



An analysis of the determinants of providing business services in Mainland China[☆]



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ABSTRACT

This paper analyzes the factors affecting decision-making on the provision of business services by Taiwanese accounting firms in Mainland China, in order to provide suggestions and managerial implications to accounting firms on decision-making concerning business operations. Logistic regression analysis is conducted, and the empirical model of decision-making on the provision of business services in Mainland China is developed. The dependent variable is whether or not to provide business services in Mainland China; the independent variables are divided into five dimensions: firm attributes, labor structure and allocation, type of professional service, employee contribution, and client diversification. According to the results, when an accounting firm establishes a management consulting firm, has a higher percentage of employees with high educational levels, has a higher percentage of young employees, has a higher percentage of management consulting personnel, and has a higher percentage of financial auditing business revenue, the probability of providing business services in Mainland China will be higher. However, when the percentage of tax service personnel is high and the clients are highly diversified, the probability of providing business services in Mainland China will be lower. Therefore, it is suggested that accounting firms should set up management consulting firms, managers should hire more employees with a master's degree, young employees, and management consulting experience; in addition, the firms should actively expand their services in financial auditing and focus on specialized client groups, which will be more helpful to the accounting firms providing related business services and operational development in Mainland China. The findings can provide references to managers of accounting firms for the evaluation of expanding their business to Mainland China, as well as related decision-making.

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1. Introduction

Since the economic opening and reform of Mainland China in 1979, its vast domestic demand market has become a battle ground for enterprises all over the world. To expand the overseas market and strengthen international competitiveness, many Taiwan's industries have moved their manufacturing sites to Mainland China, leading to the clustering effect in the supply chain. According to the statistics of the Investment Commission, Min-

istry of Economic Affairs (MOEAIC) on January 2013, as of the end of 2012, investment in Mainland China accounted for the highest percentage (61.23%) among all approved outbound investment of Taiwanese businesses. From 2009 to 2011, the investment amount and number of investment cases of Taiwanese businesspeople in Mainland China grew year by year. In 2010, Taiwanese investment in Mainland China amounted to 12,200 million USD (518 cases), and reached 13,100 million USD (575 cases) by 2011. Although the investment amount of Taiwanese investment in Mainland China slightly declined in 2012, the amount reached 10,900 million USD (454 cases), thus, it is clear that Mainland China has become the focus of investments and business markets for Taiwanese companies.

In recent years, many Taiwanese enterprises have established factories in Mainland China; however, they face the challenges of

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frequent changes in taxation and regulations, as well as discrepancies in implementation between central and local governments. As the Big Four accounting firms in Mainland China charge a higher fee than those in Taiwan [13], most enterprises hire Taiwanese accountants for professional services and taxation planning assistance, as based on cost effectiveness. Hence, to satisfy clients' demands, some certified public accountants (CPAs) started to provide services in Mainland China, including auditing, taxation, and management consulting. Therefore, CPAs play an indispensable key role in the economic system.

According to the "2011 Survey Report of the Accounting Service Industry", as published by the Financial Supervisory Commission [18] (2012), the main bottleneck faced by the accounting industry is intense competition and a sluggish market. Moreover, the main services provided by most accounting firms are financial auditing and tax auditing. In addition, the main client group is Taiwanese enterprises. To increase client channels, future business strategies inevitably focus on the expansion of services to the Mainland Chinese market. According to the above survey report, 37 accounting firms provided business services in Mainland China in 2010, which was a 28% growth, as compared to 29 in 2009; in 2011, the figure increased to 43. According to the "2015 Survey Report of the Accounting Service Industry", as published by the FSC [19] (2016), a total of 25 accounting firms undertook assignments in Mainland China in 2015, which is approximately 2.4% of the total pool of 1034 firms. Among the 25 firms, 18 are partnerships and only 7 are sole ownerships.

According to the "2015 Survey Report of the Accounting Service Industry", as published by the FSC [19] (2016), client requests were the main reason for conducting audits in Mainland China, which accounted for 83.3% of the total in 2015, up from 81.4% in 2014. The second reason was to develop businesses, which was down to 7.3% in 2015 from 12.3% in 2014. The majority of audit projects in Mainland China were accomplished by staffs sent from Taiwan (86.5% in 2015 vs. 85.7% in 2014). The percentage of audit jobs conducted by locals in Mainland China went down from 11.4% in 2014 to 7.7% in 2015. The percentage of accounting firms that set up consulting firms in Mainland China increased from 1.4% in 2014 to 1.9% in 2015.

