?
2	<b>Question:</b> For the record can you state how many years you have personally been engaged in delivering these services?
3	<b>Question:</b> A survey of accounting firms undertaken by the ABS in 2001-2002 divided the firms into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and > 20 principals. In those years you provided services in all these segment. What were the prevailing issues faced by the industry and the firms in that time and how do you believe these have changed?
4	<b>Question:</b> In that time would you say the tax and compliance issues faced by accountants in professional practice have become more or less complex. Could you also explain the reasons for arriving at your conclusion?
5	<b>Question:</b> Do you think that the tax and compliance issues face by the larger firms with more than 9 partners are the same as those faced by the smaller firms or are there any clear differences. If so what are those differences?
6	<b>Question:</b> You have had relationships with practitioners over many years. With the ABS classifications in mind would you say that the core strategies deployed by the various firms, the client services they offer, and their individual firm cultures differ based on the size of the firm?
7	<b>Question:</b> What factors are in your view do create points of difference between the competing firms in the respective market segments?
8	<b>Question:</b> Do you believe that Australian accountants in professional practice who are structured in firms with less than five partners could realistically be expected to provide their clients with services that are outside of the conventional compliance suite. In this category I would include monthly management accounts, budgets and cash flow projections?
9	<b>Question:</b> Are you aware of any firms that provide this type of service and if so how many principals do they have?
10	<b>Question:</b> If you do know of firms in this category what in your view allows them to deliver a dual service offering?
11	<b>Question:</b> Do you believe that the GFC had any temporary or permanent impact on the firms that you work with and if so how you would you describe this impact?
12	<b>Question:</b> What are the most important issues currently faced by the firms that you work, do these differ based on firm size?

INTERVIEW GROUP	ACCOUNTING PRACTICE COMPETITORS
1	<b>Question:</b> For the purposes of this Industry Analysis I have classified you as a competitor to those accounting firms servicing the SME market segment, do you agree with that perception?
2	<b>Question:</b> Are you a sole trader or do you operate as part of a larger structure. If the latter can you provide some information about that larger structure?
3	<b>Question:</b> Can you describe the services you provide to SME's?
4	<b>Question:</b> Would you mind providing some background information regarding your own career and why you became involved in the work you now perform?
5	<b>Question:</b> How do you market your services?
6	<b>Question:</b> Do you believe that a trained accountant has the knowledge to provide those services?
7	<b>Question:</b> If the answer to the previous question was yes why in your view do the clients you manage not turn to their professional accountant to deliver the services you provide?
8	<b>Question:</b> If the answer to the question was no, why in your opinion does a trained accountant not provide the services you offer?
9	<b>Question:</b> I realise this is a subjective question but, are you able to provide some insights into the perceptions your clients have about their external accountants?
10	<b>Question:</b> Do you come in contact with the external accountants who service your clients and if so, what observations are you able to make regarding their service offering, their point of difference, and the way they engage with their clients?

### **Explanatory statement provided to potential case study participants**

#### **Background**

The unprecedented volatility of external environments has shortened product lifecycles dramatically for many industries, and unless alternative cash generating outputs are found to replace those that are lost as a result, the firm will fail because it will be left with no products to sell.

This situation has forced many industries to devise structural responses that allow both the existing product sustaining activities, and a breakthrough innovation program capable of developing new products to exist side by side. This dual focus is not easily combined. The structure and the culture that supports an existing solid state, risk averse, cash generating capability, will not readily be compatible with the high risk levels, and culture of experimentation needed to generate the ideas required for developing new products or services.

In order to reconcile these incompatibilities, specialised architectures evolved, and they provided a possibility for two seemingly incompatible cultures and structures to operate simultaneously within the confines of one holistic entity. The businesses that develop and implement these dual structures are known as ambidextrous organisations.

The prime catalyst for the introduction of ambidextrous structure is a volatile external environment because this presents an existential threat to cash generating outputs and forces management to develop replacements. My research examines these structures from a totally different perspective. It investigates whether ambidextrous structures have the potential for becoming strategic weapons, providing the means for businesses competing in industries characterised by relatively stable external environments to develop new cash generating outputs, while simultaneously supporting a profitable, but mature existing capability.

Professional accounting in Australia, (which according to the last comprehensive survey undertaken by the Australian Bureau of Statistics generates around 75% of its income from compliance related services), is a perfect example of an industry not impacted by a volatile external environment which threatens core product sustainability. The industry is therefore a suitable environment to use for researching the central research question of my thesis. It is quite possible that ambidextrous



forms offer no inherent benefit at all to firms competing in stable external environments, but this is effectively the essence of the research question.

In order to obtain the data required, I need to undertake a case study on one accounting practice, and your firm does fulfil all the criteria that were developed for determining how to select an appropriate case for study.

### **Anonymity and research ethics**

The Monash University Human Research Ethics Committee has approved this research for the purposes of a Doctoral thesis, and one of the preconditions is that all participants must be referred to anonymously.

### **Interviews**

Face to face interviews will be based on sets of predetermined questions. All questionnaires will be provided to participants before the interviews, and if agreed, the interview will be recorded.

### **Interview with Practice Managing principal**

An initial interview with the managing principal will take between 2- 3 hours.

Objective is for the researcher to develop an understanding of the case study, including its history, objectives, strategy, governance, executive management, organisation chart, services, client profile, personnel resources and funding methods.

### **Interviews with Practice Principals**

Interviews with each of the accounting practice principals are designed to take no more than 2 hours. (Note the managing principal will also be included in this interview process). Objectives (inter alia) are to develop a profile of the Top Management Team, to understand the criteria used for making decisions, how the team views the external and competitive environment, its perception regarding core product lifecycles, where it understands opportunities to exist, where it believes the accounting practice has a unique competitive edge in the market segments in which it operates, how the practice accumulates knowledge, and how that knowledge is stored and communicated.

### **Interview with one middle manager (nominated by the managing principal)**

The interview with one practice middle manager is designed to take around 1.5 hours. The questionnaire will be submitted to the managing principal beforehand allowing him to be aware of the questions that will be asked. Objectives are to understand from the perspective of the middle manager how operations are organised, what the primary objectives and key performance indicators are for the

operations function, the nature of the control systems, the flexibility applied in process management, and the training objectives and strategies that are in place.

#### **Interview with the personnel responsible for IT Management**

The interview with the person(s) responsible for maintaining and developing IT capability is designed to take no more than 1.5 hours. The questionnaire will be submitted to the managing principal beforehand allowing him to be aware of the questions that will be asked. Objectives are to understand the practice IT objectives and strategies, and how the IT capability is used to support operations management, and strategic objectives.

#### **Feedback of interview transcripts**

Transcripts of each interview will be prepared and submitted to each participant who will then be asked to acknowledge the content as being a true reflection of their responses to the questions put during the interview. Confidentiality between interviewee and researcher will be totally respected and for this reason transcripts will not be circulated to other participants.

#### **Time Period**

To ensure minimum disruption, the whole process would be structured for completion over a period of two weeks. All interviews will be scheduled to fit in with the time commitments of each participant.

**EXPLANATORY STATEMENT PROVIDED TO CASE STUDY PARTICIPANTS**

**This information sheet is for you to keep.**

**Introduction**

My name is Leon Duval and I am conducting a research project at Monash University together with my supervisors Professor Veronique Ambrosini and Associated Professor Vivek Chaudhri. The data from the research project will be used for the purposes of a PhD Thesis. The aim of this project is to investigate whether external environments have the potential to shape and influence the services provided by a professional services firm and Professional Accounting has been chosen as the industry to be studied.

The prime data sources for the project will come from a comprehensive analysis of the professional accounting industry in Australia, and from a case study conducted on a selected accounting firm. Your firm fulfils all the criteria that determined the essential characteristics qualifying an accounting practice as being appropriate for use as a case study.

**Background**

The unprecedented volatility of external environments has dramatically shortened product lifecycles for many industries, and unless alternative cash generating outputs are found to replace those that are lost as a result, the firm will fail because it will be left with no products to sell. Business units that face this dilemma are often required to simultaneously maintain two organisation structures, one designed to support the existing product until it reaches the end of its lifecycle, and one to develop new products that will replace the old.

Previous research has shown that this can be extremely difficult because management ends up trying to reconcile the competing needs of two incompatible cultures. Maintaining an existing capability requires regularity efficiency and a tight control underpinned by an aversion to risk, whereas developing a new replacement capability requires imagination brainstorming and embracing risk. The businesses that successfully navigate through these incompatibilities and create structures that simultaneously accommodate both are known as ambidextrous organisations.

**The aim of my research**

Your industry is quite unique in that despite the extremely dynamic era in which we live, the lifecycles of the compliance services you deliver are not under any immediate threat. A substantial amount of work has been done on the relationship

between volatile external environments and ambidextrous organisation structures, but there has not been the same amount of research aimed at understanding how the top management of a business competing in a non-volatile environment would view the usefulness of an ambidextrous structural design. My research will be examining how a relatively low threat to product longevity influences strategy, structure, and culture in a firm operating within a relatively stable external environment, and whether an ambidextrous design could provide any utility at all for that firm.

### **Possible Benefits**

A potential outcome from this research project may be a design for an ambidextrous organisation architecture that could be adapted for the use of Australian professional accounting firms to facilitate the introduction of value adding services in addition to the traditional core compliance offering.

### **Anonymity and Research Ethics**

The Monash University Human Research Ethics Committee has approved this research for the purpose of a doctoral thesis and one of the preconditions is that all participants must be referred to anonymously in all published material.

### **Interviews**

Face to face interviews will be based on sets of predetermined question. All questionnaires will be provided to participants before interview and if agreed the interview will be audio recorded. In recognition of the time constraints forced on practice principals and their employees by the constant pressure of legislation change and client demands, interviews will be timed to complete within a maximum of 1.5 hours. Any follow up will be via email, and designed to ensure that the written record of the interview accurately reflects the perspectives of the interviewee.

### **Confidentiality - Storage of data**

Storage of the data collected will adhere to the University regulations and kept on University premises in a locked cupboard/filing cabinet for 5 years. A report of the study may be submitted for publication, but individual participants will not be identifiable in such a report.

### **Confidentiality - Use of data for other purposes**

It is possible that the results of the research undertaken in this project may have relevance to other researchers who are interested in gaining access to the data. Because of the safeguards being taken with the original data, and the preservation of anonymity, it will not be possible for any subsequent researcher utilising the

information to identify any participant or any firm that becomes the case study. The same protections will apply if the data collected forms the basis for any journal article, conference paper, book, or book chapter that may be a further outcome from this research project.

**Results**

If you would like to be informed of the aggregate research finding, please contact Leon Duval [REDACTED]. The findings are accessible for five years.

If you would like to contact the <b>researchers</b> about any aspect of this study, please contact the Chief Investigator:	If you have a <b>complaint</b> concerning the manner in which this research ( <b>ref -MUHREC LR CF11/0684 – 2011000327</b> ) is being conducted, please contact:
<b>Associated Professor Vivek Chaudhri</b> <b>Building N, Rm6:18</b> <b>Monash University, Caulfield Victoria</b> <b>Email:</b> [REDACTED]	<a href="#">Executive Officer, Human Research Ethics</a> <a href="#">Monash University Human Research Ethics Committee (MUHREC)</a> <a href="#">Building 3e Room 111</a> <a href="#">Research Office</a> <a href="#">Monash University VIC 3800</a>  [REDACTED]

Thank you.

Questionnaire Template	TMT
1	Provide a brief history of the practice?
2	Can you provide me with an up to date version of the organisation chart?
3	What are the main service offerings of the practice?
4	What are the approximate percentages each of these represent of total services?
5	Describe the practice corporate governance model?
6	How are executive responsibilities divided between members of the TMT?
7	Briefly explain the objectives the TMT have set for the practice and how they were set?
8	Have strategies been set for achieving the objectives and if so explain briefly?
9	How often does the TMT meet; what informal interaction exists outside of the meetings?
10	What is the most common way the TMT communicate with each other, formal meetings, informal discussion, email or other electronic media; how frequent is the communication?
11	Do you have a formal process for setting long term strategic direction?
12	How would you describe the culture dominating the TMT relationships?
13	How would you describe the culture that you encourage for the practice?
14	How do you assess the risks that you face as a business and how do you monitor the risks that you have identified?
15	What measures are in place to mitigate against practice risk?
16	On a scale of 1-5 where 1 is low and 5 is high describe your attitude to business risk?
17	Do you believe there are opportunities for growing your practice and if so what are these?
18	Do you discuss opportunities for growth with management below that of the TMT?

19	If you were offered a growth opportunity which of the following two options would be more important to you - (1) the possibility of missing out or (2) avoiding a costly error?
20	We identified the major service groups offered by the practice. In your view what would best describe the lifecycles of each short, medium, long term, indefinite or undecided?
21	How would you describe your competitive environment - benign, fiercely competitive or has no particular impact?
22	Who would be your primary competitors?
23	Does the practice have a marketing plan and if so what are its objectives and strategies?
24	What do you think is your primary competitive advantage as a practice?
25	What is your view of the practice growth potential in the short to medium term?
26	Are there specific features characterising your client base, demographics, ethnicity, specialisation or size?
27	Does the 80:20 rule apply regarding fee generation viz. is 80% of the value being generated from 20% of the clients?
28	Do you fund the practice using bank debt, equity and loans, other, or a mix of funding?
29	What would you say are the scarce resources that place limitations on your ability to sustain or grow the existing capability?
30	Do you have a formalised practice training program and what are its objectives?
31	What formal training programs exist and is any informal learning activity going on?
32	Are your training programs designed for maintaining the knowledge relevant to the existing services or do you also use them to seek other opportunities?
33	Is knowledge acquired by the TMT communicated down or is there also upward communication?
34	Do you set any objectives for the operational function of the practice?

35	What control are imposed on the operations function and its personnel?
36	Are employees encouraged to find their own method to undertake a job or do they have to follow a predetermined procedure?
37	How are changes made to operational process and procedure?
38	How do you deal with jobs exceeding budget or estimate and what engagement takes place with the employees concerned?
39	What processes are in place to achieve continuous improvement objectives and where are they focused?
40	What technologies are used throughout the practice & is it a support for both marketing initiatives, operations and administration?
41	Is there a strategy to ensure that technologies are maintained at the cutting edge and if so describe that strategy?



Questionnaire Template	SUPERVISOR
1	Are you familiar with the objectives that the partners have set for the practice and if so what are they in your view?
2	How would you describe the culture that the Partners encourage for the practice?
3	What are the greatest risks to the firm that you need to deal with as a manager?
4	What measures do you think are in place to mitigate against practice risk?
5	On a scale of 1-5 (1 is low & 5 high) describe your attitude to business risk?
6	Do you see growth opportunities for the practice and if so where are these?
7	Do you discuss opportunities for growth with any of the partners?
8	Do you see any threat in the short medium or long term to the lifecycles of the services sold by the practice?
9	How would you describe the competitive environment in which the firm operates?
10	Who do you see as the primary competitors?
11	What do you think is the primary competitive advantage of the practice?
12	What would you say are the scarce resources limiting either your existing capability or your growth opportunities?
13	Describe the formal and informal training programs in which you participate?
14	In your view is training designed for maintaining the knowledge relevant to the existing services or does it encourage the exploration of anything new?
15	Do you add to the knowledge in the practice or is this from partners only?
16	How do you organise and manage the work flow?

