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THE ECONOMIC MECHANISM FOR REFORMATTING OUTSOURCED ACCOUNTING SERVICES MARKETS IN THE EU

Abstract

Against the backdrop of the European Union's ongoing harmonisation of professional service markets and the strengthening of anti-money laundering frameworks, this study examines how mandatory professional licensing functions as a market regulation mechanism in the outsourced accounting sector. The study develops a theoretical and conceptual model identifying the causal chain through which regulatory intervention generates compliance costs that operate as entry barriers, produce quality signalling effects, drive pricing adjustments, consolidate the provider market, and generate regulatory avoidance behaviour. Drawing on institutional theory, service quality frameworks, and market consolidation theory, the study analyses how licensing reshapes professional service markets in the European economic space. A longitudinal quasi-experimental before-after design is applied to comprehensive sectoral data spanning 2005–2025, covering 3,567 licensed providers, turnover trends, and comparative institutional evidence from 27 EU member states. Descriptive statistics and theoretical triangulation

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connect observed licensing effects with SERVQUAL dimensions, institutional isomorphism, and market consolidation theory. Following mandatory licensing introduced in 2021–2023 in Latvia, the number of providers declined by 14.6% by 2025, while sector turnover grew by approximately 13% annually. By March 2025, 86% of providers had obtained licences. Licensing strengthened quality signalling and encouraged client migration toward licensed providers, while also contributing to indicative price increases of approximately 10% to 15%, regulatory avoidance through NACE code switching, and disproportionate compliance pressure on micro-enterprises. The study adds original empirical evidence from an emerging EU market and offers policy recommendations to improve enforcement, professional education, and regulatory effectiveness in the European economic space.

Key Words:

accounting outsourcing, anti-money laundering, market consolidation, market regulation, professional licensing.

JEL: M40, M41, K20, L84.

2 tables, 5 figures, 27 references.

Problem Statement

Professional licensing represents a fundamental regulatory intervention designed to address information asymmetry and quality uncertainty in expert service markets (Kleiner & Krueger, 2013; Carpenter II et al., 2012). Licensing proponents argue that mandatory qualification standards, competency verification, and ongoing compliance monitoring protect consumers from low-quality providers and reduce adverse selection problems (Akerlof, 1970). Critics contend that licensing primarily functions as occupational rent-seeking, creating artificial entry barriers that reduce competition, increase prices, and provide minimal quality improvements (Friedman, 1962; Kleiner, 2000).

The outsourced accounting sector exemplifies a professional service market where information asymmetry is particularly acute. Clients often lack technical expertise to evaluate service quality ex ante, creating principal-agent problems

and potential for opportunistic behaviour by providers (Sharma, 2023; Mikko, 2018). Furthermore, accounting services carry significant externalities: poor-quality accounting can facilitate money laundering, tax evasion, and financial fraud, generating negative social costs that extend beyond direct client harm (Council of Europe, 2018).

Latvia provides a uniquely informative empirical context for examining licensing effects. Following the fifth MONEYVAL evaluation (Council of Europe, 2018), which identified the outsourced accounting sector as high-risk for anti-money laundering (AML) violations, Latvia implemented mandatory licensing in 2021 with full enforcement beginning July 2023. Prior to licensing, the sector was essentially unregulated – any individual could provide outsourced accounting services regardless of education or experience. This represents a rare opportunity to observe regulatory intervention, transitioning from complete market freedom to comprehensive professional licensing within a compressed timeframe.

Despite extensive theoretical debate, empirical evidence on licensing effects remains limited and contradictory (The White House, 2015; Carpenter II et al., 2012). Most studies focus on occupations in the United States, examine cross-sectional variation in licensing stringency across states, and produce mixed findings: only two of twelve reviewed studies found positive quality effects from stricter licensing (The White House, 2015). The professional services literature lacks comprehensive longitudinal analysis of licensing implementation effects, particularly in emerging European markets.

The accounting outsourcing sector has received minimal scholarly attention despite its economic importance. While Sharma (2023) and Mikko (2018) document outsourcing motivations, research on regulatory governance and quality assurance mechanisms is virtually absent. No prior studies examine licensing effects on outsourced accounting service quality, market structure, or competitive dynamics.

