Impact of Innovation on accounting performance of firms in the services sector of Australia

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*Abstract*

The environment in which the businesses are working is changing very fast. These changes require that the businesses adopt very quickly to any change in the environment. The ability to change with a considerable change in the environment is referred to as innovation. The current study researches the impact of successful innovation on the profit earning ability of the company. The innovation is broken down to size, competitive environment and organizatinal capacity. The accounting performace will be measured with the help of the annual profit that has been earned by the company.

## Role and impact of Innovation on Accounting performance in the Service industry of Australia.

*Introduction*

There has been very little research on innovation in the services sector although the sector has played a dominant role in th growth and development of many developed and developing countries. This shortage of service literature in the overall operations literature shows that the sector has been neglected by the research on the whole. The services sector is the largest growing sector in the US and other developed countries (Apte, 2007). Various researchers found that there is a very small percentage of the operations literature dedicated to the services sector. The scarcity of the literature on the services sector is partly due to the complexity of the processes involved. The major function of the organization may be the production of goods and the services part of the business may be less formalized by the organization. The companies also lack the strategic aspects required to analyze the service processes. This lack of strategic thinking is at the core of the scarcity of literature in this part of the subject.

There are certain characteristics of services that make it difficult for the organizations to know the real issues prevailing in the sector. Firstly there is no common standards for measuring the service quality as most of the time customers are directly involved in the provision of services (Rosenthal, 2011). This makes it very difficult to collect any sort of data on the innovation aspects of the service. This is also true because different people perceive the quality and innovation in services differently. This difference also curtails the possibility of measurement in the field of service innovation. These aspects of measurement are also missing in some of the basic definitions of services that use the vague terms like series of activities and more or less intangible. The second aspect relates to the fact that the investments in the services sector innovation have not been booked which has made the innovation process more informal than formal. In this regard the changes that have taken place in the service innovations have not come through the strategic aspects rather from the changes in demand from the customers or in the methods in which services are delivered. This aspect is very clear in the fact that many new service businesses start working with latest technology because people want them to do so.

*Differences between Service and new product innovation*

In order to start the discussion, we will have to see the basic processes through which the process of innovation is undertaken. The level of change that has to be undertaken decides how much changes are required to the company processes and strategies (Horne, 1993). The companies lacked the required planning in the development of service innovation process. The service champion was not used by the firms while making new offerings. There are twofold differences between the innovation processes in the services and manufacturing sectors. The nature of services and products are fundamentally different from each other. Unlike the products, the customers are directly involved in the services provision. The service provider will find it hard to separate the customer and service. This is not the case in products manufacturing. In the case of products, the customer is seldom directly involved and it becomes easier to separate the customer and products from each other. The innovation in the services sector is much easier to copy as compared to the innovation in the products aspects. The services firms cannot measure the outcomes easily. Thus, it will not be possible for them to measure the performance of such firms and apply continuous improvements to it. The introduction of the innovation processes to the services sector is not very old. The companies have just recently started spending more on the R&D in service sector.

There has not been much research to answer the question as to why some services succeed and others do not. Whatever small research has taken place in this aspect, that I specific to come particular industry. Historically the researchers have been of the view that new service happens by itself rather than developed by some innovative processes. This approach taken up by various researchers has hampered the richness of service management literature.

The accounting field consists mainly of the financial and management accounting. There has been a high level of change in the competition and technology in the accounting field. This has grabbed the attention of many academic as well as practical researchers to make certain changes in the system so that it can adapt to the changing environment. The traditional management accounting techniques have their own limitations and the issue is further complicated by the fact that the Australian firms are not clear about the use of accounting innovation.

*Objective of the study*

The objective of the current study is to see impact of innovation on the service industry of Australia. This impact will specifically focus the accounting aspects of the service industry. The study will try to establish any relationship between the innovation and accounting performance of the company.

*Limitations of the study*

The study is limited to the service sector of Australia and within this sector, the impact of the innovation on the ability of the organization to earn the profits is studied. The sample size if the review literature, limited time, and limited budget limit the study findings. (Galani, Gravas, & Stavropoulos, 2010) was a systematic review of the literature and thus the researcher suggested the future researchers to conduct a quantitative analysis with the appropriate selection of sample size. (Karanja, Mwangi, & Nyaanga, 2013) conducted the study in Kenya and thus it recommended the future researchers to continue study for large sample size, and more factors analysis. (Ogungbade, Idode, & Alade, 2016) was conducted for manufacturing companies in Kenya and so the researchers also suggested to increase the sample size and conduct study for other industries. Finally, (Watts, Yapa, & Dellaportas, 2014) recommended the adoption of advance accounting techniques affect the performance of the multinational company operating in Australia.