17	What are the objectives set for you as a manager of the work flows in the practice
18	Would you describe the approach to operations processes as being flexible, encased within standard routine or a mix of both?
19	What controls ensure the efficiency of the work under your management?
20	How flexible are the processes in place, do employees have to work according to set rules or encouraged to find the best way to complete a task efficiently?
21	How are changes made to operational process and procedure?
22	What happens when jobs go over budget?
23	How do you as a manager ensure that the processes are continually improved?

Interview Transcript APP	Accounting Practice Principal	1 <sup>st</sup> March 2012
<p><b>A survey of accounting practices undertaken by the Australian Bureau of Statistics in 2001-2002 divided the firms into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and &gt; 20 principals. Under which category does your practice fall?</b></p> <p><i>We are a 3-4 principal practice, but different to the norm because three of the principals are in the traditional tax, compliance, assurance and business services area, whereas the fourth delivers financial planning services.</i></p>		
<p><b>How is the firm managed? In your answer consider the corporate governance model, strategic decision making, and executive &amp; operations management</b></p> <p><i>Governance is by a board of directors with one independent member. Goals are set for each division and achievement is measured periodically. At the executive level each principal has a specific management responsibility in addition to the primary client servicing function. Two principals focus on the core offer made up of business services (accounting), tax, and regulatory compliance, and one focuses on management advisory services. The financial planning principal is exclusively involved in “financial services” that involves the formulation of investment strategy and wealth creation. In 1995 the firm utilised the services of an external facilitator to run a strategic planning session and the outcome was a material change to the way in which the principals thought about themselves, and the way that the practice operated both strategically and structurally. This process of introspection has been ongoing and the practice had just completed an internal survey to gain some insight into what its people thought about themselves and the internal culture. Practice is approaching an annual turnover of \$5.5 mill. Operations are managed by a middle management level who take responsibility for the production teams under their control.</i></p>		
<p><b>What market segments would the majority of your clients be drawn from? Use these classifications for your answer - public companies, large and complex family businesses with turnover in excess of \$20 mill - SME's with turnover between \$10 and \$20 mill -SME's with turnover less than \$10 mill - the not for profit sector- local state and federal government- high net worth individuals?</b></p> <p><i>When asked for size range APP responded that it was difficult to classify the size of SME's. For example do you use annual turnover or the number of employees as the benchmark? In addition when comparing organisations that deliver services to those selling products direct comparisons based on size were even more difficult. Majority of the practice clientele by number is within an SME cohort ranging in turnover from \$5mill to \$20 mill. The firm does have a small number of clients in the upper SME range namely turnover &gt;\$20million. It also manages a number of high net worth individuals.</i></p>		

**What services are provided by the practice and what percentage of fees generated would they represent?**

*Between 60 – 70% of the service offering is in the core compliance, regulatory and business services area. Approximately 30% of the services could be categorised under the “other” category.*

**Are your Principals members of the Chartered Institute, CPA, NIA or a mixture of all?**

The firm is designated as “Chartered” because the majority of its principals are members of the ICA.

**Are your professional employees drawn predominantly from either of the three institutes and if so which one?**

*They are pretty mixed but come from either ICA or CPA.*

**Does the firm have a formal succession plan in place and if not do you intend formulating one in the near future?**

*There is no compulsory retirement age but an agreement is in place formalising how a withdrawing principal would be paid out. The actual amount is based on an agreed formula.*

**What are the age ranges of your principals <35, 35-45, 45-55, >55?**

*The principals in the accounting division range in age from forty eight to fifty six. The principal responsible for financial planning is thirty five years of age.*

**Would you describe your competitive environment as fiercely competitive, moderately competitive, not really competitive?**

*APP did not believe that the environment was competitive. The practice had experienced strong growth and was not having any difficulty retaining or acquiring clients.*

**Who are your competitors?**

*APP did not have any real view on the impact of competitors. Regarding competing accounting practices his comment was, “ you really needed to stuff up before a client left “. The reason he gave was that the accountant acquires so much intimate knowledge about a client and its affairs that the relationship is locked in by shared confidences. He also observed that unlike the infrequent relationship a client will normally have with a lawyer, the one with the accountant is continuous.*

*APP advised that the practice does enter into strategic alliances with a number of different specialist consultants. He acknowledged that many other practices would regard this as unwelcome competition but APP viewed the relationships this created as a method for delivering a wider and more comprehensive service offering to their clients*

**What are the significant external factors impact on your practice’s strategic decision making?**

*Effectively there is one, the direct influence of government regulation and legislation.*

**What strategies and processes describe your HR initiatives, and what is your view of the market for the recruitment of professional staff? Does it favour the employer or employee?**

*The function was outsourced to an external agency that fulfilled the role of HR manager.*

*The guiding principles of the HR strategy were training and the retention of existing employees. Noted that many staff members had been with the practice for over ten years.*

*To recruit additional trainees, the practice participated in the annual Institute of Chartered Accountants sponsored "Employment Evening", and as a result was able to recruit up to three new graduates each year.*

*The practice also had a strategy designed to retain existing staff, which aimed to develop motivated employees. A critical tool for implementing this strategy was the leadership program.*

**Have the salaries paid per professional staff member remained static or increased materially over the last five years?**

*The practice policy is to pay above market remuneration levels, a strategy designed to recruit and retain excellent employees. Because of this individual salaries have increased above market averages.*

**Do your employees identify problems in processes and client relationships then feed them through to principals. If so, what procedures are used to communicate the information collected?**

*APP said that they involve staff through training especially the leadership program. They are also about to release the practice financial results to the staff in order to acquire greater buy in and increase participation. Principals and supervisors also engage with subordinates to review process and efficiency (the process was not formal).*

**Does your firm undertake regular client surveys and if so when was the last one done?**

*Surveys have been undertaken in the past but not for a number of years. The practice does intend to undertake a survey at some time in the future, but this project is currently not on the agenda.*

**Do you arrange structured focus sessions with clients to acquire feedback about service satisfaction and any demand for new service**

*There are no formal programs but the firm had instituted a program whereby clients are periodically visited by a principal who is not the one with whom they have the direct relationship. The purpose of the visit is to undertake an informal interview designed to gauge whether the client is satisfied with the service provided, and to determine whether any unresolved difficulties are being experienced. The rationale is that the client would be more likely to discuss their areas of discontent if they had no relationship with the interviewer.*

**Does the firm conduct exit interviews with departing clients?**

*There are no formal exit interviews with client, but they do arrange formal exit interviews with any departing staff members.*

**Can you describe the emerging threats in the external environment that could have a significant impact on accountants in professional practice generally and your firm specifically?**

*Did not perceive any emerging threats.*

**Can you describe any emerging opportunities that could have a significant impact on accountants in professional practice generally and your practice specifically?**

*Extend the financial planning services that the practice is now offering.*

*Assisting clients with their change management processes.*

*“Getting involved and helping to direct traffic in the client business”.*

**Do you see any possibility that your firm would outsource or offshore at anytime in the future?**

*Practice is already outsourcing and also offshoring; Superannuation funds offshored to India. Contemplating the offshoring of individual and company tax returns to India. Audit of Super funds to be outsourced, (not offshore).*

*Computer management has been outsourced (not offshore)*

**What are the points of differentiation that provide your practice with a competitive edge in its market segment? Is pricing a factor?**

*APP did not believe that brand name played any part, it was all about relationships and personal service. He said that you can call the practice whatever you like but ultimately, it is all about service to the client.*

*It was important to have a presence on the internet and in the social media, but these were not critical marketing tools. The critical growth tool was the referrals that came from clients and other professional contacts.*

*Noted that the practice was trying to break the “my client” relationship and to expand the contact between client and all members of its staff.*

*APP believed there to be some resistance to fee increases but this could be overcome by delivering value not hours. In his view if the client translated the fee into hours they question value, but if they relate it to outcome they will consider the result and not the fee. An initiative being taken in the practice was to convert the engagement to a fixed fee per annum including both compliance and advisory work with no limit placed on the level of contact. The engagement was accordingly based on a retainer model. At the negotiation stage it was made clear to the client that for the arrangement to be workable the relationship must not be abused. If both sides respected the needs of the other, the client would be able to utilise the professional service without considering the cost of the hours*

**Over the last three years have you experienced growth or decline in your annual fees and was growth the result of an increase in client numbers, higher rates per hour or the provision of additional service? If it was from the provision of additional services are you able to provide some indication of the nature of these services?**

*Experienced growth from a mix of additional service and fee increases.*

*The additional services came from the financial planning principal and from the advisory services provided by APP.*

**Do you market your services and if so what medium is used?**

*Have a presence on the internet.*

*Periodically hold client functions and information sessions, but APP was unconvinced that these represented any value to the client.*

*Publish a regular newsletter.*

*The most important marketing tool is the networking activities of the principals.*

Interview Transcript APSP	Sole Practitioner	18 <sup>th</sup> May 2012
<p><b>How is the firm managed? In your answer consider the corporate governance model, strategic decision making, and executive &amp; operations management</b></p> <p><i>As a sole practitioner the corporate governance model is very simple. All strategic and operational decisions are made by the APSP. The wife was also involved in the practice in a bookkeeping capacity and clearly her influence played a large part in the decision making.</i></p>		
<p><b>What market segments would the majority of your clients be drawn from? Use these classifications for your answer - public companies, large and complex family business turnover in excess of \$20 mill - SME's with turnover between \$10 and \$20 mill -SME's with turnover less than \$10 mill - the not for profit sector- local state and federal government- high net worth individuals?</b></p> <p><i>The firm's clientele are mainly high net worth individuals, professionals and investment groups, also a few SME's.</i></p>		
<p><b>What services does your firm provide and what percentage of fees generated would they represent?</b></p> <p><i>Tax returns, general purpose financial statements, accounting for self managed superannuation fund, superannuation fund audit, and the lodgement of Business Activity Statements (BAS). Data for the BAS returns is derived from MYOB files that are either processed by sub contractors working for the practice, or by the clients themselves. Advice on tax planning and superannuation, pension and retirement planning.</i></p> <p><i>These services are the totality of the fees, it provides no add on services.</i></p>		
<p><b>Are you a member of the Chartered Institute, CPA, or NIA?</b></p> <p><i>The firm is designated "Chartered", the sole practitioner is a member</i></p>		
<p><b>Are your professional employees predominantly drawn from any one of the three institutes and if so which one?</b></p> <p><i>The firm does not employ staff but utilises self employed sub contractors paid on an hourly basis. Four sub contractors are used plus the wife of the practitioner. Some subcontractors are registered members of accounting bodies but the practitioner has not really enquired which one.</i></p>		
<p><b>Would you describe your competitive environment as fiercely competitive, moderately competitive, not really competitive?</b></p> <p><i>APSP did not perceive the competitive environment to be a factor</i></p>		
<p><b>What is your experience with client loss</b></p> <p><i>The frequent contributing factor was the need to consolidate different members of an investment group under one accountant. In these cases the loss would usually be to a larger firm. He also indicated that sometimes the outcome was reversed in that the consolidation under one accountant meant that he picked up the whole group.</i></p> <p><i>Of more concern was the pressure from clients to reduce fees or their complaints about fees. The most pressing concern was the constant dynamics of the tax and regulatory system, which often forced changes to previously prepared returns. When this happened in most cases it proved impossible to bill clients again and to recover the additional time.</i></p>		

**Are all of your competitors accounting firms or are there other existing or emerging competitors. As an example, legal practitioners, financial planners, management consultants or others?**

*When asked about financial planners and if they were a competitive threat APSP's response was that his clients did not tend to use planners because they were uncomfortable with the trailing commissions received. He therefore did not see them as a threat at all.*

**What is your age range, <35, 35-45, 45-55, >55?**

*APSP is over >55.*

**Does the firm have a formal succession plan in place and if not do you intend formulating one in the near future?**

*Succession plan was to sell practice and retain the audit of self-managed superannuation funds which was a reasonably simple task and quite lucrative financially. There were no internal persons who could purchase the practice.*

**What significant external factors do you believe impact on your strategic decision making?**

***Interviewer Note - APSP was unable to articulate an answer to this question. His fears regarding the external environment are however captured in many responses throughout the interview.***

**What strategies and processes would describe your HR initiatives and how would you describe the state of the market place for recruiting professional staff? Does it favour the employer or employee?**

*The practice does not employ permanent staff, it is using the services of self-employed sub contractors who are paid on an hourly basis. Four sub contractors are called on plus the wife of the practitioner, it has no other HR strategy. The subcontractors receive between \$45 and \$70 per hour and excluding his wife, are sole practitioners trying to subsidise their fees and sell excess time. These people were easy to find but recruiting professionally qualified staff as a sole practitioner was extremely difficult*

**Does your firm undertake regular client surveys and if so when was the last one done?**

*No surveys are done.*

**Do you hold structured focus sessions with clients to get feedback as to service satisfaction and demands for new services?**

*None.*

**Does the firm conduct exit interviews with departing clients?**

*There are no formal exit interviews with clients.*

**Can you describe the emerging threats in the external environment that could have a significant impact on accountants in professional practice generally and your practice specifically?**

*Clients not keeping proper records forcing the practitioner to constantly repair the data. A frequent outcome was the client refusal to pay the additional fees and this resulted in losses from writing off the excess time incurred.*

*The continuous request for advice on the phone and the reluctance to then pay for that advice.*

*The continuous cycle of legislative change and ATO deadlines left no time to step out of the tax return and give other advice.*

*The small practices were unable to attract the younger accountants who either avoided compliance services or were attracted by the larger practices.*



**Appendix 4.2/3**

*APSP said that overseas born accountants were available, and although all were excellent technicians they lacked the ability to think out of the technical box or to cement the required relationships with the client. Problems with both language and culture were mentioned as the reasons. APSP observed, "As the older accountants move out of the smaller practices who is coming in to replace them"?*

*APSP described the professional environment as a vicious circle caused by legislative and regulatory changes, deadlines, lack of time and no opportunity to provide any additional services.*

*Agreed with the analogy of always fighting fires and the not sleeping at night, his comment, "in the end you had to often fly by the seat of your pants".*

**Besides the emerging threats there are also emerging opportunities. Can you describe the opportunities emerging in the external environment that could have a significant impact on accountants in professional practice generally and your practice specifically?**

*Facilitating syndication and investment pools -the time pressures & deadlines made it very difficult to actually take advantage of these opportunities.*

**Do you see any possibility that your firm would outsource or offshore either front end or back office processes at anytime in the future?**

*Many firms are now offshoring to India and other low cost environments. He would not consider this personally because in his view the process remove the direct communication so necessary during a review of a file.*

**What are the points of differentiation that provide your practice with a competitive edge in its market segment? Is pricing a factor?**

*APSP was very specific about the only point of difference that really counted, personal relationships. Advertising was not valuable at all and pricing is a real factor in his market segment.*

**Over the last three years have you experienced growth or decline in your fee base?**

*Experienced some growth, APSP was reluctant to expand on this however. He said that the growth was driven by both acquiring additional clients and by higher rates per hour.*

**Do you market your services and if so what medium is used?**

*Has no presence on the internet. Yellow pages but very little direct response. The importance of referrals was stressed as the most effective marketing tool. Pro bono audit work for charitable organisations*

**what is your fee level relative to number of practitioners?**

*APSP indicated his fees were in excess of \$400k per annum*

**What is the nature of your professional development activities?**

*Entirely focused on tax and compliance. APSP attends a monthly tax update reads the bulletins issued by the ICA. He undertakes no other professional training and commented that there would be no time available even if he wanted to.*