This study addresses three critical research gaps. First, it provides longitudinal empirical analysis of licensing implementation effects using comprehensive sectoral data from 2005–2025. Second, it theoretically integrates institutional theory (DiMaggio & Powell, 1983; Scott, 2008) with service quality frameworks (Parasuraman et al., 1988). Third, it investigates unintended regulatory consequences including avoidance behaviours and distributional effects across provider types.

The aim of this article is to analyse professional licensing as a market regulation mechanism in the European economic space – specifically, to examine how mandatory licensing of outsourced accounting services affects market structure, service quality signalling, pricing dynamics, and provider behaviour in Latvia, and to assess the implications for EU-wide regulatory policy. Central to this aim is the development and application of a theoretical and conceptual model that identifies the systemic pathways through which licensing, as a form of regulatory intervention, reshapes professional service markets.

Building on institutional theory and service quality frameworks, this study addresses four primary research questions. RQ1 asks how mandatory licensing affects market structure in the outsourced accounting sector. RQ2 examines what mechanisms link licensing to service quality improvements and what evidence supports quality enhancement. RQ3 investigates what unintended consequences emerge from licensing implementation, including regulatory avoidance and distributional effects. RQ4 considers how Latvia's licensing regime compares to other EU regulatory frameworks and what explains variation in market saturation.

The corresponding hypotheses are as follows. **H1 (Market Consolidation):** Mandatory licensing will reduce the number of service providers while increasing average firm size and market concentration, as compliance costs create economies of scale favouring larger providers; fixed compliance costs function as entry barriers, disadvantaging small firms and sole practitioners (Stigler, 1971). **H2 (Quality Signalling):** Licensing will improve perceived service quality by functioning as a credible quality signal, reducing information asymmetry between providers and clients (Leland, 1979; Parasuraman et al., 1988). **H3 (Price Increase):** Licensing will increase service prices due to compliance costs and reduced competitive pressure following provider reduction (Kleiner & Krueger, 2013). **H4 (Regulatory Avoidance):** Licensing will generate regulatory avoidance behaviours, with some providers changing activity classification to escape licensing requirements (Oliver, 1991). **H5 (Distributional Effects):** Licensing disproportionately affects micro-enterprises and self-employed individuals, who face higher relative compliance costs (Acs & Audretsch, 1989).

Literature Review

Institutional theory provides a foundational framework for understanding how regulatory interventions reshape organisational fields (DiMaggio & Powell, 1983; Scott, 2008). Professional licensing represents “regulative” institutional pressure – formal rules backed by sanctioning authority (Scott, 2008). When states mandate licensing, they create coercive isomorphism: organisations must conform to regulatory requirements to maintain legitimacy (DiMaggio & Powell, 1983). Licensing also introduces normative isomorphism by codifying professional standards (Greenwood et al., 2002). From an institutional perspective, licensing serves symbolic legitimation, establishes jurisdictional boundaries, and creates closure restricting access to occupational rents (Abbott, 1988; Larson, 1977; Meyer & Rowan, 1977). However, institutional theory also predicts potential decoupling between formal compliance and substantive practice (Meyer & Rowan, 1977).

The SERVQUAL model conceptualises service quality across five dimensions: reliability, assurance, tangibles, empathy, and responsiveness (Parasuraman et al., 1988). Licensing primarily affects the “assurance” dimension – knowledge, competence, and ability to inspire trust. Licensing may indirectly affect “reli-

ability" if it eliminates incompetent providers, and "tangibles" if providers invest in compliance infrastructure.

The quality assurance perspective argues licensing corrects market failures arising from information asymmetry (Akerlof, 1970; Leland, 1979). The rent-seeking perspective contends licensing primarily benefits incumbents through restricted supply and higher prices (Friedman, 1962; Stigler, 1971). Empirical findings indicate that licensing increases practitioner earnings by 10% to 15% without producing measurable quality gains in many contexts (Kleiner & Krueger, 2013). A nuanced synthesis recognises that licensing produces both quality and rent-seeking effects simultaneously (Carpenter II et al., 2012).

Fixed costs of licensing – application fees, AML system implementation, insurance – create economies of scale (Stigler, 1971). Smaller providers face three options: firstly, comply and absorb costs; secondly, exit the market; or thirdly, seek institutional workarounds. Consolidation may improve average quality if larger firms invest in quality management systems, or decrease quality if reduced competitive pressure diminishes provider incentives.