*Research Questions*

## What negative and positive implications are there in terms of the new technological innovations.

## Has innovation in accounting benefitted the service industry of Australia?

## Has performance measurement benefitted the organization in service sector of Australia?

## How traditionality of accounting shifted to modern accounting in australia?

In the following line a brief review of the literature is presented to show some aspects of innovation as well as the accounting performance of the firm.

*Literature Review*

With the advancement in the technology, and the increasing complexity of the financial calculations have made the accounting complicated. Also, the increasing global competition, with the changes of the technology in past few years, has evolutionized the accounting field in this dynamic enviornment. Now, several new techniques have been introduced to improve the accounting patterns, and to increase the efficiency of the modern accounting and its features. Despite of the great advantages of the technolgy, still some of the organizations do not feel it comfortable to adopt the modern accounting techniques. However, there is need to understand that with the increasing complex structure of the financial reporting problems, the adoption of the modern accounting techniques and computerizaion serve as the solution. Though this requires help from an accounting and IT professional, but this rapid change, application, and interest towards the innovation in accounting has become crucial to enhance the productivity, potential, and profitability. This simply means that the adoption of advance accounting techniques is curcial for the business firms, as their ultimate concern is to improve the efficiency and productivity. Thus, the current study now aims to present a link between the accounting techniques and information technology, in order to improve the productivity and efficiency of the business firms. Now, this section of the study presents the review of already published literature to evaluate how the other researchers have presented their findings regarding adoption of advanced and modern accounting techniques.

Galani, Gravas, and Stavropoulos (2010) presented a study with an aim to investigate the impact of modern ERP accounting system to manage the financial calculations of the companies. The researcher highlighted that the advancement in the technology has changed the business environment, globalization, privatization, and deregulation. Thus, it has become crucial to bring the advance technology in the accounting management too. The researcher followed the qualitative methodology, and evaluated how the companies had been adopted advance accounting ERP system, and how it influenced their productivity and cost efficiency. The findings of the study showed that adoption of ERP system help the organization to improve their information flow, establish strong linkage with suppliers, reduce costs, and reduce response time to the customers’ needs. Conclusively, advance accounting techniques are highly beneficial to the companies to meet all their financial complexities, users requirements, cost efficiency, and producvity (Galani, Gravas, & Stavropoulos, 2010).

Karanja, Mwangi, and Nyaanga (2013) published a study in which they highlighted that the success of Small and Medium Scale Enterprises (SMEs) play significant role in the economic growth of the developing countries. The study (Karanja, Mwangi, & Nyaanga, 2013) was conducted in Kenya, a developing country with full of competitive market. The researcher (Karanja, Mwangi, & Nyaanga, 2013) introduced several accounting techniques to help the SMEs in dealing with their complex financial environment. The techniques included Activity based costing, target costing, Just in Time Method, and other non-conventional methods. These all techniques were used to improve SMEs’ financial dealings, as well as to improve their cost efficiency. Also, these techniques helped the enterprises to adopt innovative and improved product pricing strategies. Furthermore, to evaluate how these techniques affected the SMEs, which adopted any one of the above mentioned accounting techniques, the researcher conducted a survey based quantitative study. The population size of this survey was based 120 managers and entrepreneurs of the SMEs stratified in six pillars of economic blue print of Kenya. The findings of the study were further analyzed via SPSS. The findings of the study showed that majority of the SMEs were facing great financial challenges due to lack of knowledge and low compliance level. The enterprises had no effective strategies to maintain their financial records, and thus they had to rely on contract accounts technicians. Finally, the adoption of Activity based costing, target costing, Just in Time Method, and other non-conventional methods helped them to improve their cost efficiency and better production, as a result of which they showed a better and effective contribution in the economic growth of the country (Karanja, Mwangi, & Nyaanga, 2013).

Ogungbade, Idode, and Alade (2016) investigated the impact of adoption status of the modern accounting techniques among the manufacturing companies. Also, the companies investigated the challenges associated with the adoption of new technology. To achieve the objective of the study, the researcher conducted the quantitative research methodology, for which a well-structured questionnaire was established. The questionnaire was sent to 56 manufacturing companies of Kenya, out of which 43 companies sent their response back to the researcher (Ogungbade, Idode, & Alade, 2016). Thus, the sample size used to analyze the data was based on the managers and entrepreneurs of 43 manufacturing companies of Kenya. The collected data was further analyzed by using SPSS. The descriptive statistics, Spearman correlation, and one sample t-test helped the researcher to evaluate that adoption of modern and advance accounting techniques brings great advantages to the respective companies, however lack of information, and lack of management support lead to the challenges associated with the adoption of advance accounting techniques. Thus, with the hiring of professional accountants and IT experts, the companies may reduce the risks and challenges associated with adoption of new techniques, and may enjoy better cost efficiency and productivity of the company (Ogungbade, Idode, & Alade, 2016).