Interview Transcript CL1	Client of accounting practice	2 <sup>nd</sup> March 2012
<b>Note the internal financial controller was present for the whole of this interview</b>		
<p><b>Can you describe the nature of your business?</b>  <i>Established in 1996, the company provide clients with a single, independent source for all print and IT requirements, including procurement, management of multi-function devices, printers, supplies and equipment. Clients include many of Australia’s largest corporations, government departments and small to medium size businesses. The National head office is in Victoria from where the operations team coordinates technicians in each state who attend to client needs across Australia.</i></p>		
<p><b>How many staff members are employed in your accounting function and what are their roles and formal qualifications?</b>  <i>CL1 advised that there are two full time employees, the internal financial controller and an administration assistant. The IFC has no formal qualifications but CL1 stated that she is practical, organised and hands on. She also has the necessary practical experience. CL1 remarked (in her presence) that he relies heavily on her because he does not have a financial background.</i></p>		
<p><b>How many persons does your organisation employ?</b>  <i>CL1 advised that there were presently forty five employees in total.</i></p>		
<p><b>Is your turnover per annum &lt;\$5 mill, between \$5 and \$10 mill, between \$10 and \$20 mill, &gt;\$20 mill per annum?</b>  <i>CL1 advised that the turnover was in the range of ten to twenty million dollars close to fifteen million dollars.</i></p>		
<p><b>Can you indicate the information systems used by the business?</b>  <i>CL1 advised that they used various internally designed systems to manage and control the core operations capability. The accounting transaction recording system used is MYOB</i></p>		
<p><b>What size accounting practice do you use to manage your external accounting needs and how long have you used them?</b>  <i>The practice has four principals, is located in St Kilda Road Melbourne, and was retained six months prior to the interview.</i></p>		
<p><b>Could you please explain briefly why this practice was selected?</b>  <i>Choice was made based on the reputation of the liaison principal.</i></p>		
<p><b>You used another accounting practice prior to retaining this one, what were the reasons for making the change?</b>  <i>The change occurred because of major levels of dissatisfaction with the previous accountant. The contributory factors were these;  The relationship principal appeared to delegate most of the work and the liaison to a senior accountant in his office. CL1 said that “our business and its needs had become more sophisticated but there was no evidence that the previous accountant had grown his business to the point where he could service our needs” Company compliance obligations were not up to date and although accountant said they were “not to worry”, it was a source of immense concern to CL1. “I saw that my accountant appeared to be managing by</i></p>		

**Appendix 4.3/2**

*crisis”, said CL1, “and this was very scary because I relied on him to protect my back in areas I don’t understand”. The relationship finally broke down when CL1 retained a strategic consultant to assist the company management with the interpretation and understanding of their quarterly (internally generated) financial results. The consultant required information from the external accountant and when he was asked to provide it, the relationship principal became extremely agitated that an outsider had been retained to examine financial results. When the parties met to discuss the issue the rift widened and was unable to be bridged.*

**Is your relationship with the new practice only with the liaison principal or also with other employees? If so what services do you receive from those employees?**

*Both CL1 and IFC agreed that because this was a new relationship it was too early for relationships to extend beyond that of the relationship principal. Noted also the reluctance expressed by the IFC to deal with other employees because of her experiences with the previous accountant.*

**Can you briefly list all the services you receive from your professional accountant?**

*Services provided were regulatory and compliance based only, however CL1 noted that the new accountant provided advice in the restructuring of an investment loan which he had been particularly helpful.*

**What additional services would you request from your external accounting practice**

*CL1 and IFC both stated that they would not go to their accountant for advice about management (they included financial statement interpretation under this heading). The services of a consultant had been secured for this task, “because” said CL1, “accountants do not have the head for a strategic view it was just not their thing”. When asked if the company had a business plan, cash flow and budget model the response was yes and both CL1 and IFC indicated that they would not request assistance from the external accountants for preparing this information-“Because it was not one of the services they provided”. CL1 I said that the services he would seek from the new accounting practice was to understand the opportunities provided by rolling entitlements into a self managed superannuation fund.*

**Could you indicate which of the following are incorporated into your management and control processes?**

*A business plan – Yes, but were not keen to provide any detail.*

*An annual budget and cash flow forecast – Yes, preparation was by internal resources using Excel and is under the control of the IFC.*

*Monthly or quarterly management accounts – Yes, produced monthly (are simple management accounts with budget actual comparisons).*

*Determining and analysing the cost and profitability of products and or services – Yes, internally developed systems for specific needs – a mix of Excel and basic data base applications.*

**How would you rate the usefulness of the services received from your external accountant on a scale of 1-5, where 1 is not at all useful and five is very useful.**

*Previous accountant – were not even prepared to rate  
Replacement firm were rated a four out of five.*

Interview Transcript CL2	Client of accounting practice	14 <sup>th</sup> February 2012
<p><b>Can you describe the nature of your business and your role in that business?</b>  <i>CL2 supplies podiatry services to patients and assists with the making up of inserts for footwear.</i></p>		
<p><b>How many staff members are employed in your accounting function and what are their roles and formal qualifications?</b>  <i>None are employed which CL2 said was his largest business concern at the moment. He always intended to deal with the processing requirements after hours but just never found the time to do so.</i></p>		
<p><b>What is the fee range for your professional services business?</b>  <i>Annual fees are between \$250k to \$300k. (Note – Given this is a professional services business to obtain a true perspective of size relative to a business selling tangibles, the fees are traditionally grossed up around 3 times. This translates to an equivalent turnover of \$750k to \$900k per annum, a sizable business under the small enterprise classification.</i></p>		
<p><b>Can you list the information systems used in your professional services business?</b>  <i>Uses Microsoft Office Suite for email communications, for managing appointments, and for correspondence and electronic filing.  External accountant advised CL2 to purchase a MYOB accounting package (which he did some time ago) but has never been given instruction by the accountant on how to use the system. He personally does not have the expertise to work it out.</i></p>		
<p><b>How many principals does your current accounting practice have?</b>  <i>CL2 said that he was not quite sure because the practice had gone through a number of changes. He also had very little contact with the relationship principal and was looking to make a change.</i></p>		
<p><b>How long have you been using this firm and why was it selected?</b>  <i>CL2 advised that he had been using the practice from the date he commenced his own professional services business, just under three years prior. The reason he chose them was because of a referral from a friend. CL2 would like to change the accounting practice but is unsure how. If he did change he would approach one of the names provided to him by friends.</i></p>		
<p><b>Is your relationship only with the principal or with other members of the practice.</b>  <i>CL2 said that he was forced to answer that question by stating that he had no relationship at all with the current practice.</i></p>		
<p><b>Can you briefly list all the services you receive from your professional accountant?</b>  <i>CL2 said that he had received advice regarding his taxation obligation, but really did not understand what was being recommended and why. CL2 also admitted that he was three years behind with the preparation of annual tax returns and extremely stressed about this. He was not sure how rectify the problem because of his inability this far to process the transaction information using MYOB.</i></p>		

**Which of the following procedures do you use for management control processes?**

*A Business Plan – Not used*

*An annual budget and cash flow forecast - Not used*

*Monthly or quarterly management accounts – Not used*

*Determining and analysing the cost and profitability of services – Not used*

**How would you rate the usefulness of the services received from your external accountant on a scale of 1-5, where 1 is not at all useful and five is very useful.**

*CL2 said that he had not received any support so could not provide a rating but he also admitted that part of the problem was of his own making.*

Interview Transcript IB	Principal insurance broker	23 <sup>rd</sup> September 2011
<p>IB declined to be interviewed directly but agreed to respond to a questionnaire. This was unfortunate because the participant had developed his service business by networking with accounting practice principals over many years, and had a wealth of knowledge about the industry. This transcript has been prepared from the written responses on that questionnaire and the information proved to be relatively unhelpful.</p>		
<p><b>Can you describe the services you provide and how many years have you been providing these services?</b>  <i>B is one of two principals with beneficial ownership in a business that sells general insurance broking services and specialist life risk insurance. IB has been involved in providing these services for twenty three years</i></p>		
<p><b>In that time would you say that the tax and compliance issues faced by accountants have become more or less complex?</b>  <i>More complex, the ATO is constantly bringing in new legislation to close “loop holes”.</i></p>		
<p><b>Do you provide insurance services to accounting practices with more than ten partners in addition to the group with less?</b>  <i>a. Yes if referred to these practices</i></p>		
<p><b>Do you think the tax and compliance issues faced by the larger practices are the same as those faced by the smaller practices?</b>  <i>Interviewer Note- Answer to this question was “should be same” however other interviewees did not hold the same opinion</i></p>		
<p><b>You have had relationships with accounting practitioners over many years. Would you say that the core strategies deployed in the categories of sole practitioner, 1-2 principal, 2-4 principal, 5-9 principal practices and the service offering differ based on the size.</b>  <i>Answer was yes with no further explanation</i></p>		
<p><b>What factors in your view create points of difference between the competing practices in their respective market segments?</b>  <i>The larger the firm the more specialist the advice and the wider the scope offered.</i></p>		
<p><b>Do you believe that Australian Accountants in professional practice who are structured in firms with less than five partners could realistically be expected to provide their clients with services that are outside the conventional compliance suite – monthly management accounts, budgets and cash flow projections?</b>  <i>Answer was no without comment or explanation</i></p>		
<p><b>Are you aware of any practices that provide this service and if so how many principals do the have?</b>  <i>Answer is yes those with more than ten principals</i></p>		

Interview Transcript IC	Consultant to the industry	3 <sup>rd</sup> February 2012
<p><b>Can you describe the consulting services your firm provides to Accountants in professional practice?</b>  <i>The firm offers the following services to the professional accounting industry. Preparation of benchmarking and key practice data for the profession. Practice Valuations and Consulting services to the profession. Presentations, guest speaking, and facilitation. Practice Broking and Practice protection. Storage of all critical data if practice is forced into a sale as the result of a crisis</i></p>		
<p><b>Are there a number of similar consulting businesses supplying the same services and if so what percentage of the market do you hold?</b>  <i>IC said that there are a number of competitors in the market place and although she does not have an actual percentage for her firm's market share it is substantial. The firm which was started by her father has been around for over thirty years. It has a distinctive presence in the market, and is a brand that is known trusted</i></p>		
<p><b>How do you think the profession has changed over the years that you have been providing consulting services?</b>  <i>Over the last five years there is evidence that a greater number of younger accountants are entering the profession whereas that trend was absent for a period of time. An issue that is being confronted now is the affordability of buy in. It is extremely difficult for younger accountants to find the capital required for both purchase of goodwill and working capital funding when they are also facing private school fees and heavy mortgage repayments. One of the service offers provided by IC was practice brokerage. At the present time there were more buyers than vendors for fees and practices. There had been an increase in the bad debt write offs in some practices especially those with clients susceptible to economic downturns and the GFC had exacerbated this situation. An interesting trend was outsourcing (and in some cases offshoring) of back office processing. The level of fees managed per partner had increased considerably and was now approaching between \$880k-\$900k. IC said that this had climbed from \$500k-\$600k. An interesting comment made by IC that this may have partly been the result of fee acquisition rather than organic growth.</i></p>		
<p><b>A survey of accounting practices undertaken by the ABS in 2001-2002 divided the firms into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and &gt; 20 principals. Does your firm service the firms in the 10&gt; category?</b>  <i>IC advised that they have provided services to all categories with the exception of the mega top four firms.</i></p>		

**Are the issues faced by the larger practices the same as those faced by the smaller practices or are there any clear differences and if so, what are those differences?**

*Larger firms are able to attract the best professional staff because they offer career development. They also have the capacity to allow principals to specialise, which the smaller firms are unable to do.*

**Based on the categories that the ABS used for its survey do you know if the core strategies, the client services and the individual practice cultures differ based on size?**

*IC said that in her experience the smaller practices are all heavily weighted towards compliance and the larger firms have greater audit capability besides the specialised services they offer.*

**What contributing factors in your view weight the services in the smaller practices towards compliance?**

*Principals working in the business rather than on the business and this effectively shut down any ability to recognise strategic windows. Practice growth has come from the frequent changes to the taxation legislation and the compliance requirements flowing from this. The accounting profession then benefited from increased demand for compliance services. IC said that in her experience principals in the smaller practices have poor communication skills, lack a strategic perspective, and do not have the ability to initiate new product innovation and develop the marketing programs required for conducting a successful sales effort. A very real weakness was an inability to leverage off the expertise that could be delivered to clients by external professionals. This also stemmed from the inability to move away from a "my client" perspective and to develop a more business focused "practice owned" client perspective. The inability to attract good professional staff, particularly in the regional practices, was a real issue, and made it difficult to deliver the core product never mind attempting to develop new ones. IC concluded by saying that it was important to recognise that the pervasive nature of the compliance environment and the need to avoid risk by ensuring that you kept up with the changes really made it extremely difficult to consider other opportunities.*

**Do you believe that Australian accountants in professional practice structured in firms with less than five partners could realistically be expected to provide their clients with services that are outside of the conventional compliance offer? In this category I would include monthly management accounts, budgets and cash flow projections?**

*In response to this question IC referred to the views expressed previously*

**What are the key opportunities and threats faced by accountants in professional practice at the present time and do you believe that these differ according to practice size**

*IC listed the following as threats but prefaced it by saying none were existential. Impact of GFC and the potential for client businesses to fail. Recruitment of professional staff. Principal succession in the smaller practices. Complexity of the compliance environment (also an opportunity). Paranoia re loss of clients and inability to leverage off external expertise. The following were listed as potential opportunities. The regulatory environment will not be getting any simpler therefore the externally driven*



**Appendix 4.6/3**

*growth drivers are set to continue. Opportunities for entrepreneurial firms to fee acquire fees from retiring or ageing principals, offshore outsourcing, and improving profitability by client rationalisation.*

**Would you say that the majority of practitioners are generating a level of contribution after expenses that provide for a commercial salary to principals in addition to a reasonable return on the capital employed?**

**Would this differ significantly based on the number of principals**

*IC said that the first problem in the question was to define an adequate salary, which actually varied from practice to practice according to size, number of principals, staff levels, and location. In her experience the notional salaries in the smaller practices at the time were around \$120k per annum, in the mid tier they were between \$130k - \$160k and in the upper levels of the mid tier \$160k - \$190k.*

*Practitioners were generally generating earnings in excess of these levels and consequently a return on investment was being achieved. IC also remarked that many practitioners do not even adopt the concept of salary and profit, they just draw out the cash and often get into difficulties!*

Interview Transcript LAW	Consultant to the industry	23 <sup>rd</sup> September 2011
<p><b>Could you describe the services that are offered to accounting firms by your firm?</b></p> <p><i>LAW and his team of associates provide legal advice and legal services to professional accountants in the following areas of law. Advice on tax planning and assistance in negotiating settlement when disputes arise between clients and the ATO, and in the interpretation of tax law and practice. Advice on corporate structuring, commercial and company law advice, interpretation and practice. Estate planning, will construction &amp; family dispute resolutions.</i></p>		
<p><b>How many years you have personally been engaged in delivering these services?</b></p> <p><i>Law advised that it was now close to a period of thirty two years.</i></p>		
<p><b>A survey of accounting practices undertaken by the ABS in 2001-2002 divided the practices into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and &gt; 20 principals. Have you provided services to practices in all these segments and what in your view were the prevailing issues faced by professional accountants in that time and how do you believe these have changed?</b></p> <p><i>LAW said the question was complex and could require a complex answer that he would attempt to simplify. He listed the significant changes to the basic income tax system that had occurred in that time; an introduction of Capital Gains Tax, Fringe Benefits Tax, a Goods and Services Tax, significant changes to the taxing of individuals who are beneficiaries of trusts, upheavals in the way retirement income is taxed, significant changes to the way overseas income is taxed, both for Australian residents and non residents, just a few of the major shifts that have occurred and this was only in the tax area. The most significant change therefore faced by the firms would have to be the major increase in the complexity of the regulatory environment. A good measure of the increasing complexity Law said, was to compare the size of the latest issue of a Master Tax Guide to one published in 1980. The current version was at least double the number of pages and the publication really only attempted to summarise the legislation, case law and rulings.</i></p>		
<p><b>Do you think that the tax and compliance issues face by the larger firms with more than 9 partners are the same as those faced by the smaller firms or are there any clear differences. If so what are those differences?</b></p> <p><i>LAW said that there are clear differences at the higher end of the corporate food chain. Accounting practitioners in the larger firms will need to confront transactions only relevant to listed entities. The smaller firms deal with the SME segment and do not have the experience in these areas.</i></p>		