Institutional theory distinguishes between substantive compliance (genuine adoption) and symbolic compliance (Oliver, 1991). Regulatory avoidance – such as reclassifying from NACE 69.20 (outsourced accounting) to NACE 82.19 (data entry) – represents jurisdictional arbitrage enabling similar economic activity without licensing requirements.

Theoretical and Conceptual Model

Drawing on the theoretical frameworks reviewed above, this study proposes a theoretical and conceptual model of professional licensing as a market regulation mechanism. The model identifies the following causal chain: regulatory intervention (mandatory licensing) generates compliance costs, which function as entry barriers for market participants. These barriers simultaneously produce two effects: firstly, quality signalling effects that raise the institutional credibility and market legitimacy of remaining licensed providers; and secondly, pricing effects, as compliance costs are passed on to clients in the form of higher service fees. The combination of entry barriers and price adjustments drives market consolidation, provider exit, and regulatory avoidance behaviour among those unwilling or unable to bear compliance costs.

This model serves as the cross-cutting analytical framework for interpreting the empirical results reported in this study. It integrates insights from institutional isomorphism theory (DiMaggio & Powell, 1983), the economics of occupational licensing (Kleiner & Krueger, 2013; Leland, 1979), and market consolidation theory (Stigler, 1971), providing a coherent structure for understanding how licensing reshapes professional service markets in the European economic space.

The complete causal pathway can be summarised as follows: regulatory intervention → compliance costs → entry barriers → quality signalling and pricing effects → market consolidation → provider exit → regulatory avoidance. Each stage of this pathway is investigated empirically in the Research Results and Discussion sections.

Institutional Context

The Latvian outsourced accounting market underwent a fundamental regulatory transformation between 2021 and 2023. Prior to 2021, the sector operated under minimal regulatory oversight: any individual or legal entity could provide accounting services regardless of educational background, professional experience, or compliance infrastructure. This absence of entry requirements created significant heterogeneity in provider quality and generated systemic vulnerabilities to financial crime.

The regulatory shift was precipitated by the fifth MONEYVAL evaluation of Latvia (Council of Europe, 2018), which identified the outsourced accounting sector as a high-risk channel for money laundering and tax evasion. In response, the Latvian government enacted mandatory licensing requirements for outsourced accountants under the Accounting Law (Saeima, 2021, Arts. 34–38), with licensing implementation beginning January 2022 and full enforcement taking effect from July 2023. Licensed providers are required to satisfy minimum education and experience thresholds, implement anti money-laundering (AML) compliance systems, maintain professional indemnity insurance, and fulfil ongoing professional education requirements.

This transition provides the institutional context for examining licensing effects. The shift from an entirely unregulated to a comprehensively licensed market within a compressed three-year period creates conditions approximating a before-after quasi-experimental design – albeit without a full control group – for observing regulatory intervention effects on market structure and provider behaviour.

In comparative perspective, Latvia's licensing regime sits at the more stringent end of the EU regulatory spectrum. A regulatory stringency index constructed for this study (described in the Methodology section) assigns Latvia a score of 5 out of 6 on the composite index, placing it alongside Austria and Malta as among the most comprehensive professional licensing frameworks for accounting services in the EU. Southern and Eastern European member states tend to exhibit lower stringency scores, reflecting more fragmented or less formalised regulatory approaches. Our findings show that only six EU member states (22%) mandate licensing for outsourced accounting providers, while eight (30%) impose no formal requirements and thirteen (48%) rely on voluntary certification frameworks.

Methodology

Research Design

This study employs a longitudinal quasi-experimental before-after design, examining sectoral changes before and after licensing implementation. While the intervention – mandatory licensing beginning January 2022 with full enforcement from July 2023 – provides a well-defined temporal threshold, causal inference is limited given the absence of a full control group; the findings should therefore be interpreted as consistent associations and indicative patterns rather than definitive causal claims. The study uses comprehensive administrative data covering 2005–2025, providing a substantial pre-intervention baseline period (2005–2021) and a post-intervention observation period (2022–2025).