Watts, Yapa, and Dellaportas (2014) also discussed the importance of adoption of the advance accounting techniques (JIT, BSC, ABC, and TQM). The study highlighted that most of the industries do not feel it comfortable to adopt any new finance dealing methodology. Some of them do not want to rely on the technology, or other have no proper knowledge about right adoption of the techniques (Watts, Yapa, & Dellaportas, 2014). However, with the advancement in the technology, the adoption of new and advance methods in almost every field has become demand of time, and same is the case with accounting. Thus, the study conducted a quantitative singe case based study, in which the researcher evaluated how the adoption of advance accounting management technique affect the multinational manufacturing company. The researcher conducted two-structured interviews with the managers of the selected organization. The managers had to participate in interview discussion as well as had to record their response via questionnaire. Conclusively, the findings showed a positive impact of the modern accounting techniques over the efficiency of the multinational company (Watts, Yapa, & Dellaportas, 2014).

Common things in Articles

The review of the above articles (Galani, Gravas, & Stavropoulos, 2010; Karanja, Mwangi, & Nyaanga, 2013; Ogungbade, Idode, & Alade, 2016; Watts, Yapa, & Dellaportas, 2014) makes it clear to the researcher that with the increasing complex structure of the financial reporting problems, the adoption of the modern accounting techniques and computerizaion serve as the solution, and increases the cost efficiency of the organizations.

*Differences in the Articles*

Also, it helps the orgnaizaitons for their efficient survival in the crowded and competitive markets. Galani, Gravas, and Stavropoulos (2010) suggested adoption of ERP system help the organization to improve their information flow, establish strong linkage with suppliers, reduce costs, and reduce response time to the customers’ needs. Karanja, Mwangi, and Nyaanga (2013) is of the view that the adoption of Activity based costing, target costing, Just in Time Method, and other non-conventional methods helps the enterprises to improve their cost efficiency and better production, as a result of which they showed a better and effective contribution in the economic growth of the country. Ogungbade, Idode, and Alade (2016)’s investigation showed that adoption of modern and advance accounting techniques brings great advantages to the respective companies, however lack of information, and lack of management support lead to the challenges associated with the adoption of advance accounting techniques. Finally, Watts, Yapa, and Dellaportas (2014) discussed strong relevance between the adoption of modern accounting management techniques and efficient performance of the multinational company, however proper planning and training may help the managers to attain better outcomes.

*Managerial Implication of the Articles*

The reviewed articles showed that the adoption of advance accounting techniques will be helpful for the organization to meet all financial related challenges efficiently and to survive in the crowded and competitive environment worldwide (Galani, Gravas, & Stavropoulos, 2010). The authors discussed that SMEs in the developing countries face great constrained environment, including constrained terms of intellectual capital, human capital, and structural capital (Karanja, Mwangi, & Nyaanga, 2013). Thus, operating cost efficiently via adoption of modern accounting techniques is crucial for the SMEs in developing countries to survive in the competitive environment, provided by crowded and competitive market of the developing countries (Ogungbade, Idode, & Alade, 2016). Though adoption of new technology brings some challenges for the organization too but the hiring of professional accountants and IT experts, the companies may reduce the risks and challenges associated with adoption of new techniques.(Ogungbade, Idode, & Alade, 2016). Also, (Watts, Yapa, & Dellaportas, 2014) suggested that along with the adoption of modern techniques, proper planning and training may help the managers to attain better outcomes.

(Seaman, 2001) studied the model developed by Libby and Waterhouse through an exploratory study to evaluate the changes in management accounting system. This study used 23 management accounting control systems from Singapore to complete the study. The only change that was incorporated in this study was that the decentralization aspect of the old model was changed to centralization in this study. The other aspects used to measure the change in the management accounting control system were the same as used by Libby and Waterhouse (1996). These aspects were size, organizational capacity, intensity of competition and centralization instead of decentralization as used by the original study. The study also included the cultural aspects with the help of Hofstede (1980) study. The sample size after applying certain filters was reduced to 93. Out of these firms, 25 were from the manufacturing sector, 42 were from the industrial sector and 36 service sector firms. The various independent variables were measured differently taking the clues from past researches. Most of the measurements were adopted from the original study. The results showed that the model was working well with 18 dependent variable across the sub samples. The four independent variables showed positive coefficients which shows that they have positive impact on the independent variable. The results of the study have been consistent across the subsamples except in the services sector.