**What factors are in your view do create points of difference between the competing firms in the respective market segments?**

*LAW observed that many of the principals in the larger firms provide extended strategic services. By larger firms he was referring to the 5-9 principal categories and above. They had the capacity to do so because the structures allowed each principal to focus the services provided to a client at a much higher level than pure tax and compliance. Under each principal was a capable manager who attended to the compliance and other bread and butter issues. Principals in the smaller firms may have the capability to deliver higher level services but the employees below them were totally blinkered and only focused on the task at hand, namely the process of preparing and dispatching large volumes of tax returns and General Purpose Financial Statements. These blinkered employees tended to “up delegate” and the principal was accordingly trapped into becoming involved with the bread and butter tax and compliance together with his or her lower level employee.*

*LAW also commented at length on what he referred to as the “education aspect”. He introduced the topic with an observation “ I am not sure how accountants sleep at night, if I was in their shoes I wouldn’t”. Keeping up with the changes in the law was a process requiring a lawyer specialising in tax to commit a minimum of 4 hours reading a week, and in his firm this minimum probably extended to 8 hours per week. Clearly this was not time that the average practitioner in the smaller practices had available and the result was they did not actually know the law. This was despite the availability of the many specialists and professional bodies who delivered seminars and workshops to the profession ostensibly to keep practitioners abreast of the changes. In the larger accounting practices specialist grouping of employees was also possible allowing an exclusive focus on specific areas of interest to be developed. This option was totally absent in the smaller firms.*

*Re points of difference, it was all about the personality of the relationship principal. Clients would switch to and remain with an accounting practice based on their attraction to the principal they dealt with. Price is an issue where the clients don’t really care about the individual relationship principal or the service offering, the sole criterion for judging the level of satisfaction is the level of fee paid and obviously the lower the better. LAW also indicated that in his experience clients would often remain with their accounting practitioner for an extended period even after satisfaction levels had dropped.*

**What are the most important issues currently faced by the firms that you work with and do these differ based on firm size?**

*Succession and the availability of younger accountants in generation X & Y prepared to buy in and become principals was a significant issue. Generation X & Y employees did not wish to pay large sums of money to buy into the goodwill of the firms. This situation may trigger a succession issue for the industry but its cause would not be the absence of potential candidates. LAW believed that a more realistic model to the sale of goodwill was to offer a prospective incoming principal a no goodwill structure, where the principals fund working capital requirements only. The individual borrows the funds required but, with the support of the practice, so it is a low risk option.*

Interview Transcript PB

Practice Broker

9<sup>th</sup> September 2011

**Before retiring you were recognised as one of the top brokers for the sale purchase and merger of accounting practices. During that time you would have formed many impressions about the nature of the industry and its practitioners. What are your enduring memories of both?**

*PB recalled that in most of the contacts she had with practitioners they complained about the constant pressure to keep up with changes in the tax law. A further complaint was the dealings with the ATO, the red tape and the bureaucracy. A further problem frequently mentioned was the difficulties in training and retaining good professional staff. PB said that the pressures on the practitioners were clearly enormous, but the best operators made money because the average practice generated a good salary for the principals and also provided an adequate return on investment. Practitioners on their own, and those in many partnerships, achieved profitability by working long hours.*

**A survey of accounting practices undertaken by the ABS in 2001-2002 divided the practices into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and > 20 principals. In the years covered by the survey you would have had close contact with many of the practitioners in the smaller categories. In your view what were the prevailing issues faced by professional accountants in that time?**

*PB said that the major issue in the smaller practices from the perspective she dealt with was succession. The larger practices with the ability to attract professional staff were capable of allocating fees to young associates aspiring for partnerships and this provided an initial start for them. The other issue faced by the smaller practices was the inability to free up discretionary hours giving more time to be proactive on client needs and practice management.*

**Besides the obvious size differential are there any other factors that created visible points of difference between the practices competing in their various market segments?**

*The most obvious difference is the nature of the clients that are serviced. PB said that the smaller practices were heavily involved in the SME segment whereas larger practices with the more sophisticated resources were able to manage large family businesses and in some cases also the corporate sector.*

**Why is it that the surveys profiling the professional accounting industry indicate that the major component of the fees generated is in the compliance related area?**

*After giving the question some thought PB responded that in her view it is what the profession believes it sells, and what the client has been conditioned to buy.*

**Do you believe that a practice with less than five principals could realistically provide its clients with a dual service, one that included monthly accounting, budgeting and cash flow projections in addition to the traditional compliance offer?**

*PB said that these services would be grouped generically as management accounting. She had sold practices that included this service in their offer but when probing she had found the offer to be a limited set of quarterly financial statements. She personally was not aware of practices that included an extended management accounting service, offering budgets and cash flow projections. PB added that many accounting practices assist clients with obtaining bank loans and these applications would often include projections and estimates required by lenders.*

**You sold many practices over the years you were a broker, in general terms how were practices valued then?**

*In most cases as a percentage of sustainable fees delivered to the purchaser measured over the first 12 months from the date of acquisition. The percentage varied from 65% of sustainable fees to 100% depending on the assessment of the client quality and the ability of the parcel to create future value.*

Interview Transcript RQA	Recently Qualified Accountant	14 <sup>th</sup> February 2014
<p><b>What is the age range of the principals in your practice?</b>  <i>RQA advised that there are five principals, the youngest in his late forties and the oldest mid sixties. The other three ranged in between these two.</i></p>		
<p><b>Do you know if the practice has a succession plan to retire older principals and replace them with the next generation of younger principals?</b>  <i>RQA said that he did not know if there was a formal plan in place.</i></p>		
<p><b>In your view how competitive is the professional accounting industry?</b>  <i>RQA understood it to be reasonably benign based on the attitudes expressed by the other professional accountants he conversed with. He personally did not believe that he had enough experience to express an opinion.</i></p>		
<p><b>Question 4 –What do you think gives your practice a competitive edge in its market segment?</b>  <i>RQA said that he was working in a service industry and therefore in order to obtain some advantage it was necessary to give “more than the guy next door”. When pressed to explain this further he said that the role of the accountant in taking care of the client goes further than just a tax return and mentioned the need for ensuring that insurance and medical fund benefits were adequate, and managing financial health through financial planning services. RQA added that there was a need to provide other supporting “value add” services in the form of regular reporting and forward projections, however he acknowledged that he was certainly not doing this and nor to his knowledge, was the practice. He was aware that some of the principals provided ongoing support to a small group of larger clients but was unaware of the nature of the support given. He was certain that it was not detailed management accounting reporting. The other factor was the importance of the professional/client relationship, which engendered loyalty from both parties.</i></p>		
<p><b>When you are allocated a job in the firm what in general terms is the nature of that job?</b>  <i>RQA said that in the majority of cases it was “here is the file, produce financial statements, and tax returns and when doing the latter ensure that the quantum of tax is minimised to the extent allowed by law and regulation”. He also commented that at times he had noticed issues in the financial statements and brought these to the attention of the supervising principal. He did not know if these had been relayed to the client. Essentially the attitude encouraged is to produce the General Purpose Financial Statements and tax returns as quickly as possible.</i></p>		
<p><b>Is your firm offshoring any processing tasks?</b>  <i>RQA said that the answer was no and proceeded to say that in his view by offshoring a practice lost the capability to train the next generation of accountants therefore he believed it was a very short sighted strategy.</i></p>		
<p><b>Do you think that you have an innovative culture in your practice?</b>  <i>RQA believed that there was an innovative culture. He went on to explain this by giving the example of one principal who was always looking at ways to sell financial planning, estate management and income protection into the clients he serviced.</i></p>		

**Can you describe what you see as the emerging threats in your competitive environment?**

*RQA identified offshoring, also a definite resistance to fee increases and expressed the view that this may in fact be a reason why additional services are not provided.*

**What emerging opportunities do you see for the profession?**

*RQA's response focused on the areas of wealth protection and wealth creation.*

**How does your firm market its services?**

*From his understanding marketing was limited. Noteworthy were a number of videos incorporated into the website dealing with financial and estate planning.*

**How would you go about introducing add on services into your practice? I am referring to services like supporting the client's financial management, which you mentioned previously.**

*RQA said that introducing these so called value add services was a pipe dream that could never be achieved because of the pressures to maintain knowledge in the core service offering. He also observed that a management accounting approach necessitated thinking forward and this clashed with the compliance view which was rearward focused and encircled by externally imposed standardisation. RQA also told of a situation he had confronted in his practice where after an approach by a "management accounting specialist" to offer specialised services to the clients in the form of a joint venture he had taken the proposal to the principals who in his words "would have none of it".*

Interview Transcript SC	Strategic Consultant to SME's	26 <sup>th</sup> November 2011
<p><b>I have classified you as a competitor to accounting practices servicing the SME market segment, do you agree with that perception?</b>  <i>SC responded (quite adamantly) that he did not see himself or his organisation as competitors. Unfortunately (his words) the accounting practices he had approached to explore a potential for working together considered both himself and his organisation to be competitors</i></p>		
<p><b>Can you explain how your business is structured?</b>  <i>SC explained that all representatives of the branded franchisor company trade as franchisees and are licensed to use the name and associated intellectual property. This included a referral system. SC referred me to the mission statement (reproduced below) of the franchisor company, which is nationally represented by its franchisee network. In 1993 X was founded to provide business coaching and mentoring to small to medium-sized business owners. Unlike business consultants, business coaches show the company how to attack challenges head on, have them utilise tools and systems, and aid them in a way that when the business coach leaves, the company can still grow, profit and succeed – on their own, without X. X business coaches need to do intensive one-on-one or group coaching sessions with clients before leaving small business owners on their own. Small business owners can choose which X tools and systems can best help their business.</i></p>		
<p><b>Would you provide some background information regarding your own career and why you became involved in the work you now perform?</b>  <i>SC emigrated from South Africa in 1993 to take over the CEO role for a pharmaceutical company based in Brisbane. He then relocated to Victoria and commenced his business coaching career, initially on behalf of an existing franchisee, and then as a full franchisee. The experience from his business career and the particular stage reached in his own working lifecycle made the option of becoming a business coach a logical choice.</i></p>		
<p><b>Can you describe the services you provide to SME's?</b>  <i>Undertake an initial analysis of the client business both quantitative and qualitative which was based on information the coach obtained from interviews, informal discussion, and the financial results captured by the management information system. The data is then used to assist the business owner develop strategies and a business plan with the help of the processes and techniques proprietary to the franchisor. The value obtained by the client will depend on the skills and the experience of the coach involved. A significant difficulty that the coaches needed to overcome was the lack of basic financial information trading, profit and loss statements, budgets, and cash flow projections. Even if a fairly up to date profit and loss is available (frequently produced by an internal bookkeeper) invariably this is not accompanied by a balance sheet. SC commented, "If the accountant is not providing this information then who is"? "Not one of the clients I have worked with to date has been provided with a budget by the external accountant the financial reporting system was inadequate nor was there any cash flow.</i></p>		



**How do you market your services?**

*The marketing techniques used are telemarketing, information seminars, strategic alliances and cold calling. SC noted that professional accounting practices clearly offered an opportunity for strategic alliances however any attempt made was met with a rejection by the principals. SC put this down to a number of factors, the accountant wants to personally provide the coaching service they are scared to allow the coach to approach the client fearing loss. In his view this was illogical because the accountant had the expertise to prepare regular management accounts, together with a statement of financial position (balance sheet) and the basic business planning tools comprising budget and cash flow projection. This information provided the coach and the client the means for developing the key strategies required for marketing, operations, logistics and HR initiatives. Approached in this way a three way alliance between client, accountant and coach created a powerful model to support strategic development, and management and control required by an SME which because of its size did not have the required internal capabilities.*

**Do you believe that a trained accountant has the knowledge to provide the services of a business coach as just described?**

*SC commented on this at length by providing an example of how a coach would diagnose a marketing and sales problem and work with the client to find solutions. He concluded by saying that he did not see this as being within the expertise or skill sets of the external accountant.*

**Are you able to provide some insights into how your clients regard their external accountants?**

*SC said that based on his experience clients appear to have a degree of respect for the accountant and in some cases are in awe of the accountant! He said that the relationship appeared to be not always friendly and was often very much at arm's length. The most common observation he heard clients making about their accountant was a complaint about fee levels.*

**How do you think a professional accounting practice could differentiate its service offering in the market?**

*SC said that in his view differentiation could be achieved by delivering a very basic management accounting service that provided regular profit and loss and balance sheet plus budgets and cash flow projections.*

Interview Transcript SUC	Industry Consultant	16 <sup>th</sup> September 2011
<p><b>Could you describe the services that you provide to accounting practices?</b>  <i>SUC advised that he personally, and others in the firm in which he was a principal provide workshops, seminars and specialist advice on superannuation, pension and related areas to accounting practices and their principals. The firm also has its own internal accounting and compliance division and provides this service for the self managed superannuation funds of its own clients and those of other professional accounting practices who have outsourced the process</i></p>		
<p><b>A survey of accounting practices undertaken by the ABS in 2001-2002 divided the firms into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and &gt; 20 principals. To which of these groups do you provide services?</b>  <i>SUC advised that his firm primarily serviced the practices with less than five principals but also did some work with the 5 – 9 group. They did not service the 10 plus categories primarily because these practices were large enough to employ their own specialists with the required knowledge of law, practice, regulation and compliance in superannuation, pension &amp; retirement</i></p>		
<p><b>Are there a number of similar consulting businesses supplying the same services &amp; if so what market percentage do you think that you hold?</b>  <i>SUC said that a number of competitor organisations exist, but added there was more than enough work for all and rivalry between them was not intense at all. SUC was unaware of the market share held by his firm.</i></p>		
<p><b>Over the period of time that you have been delivering these specialist services to professional accountants would you say the tax and compliance issues they face have become more or less complex? Could you also explain the reasons for arriving at your conclusion?</b>  <i>SUC advised that he had personally been providing specialist services to accounting practices for nearly thirty years. In his words he believed the practices were “out of control”, lurching from one externally imposed tax deadline to another. The analogy he used was that the principals are fighting one fire after, another no sooner is one put out, than the next one starts.</i></p>		
<p><b>You have had relationships with practitioners over many years. With these ABS classifications in mind would you say that the core strategies deployed in the various practices, the client services they offer, and their cultures differ based on size?</b>  <i>SUC said that the critical difference is the capacity for the larger practices to develop strategies structured around internal specialisations because this was extremely difficult for the smaller practices.</i></p>		