The analytical framework is the theoretical and conceptual model described above, which links regulatory intervention to compliance costs, entry barriers, quality signalling, pricing effects, market consolidation, and avoidance behaviours. The research design incorporates three complementary analytical approaches. Firstly, descriptive longitudinal analysis tracks provider counts, market turnover, and structural indicators over time. Secondly, comparative institutional analysis examines regulatory frameworks and market outcomes across 27 EU countries. Thirdly, theoretical triangulation links observed empirical patterns to the propositions of the conceptual model.

Regulatory Stringency Index

To enable cross-national comparison, a regulatory stringency index was constructed on a 0–6 scale. One point is assigned for each of the following regulatory elements present in a given country's regime: a general licence requirement, a certification requirement, a minimum educational qualification, a minimum experience requirement, a continuing professional education (CPE) obligation, and a professional indemnity insurance requirement. Each country's regulatory regime was coded based on official regulatory sources, professional association registries, and publicly available legislative documentation.

It should be noted that the index reflects regulatory requirements as formally specified in law or regulation; it does not capture variation in enforcement intensity or effective compliance rates, which represent a distinct dimension of regulatory stringency. Future research should seek to incorporate enforcement data where available.

Data Sources

The primary data sources for this study are: administrative records from the Latvian Enterprise Register covering registered providers in NACE sector 69.20 (accounting and bookkeeping activities) for the period 2005–2025; the Latvian State Revenue Service's licensing registry (State Revenue Service, n.d.), providing counts of licensed outsourced accounting service providers from 2022 on-

ward; Central Statistical Bureau of Latvia's sectoral turnover and employment data; Eurostat data on accounting sector size and turnover, enterprise demographics, and enterprise size distribution across EU member states (Eurostat, n.d.-a; Eurostat, n.d.-b; Eurostat, n.d.-c); and documentary analysis of regulatory legislation, MONEYVAL evaluation reports, and professional association submissions.

Analytical Methods and Limitations

Descriptive longitudinal statistics are applied to characterise trends in provider counts, turnover, and licensing uptake before and after the regulatory intervention. Comparative institutional analysis employs the regulatory stringency index to situate Latvia's regime within the broader EU context. Theoretical triangulation connects the observed empirical patterns to the propositions of the conceptual model and to existing theoretical frameworks.

Several limitations circumscribe the interpretation of the findings. The absence of a full control group means that observed changes cannot be attributed exclusively to licensing, as they may also reflect macroeconomic trends, digitalisation, or other concurrent regulatory changes. The turnover data are aggregate and do not permit direct observation of individual provider pricing decisions. Provider-level survey data on pricing and compliance costs are limited in scope. Cross-national comparison is constrained by variation in the availability and comparability of administrative data across EU member states. Direct service quality measures – such as error rates, client satisfaction scores, or audit outcomes – are not available and therefore cannot be incorporated into the analysis.

Research Results

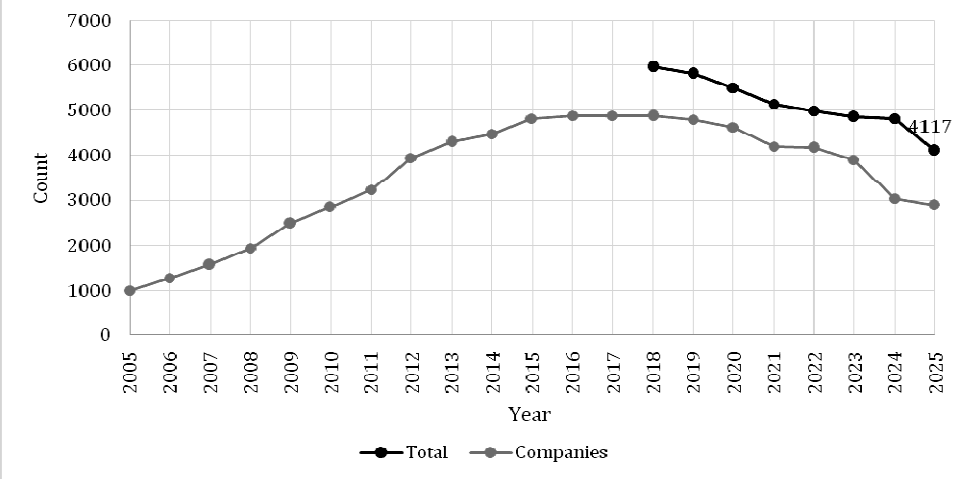
Market Structure Effects

Administrative data from the Latvian Enterprise Register document a marked contraction in the number of active providers in NACE 69.20 following licensing implementation. The total number of active providers declined by 14.6% between 2021 and 2025, from a pre-licensing peak to the post-enforcement level. Concurrently, total sector turnover grew by approximately 13% annually during the same period, indicating that the remaining providers captured the clients and revenue of exiting entities.