The revenues from practices in Mainland China totaled NT\$ 970 million in 2015, or 3.5% of the industry's total revenue of NT\$ 28.15 billion. As much as 96.1% of the revenue in Mainland China was generated by firms with over 300 employees, while 98.3% was created by mega firms with a revenue amount of over NT\$ 100 million. The biggest business in Mainland China was to audit the investees of Taiwanese companies (78.9%), followed by statutory audits (11.4%) and investment evaluations and consultations (6.3%) (Source: 2015 Survey Report of the Accounting Service Industry, FSC [19] 2016). This suggests the provision of business services in Mainland China has become one of the major channels for accounting firms to expand into overseas market.

The above report also suggests that the attributes of the businesses and performance evaluations of the accounting firms can be divided into five categories, including firm attributes, labor structure and allocation, the type of professional service, employee contribution, and client diversification. The first four types are related to operating structure and robustness, as well as the availability of sufficient professional knowledge and talents. These types may determine the quality of services provided by accounting firms, as well as the ability to respond to auditing and non-auditing cases. In addition, among the clients of the accounting firms, 99.52% of the enterprises can be categorized into 19 sectors. When faced with clients of different industries, accounting firms must have corresponding business strategies and differentiated professional services. Hence, accounting firms may need to provide diversified services in order to satisfy clients' needs. Among those clients, some

industries have established factories in Mainland China; thus, accounting firms must provide additional professional services. Based on the above, this paper intends to discuss the key factors affecting the provision of business services by accounting firms in Mainland China. The findings can provide references for the managers of accounting firms regarding the evaluation of expanding their business to Mainland China, as well as related decision-making.

This paper consists of five chapters. Chapter 1 describes the research backgrounds, motives and purposes. Chapter 2 reviews the literature in relation to the business decisions and operating performances of Chinese investments by accounting firms and other industries, and develops the research hypotheses of the five constructs accordingly. Chapter 3 introduces the research design and methodology, and explains the sample selection from the Survey Reports of the Accounting Service Industry, as published by the FSC, as well as the variables and operational definitions of the individual constructs. Finally, a logistic regression model and an empirical model for operating performances in Mainland China are built, in order to identify the key factors that determine their decisions in the undertaking of business services in China. Chapter 4 conducts an empirical analysis and discusses the empirical results. Chapter 5 presents the conclusions and suggestions, as well as suggestions and practical and business implications for accounting firms interested in the exploration of the Chinese market.

2. Literature review and hypotheses development

As a knowledge-intensive business, accounting firms accumulate their human resources and client resources over the course of operations [11]. Oster [37] finds that enterprises with longer business age will make more efficient allocation of resources over time. However, although enterprises with longer business age may lack innovation [24,39], their information, assets, equipment, accumulated professional experience, and client basis are richer. Therefore, when facing a sluggish market and intense industrial competition, accounting firms with longer business age will have more resources and incentives to develop overseas markets for sustainable operations, thus, further expanding their business scale and creating operating profits.

Scale factors can cause differences in behavior between enterprises. In other words, firms of different scales adopt different organizational structures and strategies to construct a decision model for their own competitive advantages [17,22]. Chen et al. [9] argue that the different requirements for the qualifications of CPAs in Taiwan have resulted in market segmentation, leading to differences in the business services and clients of accounting firms. Therefore, the factors affecting the operating performances of the accounting firms may vary. This paper categorizes accounting firms by organizational structure into sole proprietorship and partnership types. The accounting firms of the sole proprietorship type have smaller scale than those of the partnership type. By comparison, the accounting firms of the partnership type have sufficient labor and resources to satisfy clients' demands for providing business services in Mainland China.

In recent years, e-commerce has become an important factor for improving the business performances of enterprises. A successful strategy can help enterprises to improve their work efficiency and market shares, and develop new markets to survive in a competitive market [12]. Liao [30] argues that the adoption of e-commerce with different technologies has positive effect on enterprises in the current changing market. At present, some accounting firms have applied e-commerce in business activities, such as business information and e-transactions, as compared to accounting firms without e-commerce activities, and such accounting firms have better equipment and can better provide real-time manage-

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