**In your view what are the factors that create points of difference between practices in the various market segments?**

*SUC answered the question with an initial observation saying that “the preparation of tax returns is a necessary evil, no one really wants the service but they need it in order to comply with statutory obligations”.*

*He suggested that the majority of the clientele in a practice receive a “bread and butter” compliance service, that is all they expect, and all they are prepared to pay for. Provided the practice principals had the necessary expertise however, a small group of larger more sophisticated clients would receive a more specialised service, in some cases these may even fall under the banner of management accounting. The practices that have developed this “layered service approach” (words of SUC) would then have a competitive advantage over competitors in their servicing of the larger SME clients.*

*SUC was however quite sceptical about the number of smaller practices that had actually achieved this “layered service”. He said that in his experience the practices published a “menu of services offered”, tax returns, advice on tax, tax planning, accounting, business advice, estate planning to quote but a few. The reality was that menu existed to ensure that the practice looked competitive, in fact the principals may never actually promote or deliver many of the service on offer, they are just “on the menu”. An additional weakness was that even if the practice had the product (the expertise) they also needed the management and marketing skills to actually create, package, market and deliver the add on services. It followed therefore that practices possessing both the service expertise and the marketing skills would hold a powerful competitive advantage in their market place.*

*Notwithstanding these observations SUC said that he understood that relationships are the “key driver” (his words) for achieving differentiation and competitive advantage. This would assist any campaign to sell add on services because the probability of success will be dependent on the strength of the personal relationship between practitioner and client.*

**Do you believe that Australian accountants in professional practice who are structured in firms with less than five partners could realistically be expected to provide their clients with services that are outside of the conventional compliance suite? In this category I would include monthly management accounts, budgets and cash flow projections?**

*You have to proceed from a premise that the mandatory compliance service provided by accountants, engendered an attitude of , “why do I have to pay for this, and if I do have to pay for it, I want to pay as little as possible”. How would the practice get the client to pay for add on services? SUC used a medical analogy, comparing accounting practices to the local GP. Like the local GP accountants should outsource or refer matters when they lacked expertise (they already did this for legal matters) to recognised specialists. The problem was accounting practitioners did not like to present to their clients that they were unable to perform the wide range of services they claimed to offer. Practitioners displayed a strong motivation to lock the client into the practice and not open up any potential for an external specialist to “get their hooks in,” potentially encouraging the client to move away.*

**SUC was then asked why he thought the accounting practices had not developed an effective system of outsourcing specialist services to external providers?**

*SUC said that it must be recognised that in some areas a specialist service referral process was actually in place, however these were generally linked with the traditional compliance suite, specifically superannuation, capital gains tax and other more complex tax related issues. His firm had built its service offer on referrals but specifically in the areas of superannuation and retirement planning.*

*SUC also noted that although the practitioners were referring matters to him, for the most part any extensive direct contact with the client was not allowed. SUC said that in the areas of client relationships accounting practitioners were highly risk averse. Their perception was that an external third party introduced into the relationship represented an unacceptable risk that should be avoided.*

**Concluding Remarks**

*SUC concluded by saying that the substantial barrier preventing development of internally driven specialty services in smaller practices was the time line associated developing the required knowledge base. It was not possible to just put up a shingle and state that from today I offer X, not only was there a need to develop an initial intimate understanding of the primary knowledge base, but then expertise must be developed and matured, which can only be achieved over an extensive time period. SUC suggested that this is a significant barrier to overcome and may very well be the reason why developing added services like management accounting for example, has never really been achieved from internal resources.*

Interview Transcript TAC	Industry Consultant	23 <sup>rd</sup> September 2011
<p><b>Your website states that you and your firm provide a tailored, personalised approach to the tax training needs of accounting practices and tax agents. Could you describe the services that are offered?</b></p> <p><i>TAC said that his firm has a research team that compiles briefings for its training consultants primarily dealing with ongoing developments and changes in income tax law and practice, GST law and practice and capital gains tax law and practice. The training consultants then develop their own training materials from the briefings and use these to deliver regular workshop updates to accountants in professional practice.</i></p>		
<p><b>A survey of accounting practices undertaken by the ABS in 2001-2002 divided them into categories based on the number of principals. These were sole practitioners, 1-2 principals, 3-4 principals, 5-9 principals 10-19 principals and &gt; 20 principals. I confirmed prior to this interview that you do provide training to all groups with less than 9 principals, do you also service the firms in the 10&gt; category?</b></p> <p><i>TAC does not service these practices because they had the internal capability to undertake the required compliance training briefings internal resources.</i></p>		
<p><b>Are there a number of similar consulting businesses supplying the same services, &amp; if so, what percentage of the market do you think that you hold?</b></p> <p><i>TAC confirmed that there are a number of competitors however he stressed that he personally had been delivering tax updates to accountants for over twenty years, and in that time has had experience with over three hundred different practices across the whole spectrum of the industry.</i></p> <p><i>TAC also noted that currently he has contact with around three hundred and eighty accountants on a monthly basis, all of who attend his workshops.</i></p>		
<p><b>In the time you have been involved with professional accountants would you say the tax and compliance issues they face have become more or less complex. Could you also explain the reasons for arriving at your conclusion?</b></p> <p><i>TAC said that the first problem is that income tax is only one of the knowledge requirements in the “regulatory and compliance package”. In addition there is GST, audit, compliance with accounting standards, superannuation, occupational health and safety, workcover, state taxes plus company law and regulation and all of these areas had grown rather than reduced in complexity over the years.</i></p> <p><i>TAC then stressed that not only is the volume an issue, the regulatory authorities are tightening the noose in order to weed out those who were non complying creating a “morass of regulatory requirements” that adds to the frustration of the accounting practitioner.</i></p>		

**You have had relationships with practitioners over many years. With these ABS classifications in mind would you say that the core strategies deployed in the various practices the services they offer, and individual cultures differ based on size?**

*Principals in the smaller firms have not developed specialisations, but they are “extremely embarrassed to say they don’t know”. They refer matters out but try not to let the client know that it has been outsourced. Large practices have specialised and are also more comfortable to openly outsource.*

**What factors in your view do create points of difference between the competing firms in the respective market segments?**

*TAC said that the competitive advantage is the relationship with the client.*

**Do you believe that Australian accountants in professional practice who are structured in practices with less than five principals could realistically be expected to provide their clients with services that are outside of the conventional compliance suite. In this category I would include monthly management accounts, budgets and cash flow projections?**

*The compliance environment was so demanding. It was impossible for a sole practitioner to be on top of the legislative changes, detailed case law and the regulatory framework. This left very little opportunity to develop other service offerings. TAC said he would not relish being a client reliant on the knowledge of the average principal in the smaller firms.*

**What are the most important issues faced by smaller practices?**

*TAC qualified the following suggestions by indicating that in his view one of the most problematic issues was the challenge presented by the complexity of the compliance and regulatory environment. Another important issue confronting smaller practices in TAC’s opinion was to secure a workable succession plan. Older practitioners want to retire, whereas the younger accountants working in the practices listen to the demands being forced on them by the external environment and ask themselves what do I need this for! The situation is further exacerbated by the fact that younger principals have so many other opportunities in other sectors. In an accounting practice they may commence with a salary package in the late \$40k’s whereas in other sectors they could start at \$60k plus. The outcome is that the ethnic mix of the profession is changing, the grinders are becoming Asian migrants who definitely possess a very high work ethic and are very competent but unable to build the relationships required with a non Asian client base because of difficulties with language and culture. The result is a profession being squeezed at both ends, the older practitioners want to get out and there are insufficient numbers of the younger generation coming into the system who can pick up the relationships that bring the competitive advantage driving the profession, relationships. A further issue was to satisfy the value equation of clients who do not want to buy the core product on offer, the annual tax return. The perception in the minds of many clients is that, “all that you did for me was fill out a couple of papers which did not add any value; the fee is now \$5k whereas last year it was \$4k. What exactly am I paying you for”?*

Transcript from Interview with BW –Independent Director – 1/06/15

**CAN YOU DESCRIBE YOUR ROLE IN THE PRACTICE?**

*BW understands his role as “assisting principals to fashion an accounting practice that is both efficient and profitable”.*

**WHAT DO YOU SEE AS THE KEY STRATEGIC INITIATIVES FOR ACHIEVING EFFICIENCY AND PROFITABILITY?**

*A key strategic initiative adopted by the practice for achieving these goals (efficiency and profitability)<sup>12</sup> are its policies for recruiting, developing and retaining a loyal team of professional, accountants, para accounting and administrative employees, and inculcating in them a high level of commitment to the cause of making the practice successful. It was BW’s opinion that the practice had been successful in its pursuit of this strategic goal. Employees have been made to feel that they are invaluable contributors to the firms’ success and they are also rewarded in kind. Examples – The practice recently moved into new offices with a work environment that although it was designed to achieve work efficiency it also provided excellent recreational facilities for employees. The practice has also implemented a four and a half day working week, which delivered an ongoing message to staff that their efforts were both acknowledged and rewarded! BW expressed a personal view that the skill sets of the staff would be described as being competent rather than excellent. They were loyal, (as evidenced by the very low staff turnover rate), and they were committed, (as evidenced by work attitudes and the extremely positive internal culture).*

**DESCRIBE THE PRACTICE OBJECTIVES?**

*In answer to the question regarding immediate objectives for the practice, BW advised that these are limited to a certain extent by a need to restructure following the impending retirement (effective 1<sup>st</sup> July 2015) of a principal who has also been a key rainmaker for the practice in the past. As a result two new principals have been admitted into the equity ownership structure, and the practice will now have to manage the orderly transfer of clients from the retiring to the new principals. Clearly the major objective in this delicate process is to secure relationships and prevent client withdrawals arising out of uncertainty.*

*BW defined the drivers for growth (he saw these as the objectives) as acquiring new clients, maximizing billable hours and achieving cost reduction through operational efficiencies. This was a comprehensive definition that grew both income and profitability, which in his view was the ultimate financial goal. (LD comment note that add on services was not mentioned).*

*BW noted that the practice was profitable, and also financially liquid. This was evidenced by its capacity for significantly reducing external debt,*

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<sup>12</sup> Comment inserted

and an ability to absorb the capital required for the premises relocation out of available cash resources.

**WHAT ARE YOUR VIEWS ON THE FINANCIAL PLANNING INITIATIVES?**

*In response to a question about the decision to provide an internal financial planning service, BW advised that he was not involved with the practice at the time this was decided. He understood that the decision was made because the expertise was available in the practice at the time however, the individual responsible had not been successful in his execution of the new division roll out, and some damage to client relationships had resulted. The incumbent principal who had taken over the division from its founder was competent, and had gradually rebuilt relationships and restored credibility. Existing clients of the practice were the primary users of the service, but clearly there was scope for expanding its reach into a wider market.*

**CAN YOU DESCRIBE THE PRACTICE GOVERNANCE PROCESSES?**

*When asked about governance BW advised that a formally constituted board met monthly which effectively translated into 10 meetings per annum. A formal agenda was set and this was circulated to members before the meeting. The practice principals were the attendees in their capacity of executive directors of the incorporated structure through which the practice traded. BW attended as a non-executive director. The chairmanship now rotated, whereas in the past BW had acted in that capacity. Decisions were made by consensus not by vote, and in BW's experience although disagreements arose from different perspectives around the table, a compromise position was always reached through dialogue. Out of the board meetings there was constant communication between the executive directors, both face to face and per email, but this communication was probably more operations focused than strategic.*

*The primary function for the board is strategic, however BW also made sure that it performed an oversight role as well. Staff productivity, billing cycles and debtor collections were all discussed at the meetings, and action enforced when required. Detailed operations management is organised via a management team that meets weekly. The non-executive director does not participate at this level but the executive directors are actively involved. The focus is on production budgets and targets, new clients and other operational issues that arise from time to time*

*Administration of the practice is delegated to a practice manager who is very effective in the soft HR areas of her role, but not on the harder financial management issues that from time to time require hard decisions and strong action.*



**DO THE MEMBERS OF THE BOARD HAVE AN UNDERSTANDING OF THE RISKS CONFRONTING THE PRACTICE?**

*BW was asked whether the directors understood their risk model and the response was that the risk profile of the practice is basically not significant and not a recognised strategic factor. There was a constant inflow of new work resulting from legislative and regulatory changes (the government was effectively a distribution channel) and if work did drop off causing internal slack, then the lever to pull was simply to retrench staff. He also expressed the view that there were no real competitors except for other accounting practices, and that the competitive environment was essentially benign. When asked to express a view on how the principals rated their risk profile using a scale of 1-5 (one being low risk) he nominated it as being possibly around 2. An interesting observation made was that BW had confronted enormous resistance at times when suggesting that hourly charge out rates be increased. He found this quite puzzling since an increase say of \$20 to an hourly rate would not be that noticeable in the eventual fee statements, and yet the directors would commit to lengthy analysis and discussion whenever this was proposed.*

**WHAT GROWTH OPPORTUNITIES HAVE YOU RECOGNISED FOR THE PRACTICE?**

*The process for acquiring new clients could be significantly assisted if individual partners would specialise and develop reputations for expertise and knowledge in specific market segments (Vets used as an example). The process of gaining new clients was primarily by word of mouth recommendation. If a professional was recognised as a specialist in a particular area, the clients he was supporting in that area would inform their colleagues and the network would grow. (BW indicated that this program had not really gained traction in the practice and cited the pressures exerted by every day work commitments as a major contributory factor for this failure)*

*BW was asked to comment on any future opportunities identified by the practice. His response was that if I was referring to new initiatives what did I define as being “new”? As an example he mentioned that this accounting practice was one of the first to recognise the potential for cloud storage and around five years ago it had moved all internal data storage to this medium. In addition the principals were now examining the possibilities for moving clients to a cloud based accounting system, which could also allow practice employees access. In response I indicated that here was an opportunity for something new because if practice employees had access to client transaction systems via cloud based software it gave some ownership of the information and this could be translated into additional services like budgeting and monthly profitability and KPI reporting. The discussion that followed considered the implications for such an initiative because it required*

development, product (or service packaging) and pricing, marketing, selling and then ultimate delivery by employees who possessed the necessary skills. BW was not positive about the practice capability for rolling out such a project, and he also raised an important question; would clients be prepared to pay for the service? I raised the possibility of using external providers who had the skills and who could be introduced to the client as representing the accounting practice. This opened a discussion regarding client ownership and BW felt that opening up relationships to outsiders was a real risk to take into consideration and probably would not be well received by the principals.

During the discussion regarding opportunities, BW also mentioned that this practice had successfully outsourced back office processes to India and this initiative resulted in a significant improvement to profitability.

**WHAT MARKETING INITIATIVES ARE IN PLACE FOR DEVELOPING THE PRACTICE?**

On the issue of marketing BW advised that the practice did not have a formal marketing plan. Periodically they held client information evenings and seminars to which at times guest speakers were invited. BW was not confident that these initiatives added real value to the twin objectives of growth and profitability. A marketing consultant had been retained in the past but the program had not yielded any significant outcomes.

**IS THE STRUCTURE SUBJECT TO A PARETO PRINCIPLE?**

Asked if the annual fees relied on a classic Pareto rule with 80% being generated by 20% of the client in number, BW estimated this to be closer to 70:30

**WHAT TRAINING INITIATIVES ARE IN PLACE IN THE PRACTICE?**

The practice had introduced a comprehensive training program and details could be obtained from the principals.