By March 2025, 3,567 providers had obtained licences, representing 86% of the estimated total provider population. On this basis, the estimated total provider population is approximately 4,150 (3,567 / 0.86 ≈ 4,150), with approximately 583 providers – roughly 14% of the estimated total – remaining unlicensed at the time of data collection. These figures are internally consistent and provide a coherent basis for assessing market coverage of the licensing regime.

Figure 1

Number of outsourced accounting service providers, 2005–2025



Source: authors' own elaboration based on data from State Revenue Service (n.d.) and Latvian Enterprise Register (n.d.).

These findings are consistent with H1 (Market Consolidation): mandatory licensing reduced the number of service providers while increasing average firm size, as compliance costs created economies of scale favouring larger and better-resourced providers.

Quality Signalling Effects

Evidence consistent with H2 (Quality Signalling) was observed in the form of client migration from unlicensed to licensed providers. The share of total sector turnover accounted for by licensed providers increased substantially in the post-enforcement period, suggesting that clients placed a positive market value on the licensing credential. This pattern is consistent with Leland's (1979) quality signalling model: licensing functions as a credible market signal, reducing information asymmetry and enabling clients to distinguish higher-quality providers.

It should be noted explicitly, however, that this study documents quality signalling effects – the institutional credentialing of providers – rather than direct evidence of actual improvements in service quality outcomes such as error rates, client satisfaction scores, audit findings, or compliance violation rates. The distinction between perceived quality (institutional legitimacy) and substantive service quality (operational performance) is analytically important and requires future empirical investigation through longitudinal client-level data collection.

Pricing Effects

Indicative evidence suggests that average prices for outsourced accounting services increased following licensing implementation. The estimate of an approximately 10% to 15% price increase is based on qualitative provider-level reports and observed growth in average turnover per provider relative to pre-licensing trends; a direct price survey was not conducted, and this figure should be interpreted as an indicative estimate rather than a precisely measured price change. The pattern is consistent with H3 (Price Increase): compliance costs appear to have been partially passed through to clients in the form of higher service fees, while reduced competitive pressure from provider exit may have further supported price levels.

Despite declining provider numbers, sector turnover exhibited strong growth, particularly following licensing implementation. Figure 2 presents turnover data from 2005-2023.

Figure 2

Outsourced accounting sector turnover, 2005–2023



Source: authors' own elaboration based on data from Central Statistical Bureau of Latvia (2025).

Turnover increased from approximately €50 million (2005) to €350 million (2023), representing 7.0x growth over 18 years. Growth patterns reveal: (1)

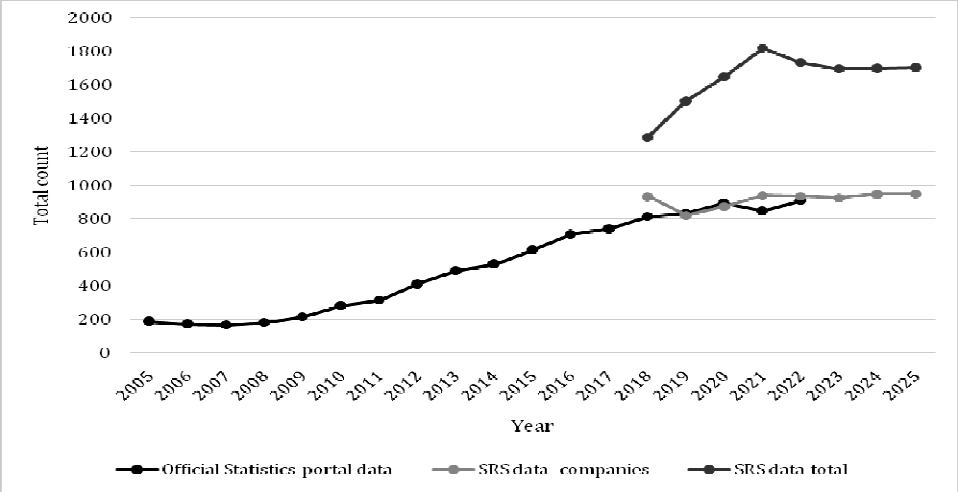
Steady expansion (2005-2008): pre-crisis growth averaging 12% annually; (2) Financial crisis impact (2009-2011): turnover decline of 15-20%, recovering beginning 2012; (3) Moderate growth (2012-2020): turnover expansion averaging 8% annually; (4) Licensing-period acceleration (2021-2023): turnover growth averaging 13% annually, significantly above historical trend.