(Shahrokhi, 2008) Studied the status of e finance and the issues related to it. The study also discussed the advances and innovations in the field of e finance. The final part shows the challenges that are faced by e finance field. The literature review approach was used by the study to organize and present various related topics to summarize the current status of e finance. The study clarified some of the misconceptions that were in place with respect to e finance. The gains that result in the lower transaction costs are exaggerated to a certain extent. Secondly the misconception is that it is easy to build a website for e finance. However the website needed for the complex transactions that represent the day to day operations of the industrial sector is very complex and expensive to build. The e finance cannot work with a lower number of intermediaries rather the increase in the information that is available and many other factors necessitate the companies to involve more and more intermediaries to function. The e finance has been best practiced by those firms which were initially established as the traditional firms. This negated the expectation that e finance will affect the traditional services adversely

(Manalo & Orsmond, 2013) analyzed the services sector of Australia and divided the sector into various sub sectors. The authors shed light on the advances in the information technology in the services sector. The IT sector has specifically affected the size and growth of different firms in the services sector. There have been two key developments that have changed the face of the services sector. The internet has been faster than ever before so has the transfer of information. The increased use of internet on the smart phones has become an opportunity as well as a challenge for the service providers. This free flowing information has intensified the competitive environment in which firms are working. These technologies are providing the firms with an opportunity to change the processes so that the efficiency of the firm can be improved. This will also help the organizations to remain competitive against other firms. The businesses are seeking the services of the professionals who can help them making better use of the technological innovation. The demand for the consultancy services has risen because the technology changes at a very fast pace and the organizations do not have the professional expertise to keep up with that pace. Thus, they take the services of the professionals in this regard.

*Methodology*

After the above discussion of the literature related to the topic, we can make the following hypothesis statements.

H01: There is no impact of technological innovations on the accounting Performance of services industry in Australia

H02: There is no benefit of the innovation in improving the accounting performance of organizations in services sector of Australia.

H03: There is no impact of innovation in the performance measurement on the accounting performance of organizations in service sector of Australia.

H04: The adoption of newer accounting systems do not affect the accounting performance of

The relationships will be tested with the help of statistical tests namely regression and correlation by defining the dependent and independent variables for the study and then testing the relationships. The tests of normality for all the variables will also be run.

*Independent Variables*

The dependent variable in the study will be the innovation undertaken by the organizations. The innovation will be measured by the changes in the management accounting system and the criteria for measuring this variable will be the same as used by Libby and Waterhouse (Waterhouse, 1996). They used size, organizational capacity and intensity of competition to show the changes in the management accounting system. We will be using these aspects to show the innovation in the company. We will develop certain questions which will help us measure the said variables and also to gather primary data related to these variables.

The organizational capacity is expected to have a positive relationship with the accounting performance of the company. This is because the increase in the capacity of the organization will mean that the ability of the firm to earn profit will also increase. The increase in the capacity will also mean that the technical knowledge of the employees will increase. This is also expected to have a positive impact on the profit earning ability of the company.

Size is an important variable when we talk of the performance of the company, it is generally assumed that the bigger firms will be more profitable. These firms will have much more resources as compared to the smaller firms to implement the innovation aspects within themselves.

The competency of the environment in which the firm is working also affects the magnitude of the innovation that will be undertaken by that firm if the environment is very competitive, higher levels of innovation will be needed to compete with all the other organizations.

Dependent variable:

The Dependent variable that will be used in this study is the accounting performance of the company. This variable will be measured with the help of the profit earned by the firms working in the services sector of Australia. This variable is chosen because it can define the basic cause for the survival of the company. It is also assumed that the better firms are those which earn better profits over a period of time. The innovation is also thought of as a process that will enhance the ability of the firm to earn more profits so the increase in the profits will be seen as an outcome of the successful implementation of the innovation process.

*Statistical tests*

The data analysis will be undertaken using the SPSS software and using the regression analysis in particular. The performance of the company as measured by the profits will be kept the dependent variable and the innovation as measured by the above mentioned three variables is considered the independent variable. The rejection and acceptance of the hypothesis will be dependent upon the results of the analysis.

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