**INFLUENCES ON THE TMT PAST EVENTS OR FUTURE PERSPECTIVES?**

When asked if the principals based their future perspectives on past knowledge and events, BW indicated that this was probably true of the two older principals who had commenced with the practice when the original founders were in control, but not true for the new partners.

**IS THERE ANY DISTINCTIVE PROFILE TO THE CLIENT BASE?**

There was a definite ethnic concentration in the client base, a carry over from its origins. This could have some strategic implications during transition from retiring to new principals

**Transcript from Interview with BH –Principal Financial Planning – 7/07/15****CAN YOU EXPLAIN HOW THE FINANCIAL PLANNING DIVISION FITS INTO THE STRUCTURE OF THE ACCOUNTING PRACTICE?**

*The Financial Planning (FP) service has an ownership structure that is different to the traditional accounting practice. The profile presented publicly however, is that of an additional service offered by the case study accounting practice. When initially established the FP service was regarded as a cost centre within the accounting practice. It was based on an employee model. A manager was appointed who was a registered financial planner and he supervised the operations. This did not turn out to be a satisfactory structure and after much discussion the model was re-engineered and evolved into its present form (establishment date 2010). The key objective for the changes implemented was to convert FP from being an accounting practice cost centre into a profit centre. Two members of the financial planning team effectively now own the FP business entity, BH and another. The equity partners of the accounting practice receive an income stream from the FP business, which is calculated as 10% of its revenue. The FP business is therefore effectively an independent entity responsible for generating its own revenue streams, and meeting its own expenditure obligations. These obligations include the remuneration of the FP principals and the “fee” to the accounting practice. A formula determines the FP’s share of the fixed costs applicable to the space occupied within the accounting practice premises together with any shared services it uses. The FP business services both the clients of the accounting practice, and clients not connected with the accounting practice. External referrals are generated through associations with other accounting practices, (interesting relationship) a mortgage broker, and banks. The FP business currently employs four personnel, its two principals (both are registered financial planners and BH has tertiary qualifications), a para planner and an admin/clerical support person. The policy within the advisory board is that the FP business is expected to be self sufficient and capable of funding itself.*

**YOU ARE A MEMBER OF THE ACCOUNTING PRACTICE ADVISORY BOARD, IN WHAT CAPACITY?**

*BH is a member of the accounting practice advisory board and actively participates in all meetings. When agenda items relate to the accounting practice he will not generally become involved in issues that are operational or financial (unless of course these have an impact on the FP business). He will however participate in discussions relevant to the accounting practice when these have strategic growth implications for the combined operations. BH also outlined some of the challenges he faced in the advisory board with regard to his relationship with the independent director, who as would be expected takes the black and white position that if a division cannot meet return hurdle rates it should be abandoned. BH has been forced to defend his position because he heads up a business that is slowly building its potential and is not showing the same returns generated by the established traditional accounting practice.*

**CAN YOU OUTLINE THE OBJECTIVES FOR THE FINANCIAL PLANNING DIVISION?**

*The primary objective set for the FP business is for it to deliver a return on investment of 40% after covering all expenditures, and providing a fair market salary for its principals, and meeting its fee obligation to the accounting practice. The FP business objective is determined by the advisory board and is the product of collaborative discussion. BH has executive responsibility for developing and executing strategy. He utilises the services of a business coach who is an effective “sounding board” and a mentor.*

**CAN YOU OUTLINE THE STRATEGIES THAT HAVE BEEN FORMULATED FOR ACHIEVING THE OBJECTIVES OF THE FP DIVISION?**

*The strategy for achieving the objective (note this statement has been paraphrased and is based on what was said during the interview) is to grow steadily but consistently through the delivery of a client orientated service offer that is built on trust and a supportive relationship. Client relationships and the offer are determined by articulating a carefully considered service proposition. The service proposition includes anticipating the needs of the children of clients thereby offering a potential for extending the relationship to include the next generation. A strategy to promote growth, where a joint venture is entered into with a third party accounting practice, is currently being examined. Negotiations aimed at formalising the JV are actually in progress with a third party accounting practice. The case study FP business would provide financial planning services to the clientele of that accounting practice. The model has potential to be replicated and if the negotiations are successful and the relationship established the strategy could become a significant contributor to the growth of the FP business. Essential characteristics of the JV model are the following; Equal client ownership by the JV partners; The accounting practice joint venturer receives a fee equal to 10% of the fees generated. Of the remaining 90%, 80% will be paid to the FP joint venturer (essentially the fee for providing the expertise, systems resources and knowledge) and 10% set aside to cover sundry JV direct costs.*

**HOW WOULD YOU DESCRIBE THE PREVAILING CULTURE WITHIN THE ADVISORY BOARD?**

*It was a consultative culture and he further observed that in the five years he had been a member not one issue had actually been resolved by vote. An interesting comment was that there was a generational divide. Two board members were young principals, and on the other side of the spectrum were two older experienced principals in the same age bracket as the independent director. A further interesting dynamic was the retirement on 30<sup>th</sup> June 2015 of one principal who over the years had been a significant “rainmaker” for the accounting practice. BH remarked that this contribution would need to be replaced by the younger principals who were as yet not tested in this regard.*

**CAN YOU OUTLINE YOUR VIEWS ON THE PREVAILING RISK PROFILES WITHIN THE ADVISORY BOARD?**

*With regard to personal risk he may be tempted to choose a higher risk/higher return opportunity, but he would definitely not consider this approach when advising a client. His approach to business risk he described as being “moderate”. His view regarding the risk profiles of the other members of the advisory board was that they could also be described as having a moderate to low tolerance for risk.*

**QUESTIONS REGARDING HIS APPROACH TO DECISION MAKING?**

*When asked whether he would make a decision to proceed with an investment at the risk of missing out on an opportunity, or in preference rather not proceed at all in case the result was a costly error, BH tended to embrace the latter approach. BH was asked if past experience was the dominant factor influencing decision making within the advisory board or alternatively, whether its members preferred to consider the options without being bound by history. His response was that the general approach would probably be a fifty/fifty perspective, in which the past played its part, but the assessment of the future providing a totally fresh view was also factored in to be an equal consideration.*

**HOW WOULD YOU DESCRIBE THE COMPETITIVE ENVIRONMENT YOU FACE?**

*BH did not consider this to be at all competitive. He observed that the main competitors to the FP business were the banks, and FP providers offering clients a long-term approach to the process of wealth creation rather than a quick profit.*

**HOW DOES THE FP DIVISION GENERATE ITS FEES?**

*The revenue stream of the FP business is derived from fees for service provided. Clients that create value for the FP business are in the category of high net worth individuals. The business currently has a Pareto profile because a relatively small number of clients contribute nearly 20% of the income stream. This imbalance is currently the subject of a review and remedial action is being taken.*

**ARE THERE ANY SCARCE RESOURCES LIMITING THE GROWTH OF THE FP DIVISION?**

*The response - “only cash”!*

**WHAT TRAINING PROGRAMS ARE IN PLACE FOR THE FP DIVISION?**

*The FP business training programs are determined by the knowledge requirements set down for the financial planning industry from time to time.*

**WHAT ARE THE BENCHMARKS USED FOR CONTROLLING THE FP DIVISION?**

*The one KPI demanded, without any compromise, was that his people had to meet their deadlines; it was a non-negotiable requirement. In addition he demanded that planners collect all the data required for preparing a plan at the start of the process, he could not tolerate a situation where they were constantly demanding additional information not requested when the process was initiated.*

**WHAT IS YOUR STRATEGY REGARDING THE USE OF TECHNOLOGY?**

*The FP strategy regarding use of technology is to embrace systems that support the efficient production of the product (a financial plan) and also facilitate an ability to maintain a close and meaningful client relationship. Accordingly the software*

#### **Appendix 6.2/4**

*application in use incorporates a process module and a CRM system, the latter enabling triggers as well as planned communication like newsletters. Also currently being assessed is a cloud application that will enable direct input of data from client bank statements.*

**Transcript from Interview with MW –Principal – 7/07/15**

**CAN YOU OUTLINE THE OBJECTIVES FOR THE ACCOUNTING PRACTICE?**

*MW summarised them as follows. The organisation structure should allow the partners to work on the business. (**Interviewer note** –not in the business!). The middle management capability must allow the business to continue when partners are not available. The business must strive to attain peak efficiency in its operations capability, the business must ensure that it looks after its staff (the fee generating capability). In return for working within an environment that recognises their personal needs, staff must acknowledge and accept the disciplines that regulate the efficiency of the work environment. The partners must foster a culture that promotes transparency in their relationships. That transparency should also govern the relationships between TMT and the staff members they supervise.*

**WOULD YOU EXPLAIN THE ADVISORY BOARD PROCEDURES?**

*The board meets monthly and discusses a predetermined agenda. The practice manager attends the meetings and is responsible for taking minutes. The minutes include action points that are followed up. Meeting process is relatively informal and held in the morning over breakfast. Members chair meetings on a rotation basis.*

**HOW WOULD YOU DESCRIBE THE WAY IN WHICH MEMBERS OF THE BOARD COMMUNICATE WITH EACH OTHER?**

*Members email each other in order to deal with day-to-day operational issues but will meet informally face to face if the need arises. The formal communication outside of the monthly advisory board meeting takes the form of a weekly operations meeting, which is attended by supervisors and partners.*

**CAN YOU DESCRIBE THE CULTURE PREVAILING IN THE ADVISORY BOARD?**

*Noted that the appointment of two female partners has changed the dynamic within the group (previously it was an all male board). The three male partners fulfil mentor roles because of experience and age. MW said that the younger (female) partners want to develop their own understanding of where they can now take the accounting practice, which has been established for 40 years. Whereas they acknowledge there is a steep learning curve to confront, they also recognise they have implemented a number of procedural and process innovations into the practice that significantly improved efficiency. MW understood the culture within the advisory board to be consultative and not dominated by the views of one individual or group, however divisions are present because of differences in age, experience and sex. In her view that none of these factors affected the way the advisory board functioned. (**Interviewer note** –this turned out to be incorrect based on the withdrawal of the other female principal)*

**CAN YOU DESCRIBE THE CULTURE THAT IS FOSTERED WITHIN THE ACCOUNTING PRACTICE?**

*MW described the prevailing culture as being “flexible”. Her view was that although this flexibility does have a positive dimension, it also has a detrimental side because when change is introduced staff generally do not accept it that easily.*

**CAN YOU GIVE ME SOME EXPLANATION OF THE OPERATING PROCEDURES IN THE PRACTICE?**

*The TMT and middle management (supervisors) set the procedure and processes to be followed within the operations function. Supervisors are responsible for ensuring that the staff under their span of control adhere to set procedure and process. (One partner has executive responsibility for this function). In response to an interviewer question whether a staff member undertaking a compliance job would review the information in order to understand client profitability or solvency, MW said that this is in fact a supervisor task. In response to the further question as to whether the supervisors actually do this, MW replied that it would happen if the individual had the skill sets to undertake this kind of analysis. MW added that the supervisor roles within the practice were in the process of development and it was not clear at this stage if all those employed would achieve the benchmarks required. The control process was explained as follows. Supervisors were responsible for driving production carried out by the staff members in their respective teams. Moderating between high quality and the cost of production was a constant balance they had to strive for in order to ensure that the job achieved a mandatory level of integrity on the one hand, but on the other, the eventual fee to the client (determined from hours allocated to the job) was recoverable. The supervisors had responsibility for deciding if the balance achieved was acceptable. When jobs go over budget generally the internal control systems will pinpoint the reasons.*

**HOW WOULD YOU ASSESS THE RISK PROFILES WITHIN THE PRINCIPAL GROUP?**

*MW assessed her own risk profile as being moderate to low. She also commented that this is probably typical of someone who chooses accounting as a profession. MW was asked how she thought the advisory group would respond if presented with an opportunity which, if rejected, would potentially put the practice at risk of missing out on something new but on the other, if the venture failed, a significant loss could be the result. Her response was that the group would work through the issues presented by the opportunity, discuss the options, and then make a decision collectively (Interviewer note –avoided answering).*

**WHAT ARE YOUR VIEWS REGARDING THE COMPETITIVE ENVIRONMENT YOU FACE?**

*MW believed that the competitive environment had become quite intense especially over the previous 18 months. A number of new entrants had come into the industry and they were pricing themselves much lower than many of the established practices. Given the price sensitivity being experienced by the industry this had become a real factor to contend with. In addition at the lower end of the service offer, a number of “do it yourself” tools had been introduced into the market and many taxpayers were now trying to do their own work. MW also mentioned the competition coming from “Google searchable information” allowing many people to undertake their own research regarding issues they may have previously rung their accountant about. This meant that the established practices had to focus on the consultative*



*dimension to their service offer, and reinforce the message that the advice they give their clients has evolved from the experience shaped by years of study and practice. A potential opportunity that had been recognised was to specialise within specific market segments and become expert in the particular area. Although the TMT recognised this as an avenue to achieve a competitive advantage, execution presented difficulties mainly because of the limitations of available hours.*

**WHAT DO YOU BELIEVE IS THE COMPETITIVE ADVANTAGE OF THE PRACTICE?**

*Clearly the fact that the practice had been established for 40 years was a factor. The three older male partners were well known and respected. They were also heavily involved in community work and had a public profile. Besides brand recognition and personal reputation, MW believed that the way the accounting practice approached client service was a definite factor. The practice strived to look after the needs of its clients, and most importantly to listen to them and to understand why they have those needs. This brought referrals and recommendations, key factors delivering both growth and sustainability.*

**WHO DO YOU RECOGNISE AS THE COMPETITORS TO THE PRACTICE?**

*MW identified the larger accounting practices as their major competitors. These firms were endeavouring to move into market segments in which medium size enterprises traded, and were acquiring many of the smaller accounting practices servicing this segment as the distribution channel. MW did not consider the financial planning industry to be a competitor.*

**HOW DO YOU RATE THE GROWTH POTENTIAL FOR THE PRACTICE?**

*MW indicated that whereas goals for growth had been set by the TMT, objective was not to grow the practice so that it became too large and unmanageable. There had in fact been discussion as to whether the best strategy was to cull the client volume, reduce the resources, and just service the needs of the largest clients. (Noted that in MW's opinion around 70% of the fees are generated by 30% of the clients).*

**CAN YOU OUTLINE THE TRAINING STRATEGIES IN THE PRACTICE?**

*In house tax updates are provided for all relevant staff once a month, and in addition training is provided on an ad hoc basis if any issues arise from time to time affecting the compliance and regulatory environment. Noted the difficulties faced when trying to maintain knowledge levels in the compliance environment because of all the constant changes.*

**QUESTIONS REGARDING KNOWLEDGE FLOWS AND THE INFLUENCE FROM PAST EXPERIENCE?**

*When questioned about the direction of knowledge flows, MW said that in her view the major flow was from the TMT down. She acknowledged that the lessons learned from past experience were clearly very important when the TMT made decisions. Her own approach when confronted with the need to assess the implications for a strategic decision that needs to be made is to consider all issues very carefully, divorce all considerations that may cloud judgment until her own view*

*is able to be clarified. At all times her decision would be influenced by a need to ensure that the practice will benefit.*

**CAN YOU EXPLAIN THE TECHNOLOGIES USED BY THE PRACTICE?**

*Objective is to ultimately become totally paperless, and the practice is well down the track towards achieving that goal. Practice already utilises a remote hosting infrastructure, and is developing an intranet knowledge base that would allow all staff access to knowledge gained day by day in the performance of tasks and the management of clients. A program is also being developed to utilise cloud based software to capture transactional information which can then be imported into the practice systems electronically **Interviewer note-** the Technology objectives are aimed at achieving greater efficiencies in the extant capability.*