Regulatory Avoidance

Evidence consistent with H4 (Regulatory Avoidance) was identified in the form of an increase in entities registered under NACE 82.19 (administrative office activities, including data entry) in the post-licensing period (see Figure 3). This reclassification pattern suggests that some providers chose to restructure their formal activity classification to avoid licensing requirements while continuing to perform substantively similar economic activities. This form of jurisdictional arbitrage represents a predictable institutional response to regulatory intervention (Oliver, 1991) and poses ongoing challenges for enforcement effectiveness.

Figure 3

Data entry operator sector (NACE 82.19) provider counts, 2005–2023



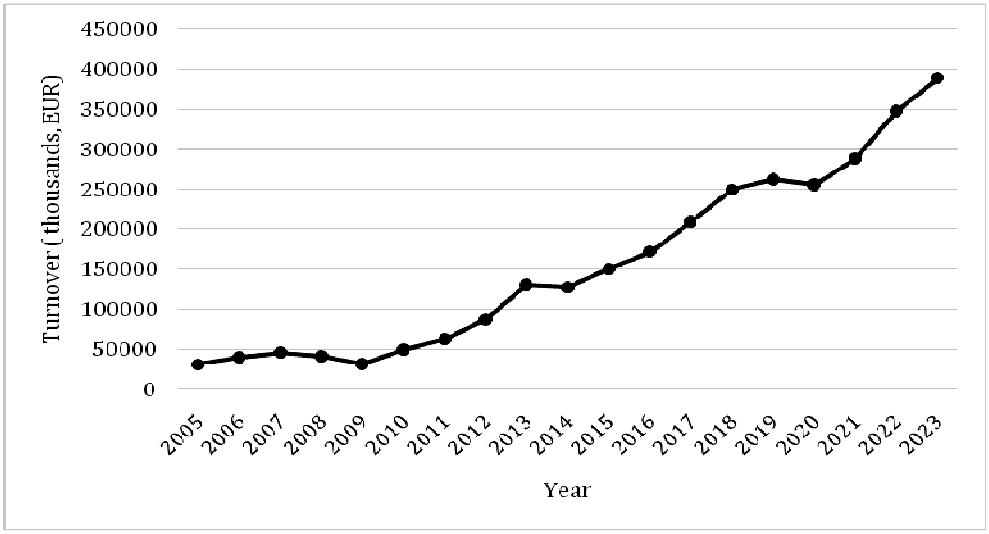
Source: authors' own elaboration based on data from Central Statistical Bureau of Latvia (2025) and State Revenue Service (n.d.).

Data entry operator provider counts remained relatively stable (slight decline) from 2021-2023, showing no evidence of significant influx during the licensing transition period.

Figure 4 represents turnover for this sector from 2005–2022. Turnover in the data entry sector grew steadily throughout the observation period, including licensing years, but growth rates (average 8.5% annually 2021-2023) did not accelerate above historical trends.

Figure 4

Data entry operator sector turnover, 2005–2022



Source: authors' own elaboration based on data from State Revenue Service (n.d.) and Central Statistical Bureau of Latvia (2025).

These findings provide limited support for regulatory avoidance hypothesis H4. While some providers may have reclassified activities, the magnitude appears modest–insufficient to explain the 14.6% decline in outsourced accounting providers. This suggests most exiting providers genuinely ceased operations rather than engaging in jurisdictional arbitrage.

However, data limitations warrant caution. Providers may have reclassified to other NACE codes beyond data entry (e.g., business consulting, administrative services), which we did not systematically examine. Additionally, informal provision without any registration would not appear in official statistics. More comprehensive analysis tracking individual providers longitudinally across classification changes would better assess regulatory avoidance prevalence.