**Transcript from Interview with AP – External marketing consultant – 13/07/15**

**CAN YOU GIVE ME YOUR PERSONAL OPINIONS REGARDING THE PERSONALITIES ON THE ADVISORY BOARD?**

*Excluding the external independent director, the TMT is made up of three male members, two of whom are in their early sixties (NS, MS) one in his early fifties (AF), and two female members, one in her late thirties (DD), and one in her mid forties (MW). An age and experience divide (noted in a previous interview with MW) is a factor influencing the team dynamics. AP's view is that whereas this is not a destructive issue, it does become the catalyst leading to some fairly robust discussion around the boardroom table. The gender factor also influences the team relationship dynamics probably because it is reflective of a recent change to the composition of the TMT, which until a few years ago was 100% male. The dynamic is made more complex by the fact that the three male principals are the older members with more years experience than their female colleagues. AP commented that he thought the gender issue was a real difficulty for one male team member (AF) who was trying to reconcile the demands made on him by an unfamiliar professional relationship. AP also noted that the relationship is also made more complex by the fact that one of the female members (DD) has a forceful personality. AP also noted that AF is by nature very conservative and focused on the core service capability. It is therefore a fairly moot point whether he would be receptive to implementing innovative ideas especially if they are originated by the younger female members of the team. An additional dynamic that has been introduced is the team's imperative to manage the official retirement of a senior (male) principal (MS) who has been the major practice rainmaker. The TMT does not recognise any formal position of managing principal, however NS, (who is also the "ideas man" in the practice), tends to fulfil that role. The loss of his direction could become a factor for the practice to deal with in the medium term. Given his age NS may consider the possibility of retirement. AP indicated that there was evidence that a "my client" possession paranoia existed in the minds of the principals, however that being said, it was an issue that the team identified and were working through. AP also recognised that this might become a significant barrier preventing the introduction of any innovative new service offer because the practice would have to deal with a fee allocation problem. Does the fee belong to the principal who "owns" the client, or the capability delivering the new service?*

**HOW DO YOU UNDERSTAND THE FUTURE DIRECTIONS OF THE PRACTICE?**

*AP believed that approximately 30% of the clients in number generate 70% of the fees, a view that accords with the ratio mentioned by MW. AP said that all principals have acknowledged the existence of a significant opportunity for generating additional services by simply arranging to meet regularly with the larger clients (The 30% generating 70% of the fees). The current narrative in the TMT was to explore a client contact schedule where the large fee contributors were visited by a principal at least once every six months when their financial outcomes for the*

## Appendix 6.4/2

*previous period would be reviewed in addition to providing some strategic input. AP had followed this up by saying to the principals “why are you sitting in the office then”! A frustration for AP was that the discussion was awash with good ideas but these are not evolving into deliverables that ultimately can generate additional fees. This failure may be the result of a number of factors, some of which were identified by AP as follows. The risk profiles of the TMT members could probably be described as low to very moderate. Possibly NS could be classified as the only moderate profile TMT member. This combined attitude to risk would be an effective barrier preventing the introduction of any innovative initiatives that presented higher risk profiles. Accountants are generally risk averse by nature and possibly that is the reason why they become accountants in the first place! AP also commented on the effort he is making to try and redirect the TMT focus away from an obsession with billable hours and work in progress and to rather open their vision to the consideration of alternative opportunities. (**Interviewer Note** – This is an issue that has arisen time after time in interviews with industry stakeholders, expressed as the cliché – “practitioners must work on the business rather than in the business”). An idea that has not gained any traction is to evolve the practice into a “one stop shop” (Medical General Practice?) able to identify different needs and refer the client to external providers who have the available capability to deliver the specialised service requirements identified.*

**Transcript of Interview with MS – Retires principal – 24/07/15**

**EXPLAIN THE IMPLICATIONS FOR YOUR RETIREMENT?**

*MS is one of four principals who could be regarded as founder members of the accounting practice now called FHW. Aged 56, MS has now retired as a principal effective 1<sup>st</sup> July 2015, he will continue to be actively involved in the practice and contribute where he is able to generate value. The arrangement with the principals is that MS will commit to a three day working week instead of the obligatory five and receive a fee for service. Given that MS is no longer a principal, the standard questionnaire template was not applicable and this interview provided an opportunity to obtain background information about the origins of the practice and to gain some insights from MS about his views on future opportunities and challenges.*

**CAN YOU PROVIDE A BRIEF HISTORICAL OVERVIEW OF THE PRACTICE?**

*The information provided by MS has been removed from the transcript because it is detailed in the section describing the history of FHW.*

**THIS IS A SUMMARY OF MS'S VIEWS REGARDING PRACTICE ADMINISTRATION**

*The view expressed was that an empowered practice administrator should be recruited to take all administrative management burdens away from the principals. This will free up time allocated to non productive activities, and provide more hours for engaging directly with clients. The rationale for this investment was explained to be a simple equation where an hour saved on administrative activities could become a chargeable hour, an hour in which a potential new client is contacted, or an hour when the dissatisfactions of an existing client are resolved.*

**MS VIEWS REGARDING PRACTICE STRENGTHS**

*MS said that FHW is “good at knowing what it is not good at”. This simple axiom allows the practice to outsource many activities enabling a much broader service offer (**Interviewer note** – no evidence for this!). He also stressed that a key component of the FHW service offer was that clients expected and received a 24 hour turnaround for all communications with the practice, be they phone call or email. MS also explained how he had developed a tailored service offer as an advisor to legal firms, and this had become a specialisation that he had personally been able to exploit over the years. MS then reflected on the potential for the financial planning division of FHW to deliver opportunities beyond that of merely a fee generating profit centre. MS explained that he had been involved with the concept from its origins. He worked with the original financial planner appointed to head up the division, and assisted the development of the service. He noted that the initial person selected had not been successful, and was ultimately replaced by the current incumbent. MS said that the power of the financial planning service was the opportunities it brought for opening up the totality of the clients affairs to the practice, and providing insights for developing a service offer specifically tailored to needs of the client. He provided an example of a case where a financial plan had been prepared for a client and the review disclosed that a large external funding liability was not protected by insurance.*

*The practice then recommended risk mitigation through insurance which was accepted by the client.*

#### **DISCUSSION REGARDING FEES AND WRITE OFFS**

*We discussed the problem of how to create a perception of value in the mind of the client. MS related a case where the time build up was \$20k over the budget (reasons not stated). He had rung the client explained the problem, communicated why it had occurred and what action had been necessary from the practice point of view to ensure compliance. He then told the client that the practice was prepared to write off 75% of the excess hours in return for the client accepting an additional fee of five thousand dollars. The transparency and explanation allowed the matter to be concluded amicably and the settlement offer was accepted. The practice had also begun a process of negotiating fixed fee, “unlimited service” relationships with larger clients, carefully structuring the arrangement to ensure that the compliance aspect was not seen as the primary reason for the engagement with the accounting practice.*

#### **HIS VIEWS REGARDING BRAND NAME**

*When questioned about brand name MS said that he believed this had some relevance in the market place however he stressed that personal relationships are probably more important. The issue of personal relationships is one now being confronted by FHW because many of the clients MS serviced will need to build relationships with other principals as he gradually loosens the bonds with them.*

#### **HIS VIEWS ABOUT RISK PROFILES**

*When asked about his risk profile MS said that with regard to managing client affairs he would probably tend to be classified as low, to a qualified medium. Strategically however, with regard to the future development of the practice, his risk levels were more likely to be medium. When asked for his view on the risk profiles of colleagues, MS said that with regard to clients and compliance they would all probably tend to being low to a qualified medium, however with regard to strategic practice development, AF was probably very conservative and risk averse. As far as the two new principals were concerned he thought that it was still too early to assess their strategic risk profile. Reflecting on NS, the suggestion was that he would rate a little over the medium risk profile with regard to strategic practice development.*

#### **HIS VIEWS ON THE PROPENSITY OF PRACTITIONERS NOT TO OUTSOURCE**

*We discussed the reluctance of many practitioners to outsource and allow third parties access to their clients. MS agreed that FHW had been quite successful in breaking down this barrier and as a consequence had embraced the opportunity for outsourcing many areas of its operations. (**Interviewer note** – external advisors disagree!) Referring to the offshoring program for superannuation funds, a very successfully executed project by FHW, MS explained how it had originated. The practice was facing a situation where it had only been able to lodge six of the one hundred and sixty superannuation funds tax returns that it was responsible for, and final deadline dates were looming. The principals were working through a number of strategies on how to recover the situation when MS received a very simple unsophisticated advertising blurb written on white paper offering an outsourcing*

## **Appendix 6.5/3**

*service for the preparation of income tax returns for super funds. Given the urgency the possibility was discussed, and a view expressed that if IT is outsourced, (which it was at that time) why should we not outsource the processing of super funds as well. The principals decided to do a test run with six funds and when these were completed and returned the manager who reviewed the work papers declared they were in fact much better than those currently in use by the practice. The outsourcing of superannuation fund processing had now become an efficient aspect of the operations capability, and a significant cost saving initiative for the practice. The principals are now assessing the possibility where they would outsource the processing of the individual tax returns prepared by the practice.*

### **HIS VIEWS ON FUTURE OPPORTUNITIES**

*We discussed future opportunities for the practice, and MS referred to an initiative that had been taken by a large legal practice to streamline its property conveyancing processes using what it called the “ePortfolio” program. This is a web-based service giving clients 24-hour interactive access to all real time relevant information about their property projects, via a single, integrated system. MS said that the practice was initiating steps to allow clients the same opportunities. The potential to specialise was also acknowledged as a significant opportunity. (Interviewer note- not mentioned by any other participant nor by MW who has executive responsibility for IT!)*

**Transcript of interview with NS – Principal (Senior) 7/08/15**

**Note – Also refer to interview with APP - Analysis of context – Appendix 4/1/1**

**YOU APPEAR TO FULFIL THE ROLE OF MANAGING PRINCIPAL IS THAT CORRECT?**

*NS Responded that the role he filled was more that of the senior principal rather than a managing principal. He stressed that the chairmanship of board meetings was now on a rotation basis which was a deliberate strategy to avoid any perception that was in fact acting as a CEO.*

**CAN YOU EXPLAIN THE STRUCTURE OF THE ADVISORY BOARD AND THE EXECUTIVE MANAGEMENT ROLES?**

*NS's responses regarding the structure of board and its culture accord with that of BW and do not have to be repeated here. He did explain however that each principal has an executive role in addition to a full client load.*

**CAN YOU PROVIDE DETAILS OF THE PRACTICE SERVICE OFFER?**

*Service offer according to FHW is 70% compliance and 30% "other". The other would be in the main generated from the management consulting work performed by NS.*

**CAN YOU PROVIDE DETAILS OF YOUR STRATEGIC VISION FOR THE PRACTICE?**

*Asked NS to explain his strategic vision for the practice over the next five years. This question was important because of the influence he clearly exerted over the strategic direction of the practice being the senior principal and the last of the "founding" group. His initial response was interesting "I want the firm to go away from form filling" and the second was that he wanted the firm to become the "best general practitioners in accounting". (Interviewer Note – this last objective is very relevant because it is in complete antithesis to the findings from the analysis of context. Unlike the medical and legal professions, professional accounting had not adopted this GP model NS continued that this approach not only provided the client with a comprehensive service offer potentially catering for all requirements, it also opened up significant opportunities for add on services in the practice itself. NS expressed it this way "our role is to take on the clients problems and make them ours". In this regard NS noted that the practice used a part time HR person and their staff complement did not really warrant a dedicated resource. This HR resource however was capable of being leveraged out to clients as well. Noting that the Pareto ratio for the practice was running around 72:28 whereby 72% of the fees in value were being generated by 28% of the clients in number, NS said that one strategic option considered was to sell of a large parcel of those small fees and rationalise the client list. This removes a large number of clients who generated low value, were often the source of WIP and fee write offs and were particularly demanding for the practice's limited time and resources. This would allow the principals together with a smaller personnel complement to provide high value services, reduce complexity and cost and increase the value generated for the principals.*



**HOW DO YOU RATE YOUR TOLERANCE FOR RISK?**

3.5 tending to 4 (out of a possible 5 being a high tolerance).

**WHAT OPPORTUNITIES DO YOU SEE FOR THE PRACTICE?**

*When asked about opportunities NS noted that in the SME space where FHW was trading he believed that 80% of the time by just visiting the client additional work would be generated, because the contact would create any number of opportunities. Clearly the major problem was being able to find the hours and visit the clients. He also said that if the practitioner did not have the expertise required for the particular demand being made then here is where the GP analogy came in and other professionals could be called in to assist. All this was possible if you had the trust of the client and in many cases that was the situation. In his own situation the contact frequently brought strategic planning opportunities and he found this to be the most exciting aspect of his professional service. NS was asked whether FHW was able to deliver a basic service comprising budgets, cash flow projections and monthly reporting produced from operations in exactly the same way as the income tax returns from standardised software and standardised processes. He actually avoided the real essence of the question by relating a case where a client had been a \$900k per annum fee generator and after being visited became a major fee contributor where the service included budgets cash flow and reporting. (Interviewer Note- clearly the practice was not delivering a management accounting service)*

**Transcript of interview with AF – Principal – 14/08/15**

**CAN YOU EXPLAIN THE OBJECTIVES THAT HAVE BEEN SET FOR THE PRACTICE?**

*AF believed that these were perfectly encapsulated within the mission statement that appears on the practice website, “Building Wealth and Lifestyle Together”.*

**CAN YOU DETAIL THE STRATEGIES THAT HAVE BEEN SET?**

*The first observation by AF was that the structure of the practice has been very effectively leveraged and as an example he referred to the offshoring program implemented for superannuation funds. This leveraging not only delivered a cost benefit to the practice, but also freed up valuable principal hours that are now being redirected into other more productive value generating activities. Principals are also much more strategic in their vision and their perspectives. An additional strategy which has become one of the cornerstones of the practice is to ensure that the well being of FHW staff, their lifestyles and work satisfaction requirements are acknowledged when forward planning initiatives are under consideration.*

**CAN YOU EXPLAIN HOW THE PRINCIPAL GROUP COMMUNICATES WITH EACH OTHER?**

*AF felt that communications between members of the principal group tended to be relatively informal the exception being the regular monthly board meetings. Communication down the hierarchy however tended to be a little more formal.*

**HOW DOES THE ADVISORY BOARD SET LONG TERM STRATEGY?**

*The principals participate in an annual one day planning session that if necessary will be extended into a second day.*

**CAN YOU EXPLAIN THE CULTURE DOMINATING THE ADVISORY BOARD?**

*AF saw the culture as being informal and collaborative. At times the debates tended to be robust as would be expected when a non executive independent director was present.*

**CAN YOU GIVE ME AN ASSESSMENT OF YOUR RISK PROFILE?**

*An interesting response, because although AF saw the tolerance for risk as being very low within the principal group, he did believe that the practice was trying to overcome this and to be more entrepreneurial when considering future strategic initiatives.*

**CAN YOU IDENTIFY THE MAJOR RISKS FACED BY THE PRACTICE?**

*In AF’s view the biggest risk always faced was the possibility of client loss, especially the high value fee generators. He did not see technology as imposing any risks, and believed that moves by the ATO to extend the electronic lodgement systems were no threat because these initiatives removed the individual returns that were generally not value creators for the practice.*