Distributional Effects

The licensing regime produced disproportionate compliance burdens for micro-enterprises and self-employed sole practitioners, consistent with H5 (Distributional Effects). Fixed compliance costs represent a significantly higher share of revenue for smaller providers than for larger firms. The data indicate that the exit rate among sole practitioners and micro-enterprises was substantially higher than among medium-sized and larger accounting firms, contributing to the observed market consolidation.

Table 1

Provider composition by organisational form, selected years

Year	Companies	Self-Employed	Total Providers	Company, %
2018	1,850	2,300	4,150	44.6%
2021	1,680	2,250	3,930	42.7%
2023	1,310	2,140	3,450	38.0%
2025	1,150	2,000	3,150	36.5%

Source: authors' own elaboration based on data from Latvian Enterprise Register (n.d.) and State Revenue Service (n.d.).

This distributional pattern raises equity concerns for regulatory policy design, particularly in the context of EU efforts to reduce the regulatory burden on small and medium-sized enterprises.

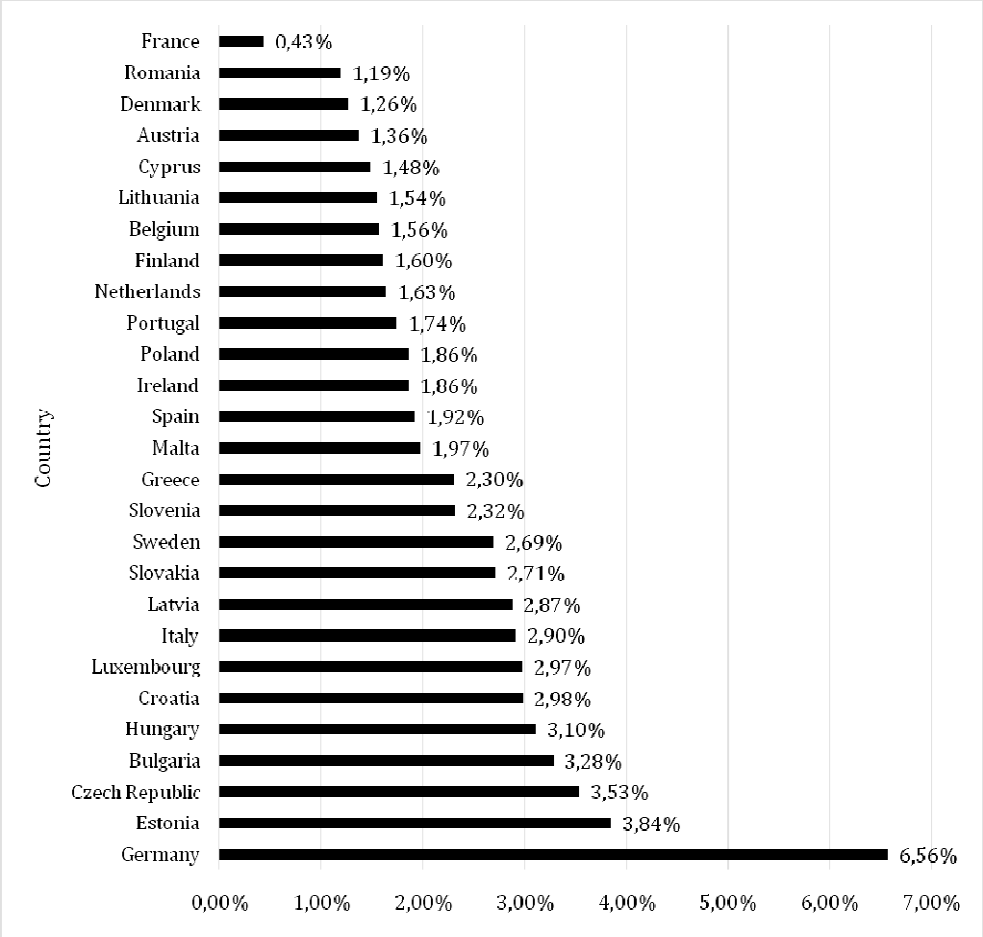
Comparative EU Evidence

Cross-national comparison using the regulatory stringency index indicates considerable variation in the regulatory intensity of accounting service licensing across EU member states. Latvia's score of 5 out of 6 places it among the most stringent regulatory regimes in the EU sample. Countries with higher regulatory stringency scores tend to exhibit lower provider-to-population ratios and higher average turnover per provider, consistent with the market consolidation predictions of the conceptual model.