**WHAT OPPORTUNITIES DO YOU SEE FOR THE PRACTICE?**

*AF responded in general rather than specific terms to the question. He believed that there were many opportunities, and many were possibilities for FHW because the principals had developed the practice capability so that it could take advantage of what was on offer.*

**ARE THE OPPORTUNITIES DISCUSSED WITH THE SUPERVISORS?**

*The opportunities available are kept within the principal group.*

**WHEN OFFERED AN OPPORTUNITY WHAT IS MORE IMPORTANT AVOIDING ERROR OR MISSING OUT?**

*AF's response was immediate and clear, it would not be driven by a fear of missing out!*

**HOW DO YOU VIEW YOUR COMPETITIVE ENVIRONMENT?**

*The competitive environment is benign but AF recognises a potential emerging issue that could change this, namely the culture and perspectives of generation Y, and soon to come generation Z. These are generations that really do not understand or value long term relationships, and in AF's view this perspective may completely change the competitive dynamics for practices like FHW that build competitive advantage on relationships.*

**WHO ARE YOUR PRIMARY COMPETITORS?**

*The only substantial emerging competitor could be the very large accounting practices who have indicated a desire to move into the SME market space always dominated by practices like FHW. They were attempting to do this by acquiring practices with large client bases in the SME segment, retaining principals, and then using them to service the clients that had been purchased. The strategy allowed the mid size practices (between 5 and 9 principals) to gain access to the comprehensive expertise and knowledge base of the large practice, and then leverage off it to uplift the level of service provided to the client. This model is yet to be proven because the competitive advantage of practices like FHW is the strength of the personal relationships with clients, and these relationships are also supported by a fee structure that is within the capacity of the SME to pay. So if the fees move up to the levels charged by the larger practices, and contact with the relationship principal is replaced by a manager, the strategy may not be all that successful.*

**DOES THE PRACTICE HAVE A MARKETING PLAN?**

*No there is no formal marketing plan*

**WHAT IS THE PRIMARY COMPETITIVE ADVANTAGE OF THE PRACTICE?**

*AF believed that it was large enough to have the greater level of expertise but small enough to maintain the personal relationships.*

**WHAT IS YOUR ASSESSMENT OF FUTURE GROWTH PROSPECTS?**

*AF said that the practice was targeting organic growth of 10% per annum and in his view this was an achievable target.*

**CAN YOU IDENTIFY ANY SCARCE RESOURCES THAT MAY INHIBIT GROWTH?**

*AF did not recognise any significant scarce resources that could impact on the practice growth targets.*

**WHAT ARE THE PRIMARY OBJECTIVES FOR THE FORMAL TRAINING PROGRAMS?**

*AF understood the primary objectives to be twofold, the first to ensure the level of technical training maintains knowledge levels in the primary service offer, and the second to secure efficiency in the work environment.*

**ARE KNOWLEDGE FLOWS UP OR DOWN?**

*AF answered this by saying that although there was bottom up knowledge feed it was limited, and that the primary direction of the knowledge flows in his view was top down.*

**DO YOU THINK HISTORY INFLUENCES DECISIONS?**

*AF's view was that the principals look to the future when making strategic decisions however he acknowledged that they can also refer back to past experience because precedent was often a useful guide.*

**WHAT ARE THE OBJECTIVES FOR THE OPERATIONS CAPABILITY?**

*Clear and unambiguous objective is to achieve the most efficient capability possible*

**Transcript of interview with SB****HOW DO YOU UNDERSTAND THE OBJECTIVES OF THE PRACTICE?**

*SB advised that she and the other supervisors are periodically briefed on practice objectives during break out seminars organised by the principals. The sustained pressures everyone worked under on a daily basis tended to push these higher level aspirations aside, and the focus really became more on efficiency and production output. The principals did however recognise the need to develop the management skills of the supervisors. To this end the supervisor group participated in periodic development programs that were run by the HR specialist used by the practice.*

**DESCRIBE THE OBJECTIVES THAT YOU SET FOR YOURSELF AS A SUPERVISOR?**

*Acknowledging that she was not one of the most experienced supervisors, SB said that in her case a major objective was to develop supervisory skills and become more management than task orientated. This would ultimately allow her to achieve better results for both herself and her team. In addition, like all the supervisors, there was a constant demand to ensure technical skills were maintained, a never ending priority.*

**CAN YOU DESCRIBE THE PRACTICE CULTURE?**

*Culture is relatively “free and easy”, hours are flexible and the environment is comfortable. Staff in the main respect the need for communication in return for the freedom. This was explained in this way; if someone wanted to work from home for any reason they would make prior arrangements if possible and also let everyone know beforehand. SB summarised her views by observing that it was a “good” culture.*

**HOW DO YOU RATE THE PRACTICE RISK PROFILE?**

*Asked to provide some assessment of the tolerance the principals had for risk where 1 was low tolerance, and five high tolerance, SB rated them generally at the level of 2.*

**WHAT DO YOU SEE AS THE MOST SIGNIFICANT RISKS FACED BY THE PRACTICE?**

*SB saw this as the incredible amount of time taken up by low value clients. This invariably resulted in loss, because of work in progress write offs or fee non recovery.*

**WHAT ARE THE GROWTH OPPORTUNITIES FOR THE PRACTICE?**

*SB saw enormous potential from leveraging the overseas relationships currently being nurtured by NS. The opportunity came from securing introductions to Australian associates of the offshore contacts, and also the possibility for developing a specialisation in the area of international taxation. When asked about being able to develop specialisations in other areas SB was positive regarding the opportunity this presented.*

**DO THE PRINCIPALS DISCUSS GROWTH OPPORTUNITIES WITH SUPERVISORS?**

*SB responded that this was not really happening in any formal way. The principals tended not to share this level of confidence with the supervisors.*

**ARE THERE ANY TREATS TO THE LIFECYCLE OF YOUR CORE SERVICE OFFER?**

*Do not see any threat to the business tax compliance service suite. The small individual returns are migrating more and more on to the ATO electronic lodgement system (Etax), however this would not be considered a threat to FHW. SB added to the discussion on this topic that she saw the issue of Director Penalty Notices by the ATO (where directors could potentially be held personally liable for unpaid amounts owed to the revenue authorities) as being a practice threat. It placed greater obligation on FHW personnel to be aware of any potential problem and to deal with the issues before notices were actually sent.*

**WHAT ARE YOUR VIEWS ABOUT THE COMPETITIVE ENVIRONMENT?**

*SB said that in her view the environment in which FHW operated was not overly competitive.*

**WHO DO YOU SEE AS YOUR MAIN COMPETITORS?**

*SB did not identify any specific major competitive forces. She did however comment that if any other practices viewed financial planners as competitors then obviously FHW with its own internal planning divisions was at a distinct advantage!!*

**CAN YOU IDENTIFY THE MAIN SOURCES FOR COMPETITIVE ADVANTAGE?**

*SB's observations were extremely interesting. She identified the variety of skills that were available in the practice (coming from forty experienced people) to be a major competitive advantage. This variety of skills allowed the practice to broaden its offer and accordingly gave it a distinct advantage in its competitive segments.*

**ARE THERE ANY SCARCE RESOURCES THAT COULD INHIBIT GROWTH?**

*SB unhesitatingly identified the fact that every employee had a limited number of potential productive hours in any one week and this was an extremely scarce resource which if not used efficiently represented lost opportunity.*

**CAN YOU PROVIDE AN OUTLINE OF TRAINING PROGRAMS?**

*SB said that in the main the training was designed to ensure continuity of knowledge for the core compliance offer delivered by the practice. This took the form of a monthly update. Periodically more specialised programs would be offered and as examples SB mentioned a program to familiarise staff with an online accounting software, and a briefing by a lawyer on a specific area of law. These more specialised briefings opened up the vision of the people attending and did allow them to think about other service opportunities. The difficulty is being able to convert any ideas coming out of the briefings into a momentum that will create new services. SB illustrated this problem with a real case where the practice had received a briefing on a very impressive cash flow modelling tool. Nothing had come of the exposure however, because everyone attending still had to deal with their day to day*

*responsibilities and no one had time available to become a champion for a new service and take on its introduction.*

***DOES THE SUPERVISOR LEVEL ADD TO THE KNOWLEDGE IN THE PRACTICE?***

*SB was quite adamant in her views regarding this question. She believed that the supervisors were now evolving a significant body of knowledge which they were in turn feeding up into the principal group. Clearly though the principals were also sending knowledge down into the supervisor level, so SB saw this as being a two way process with a significant contribution now coming from the supervisor group.*

***CAN YOU OUTLINE HOW WORK FLOW IS MANAGED?***

*SB's opinion about the way in which work flows were being managed was that this is still a "work in progress" for the practice. There is theoretically a formal structure in place but in her view this is frequently pushed aside by events. She noted that the internal practice software has an application for controlling work flows but this was only practical for income tax returns because of the way the software integrated and collated its various components. SB observed that she utilised her own systems quite extensively. A real issue she identified was the use of standardised work papers which had been the policy for a time. The practice had however decided to move away from standardised forms to blank sheets using the rationale that the work papers are being prepared by accountants who should have the necessary skills to create their own work papers. This was supposed to deliver a level of flexibility and some freedom of expression and was designed to improve productivity. SB was not particularly supportive of this approach and preferred a system based on standard forms.*

***CAN YOU EXPLAIN HOW YOU APPROACH CLIENT INFORMATION REVIEWS?***

*SB was asked whether the supervisors will review the financial results of a client for the purpose of ensuring compliance with tax legislation or whether in addition they will analyse the profitability and statement of financial position. Her answer was that in most cases the review will be for ensuring compliance however when the client size and fee structure allowed for additional hours then the review could be extended into a more multi dimensional approach. She did note that the way in which supervisors approached reviews ensured that wherever available comparatives between periods were examined and this frequently threw out aberrations that may have a number of different ramifications and these would be followed up.*

**EXTRACT FROM AN EMAIL RECEIVED FROM NS 17<sup>TH</sup> JANUARY 2016.**

We have come through a period of relative instability – MS departure actually being the lesser of the two, whilst DD'S removal was handled, I think, as best as it could have been. I think we have steadied the ship.

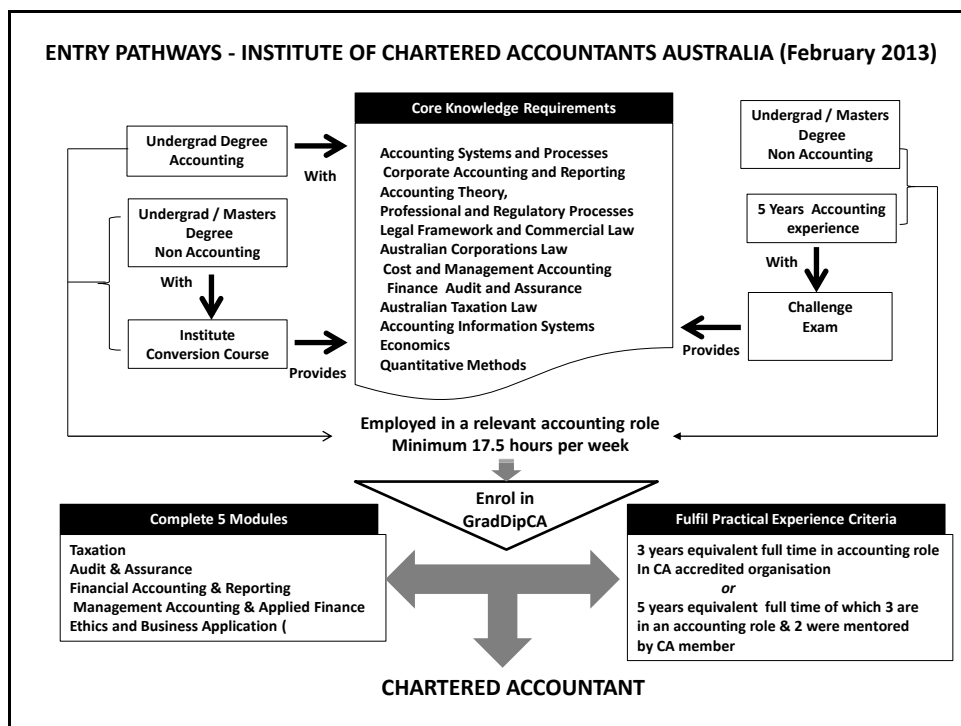
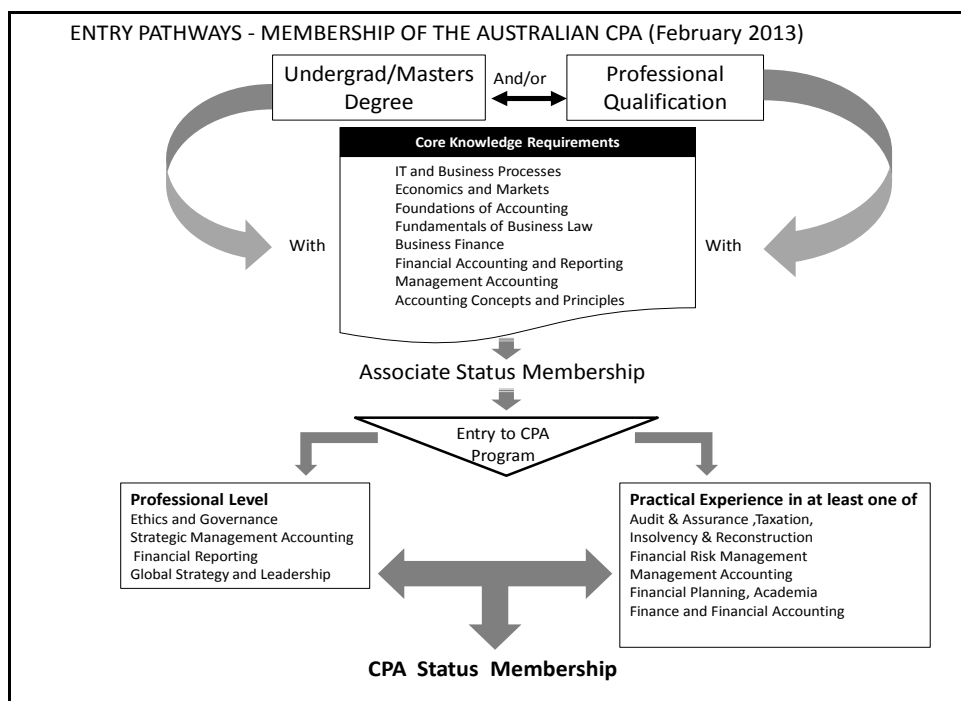
The week before last the three partners and AP meet for an extended meeting and made a few decisions that were very different for us. Whilst I'm not in a position to share the finer details with you at present, I think you will recognize a firm that is endeavouring to shore up its internal system that will allow us to explore additional avenues of work as we move forward in the current (& future?) ever changing environment.

I agree with your bracketed comment, "It is too difficult to launch new services and at the same time open up new market segments". We should do one or the other but not both. I think the path we intend following is best described as having a rope tied to a central post. There is sufficient length on the rope to allow exploration of a new service/methodology/client but with the security of being allowed to tug on the rope to report back/assess/review. However, this is a work in progress as I have said.

Together with AP, our partners are developing a plan and as soon as it is finalised, I will be in a position to share this with you. We intend to get to this stage before the end of April (sooner if possible) and be in a position to launch into a new financial year.



### Entry pathways and core knowledge requirements Australian CPA and Institute of Chartered Accountants.



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