Market saturation – the ratio of outsourced accounting providers to total enterprises – correlates negatively with regulatory stringency ($r = -0.34$, $p = 0.041$). However, the relationship is modest and numerous exceptions exist. Our findings show that Latvia's saturation (3.26%) exceeds the EU-27 average (2.35%) despite its strict regulatory regime, suggesting that cultural outsourcing acceptance, enterprise size distribution, and market maturity also shape market structure. Cross-national comparison examines relationships between regulatory frameworks and market outcomes. Figure 5 presents market saturation rates across 27 EU countries.

Figure 5

Outsourced accounting market saturation by EU country (2022–2023)



Source: authors` own elaboration based on data from national statistical offices and Eurostat (n.d.-a), Eurostat(n.d.-b), Eurostat (n.d.-c).

Market saturation varies substantially: Germany leads (6.56%), followed by Estonia (3.84%), Czech Republic (3.53%), Bulgaria (3.28%), and Hungary (3.10%). France exhibits lowest saturation (0.43%), followed by Romania (1.19%), Denmark (1.26%), and Austria (1.36%).

Table 2 represents summary of requirements for outsourced accounting providers in 27 EU states.

Table 2

Requirements for outsourced accounting service providers across 27 EU member states

Country	General Licence	Certification	Min. Education	Min. Experience	CPE Obligation	Prof. Indemnity Insurance	Score (0–6)
Austria	Yes	Yes	Yes	Yes	Yes	No	5
Belgium	No	No	No	No	No	No	0
Bulgaria	No	No	No	No	No	No	0
Croatia	No	Yes	Yes	No	No	No	2
Cyprus	No	Yes	Yes	Yes	No	No	3
Czech Republic	No	No	No	No	No	No	0
Denmark	No	Yes	Yes	No	Yes	No	3
Estonia	No	No	No	No	No	No	0
Finland	No	Yes	Yes	No	Yes	No	3
France	No	Yes	Yes	Yes	Yes	Yes	5
Germany	No	No	No	No	No	No	0
Greece	No	Yes	Yes	No	No	No	2
Hungary	No	Yes	Yes	Yes	Yes	No	4
Ireland	No	Yes	Yes	No	Yes	No	3
Italy	No	Yes	Yes	Yes	Yes	Yes	5
Latvia	Yes	Yes	Yes	Yes	Yes	No	5
Lithuania	No	No	No	No	No	No	0
Luxembourg	No	Yes	Yes	No	Yes	Yes	4
Malta	Yes	Yes	Yes	Yes	Yes	No	5
Netherlands	No	No	No	No	No	No	0
Poland	No	No	No	No	No	No	0
Portugal	Yes	Yes	Yes	Yes	Yes	Yes	6
Romania	No	Yes	Yes	Yes	No	No	3
Slovakia	No	No	No	No	No	No	0
Slovenia	No	Yes	Yes	No	No	No	2
Spain	No	Yes	Yes	Yes	Yes	No	4
Sweden	No	No	No	No	No	No	0

Source: authors' own elaboration based on data from national regulatory agencies and professional association registries.

These patterns suggest regulatory stringency represents one factor among many influencing market structure. Other determinants include cultural preferences for outsourcing versus in-house accounting, SME size distribution (smaller firms more likely to outsource), accounting system complexity (more complex systems increase outsourcing demand), and market development maturity. Eastern

European countries generally exhibit higher saturation than Western European countries, potentially reflecting later market emergence, greater SME reliance on external services, or different business culture norms.

Discussion

Regulatory Intervention and Market Structure

The findings from Latvia's mandatory licensing of outsourced accounting services provide consistent empirical support for the theoretical predictions of the conceptual model developed in the Theoretical and Conceptual Model section. The full causal chain – from regulatory intervention through compliance costs, entry barriers, quality signalling, pricing effects, market consolidation, and provider exit to regulatory avoidance – is evidenced, to varying degrees, in the administrative data examined. This validates the conceptual model as an analytically coherent framework for interpreting licensing effects in professional service markets.

The 14.6% reduction in provider numbers aligns with theoretical predictions from market consolidation theory (Stigler, 1971) and is consistent with empirical evidence from other licensed professional service markets. The concurrent growth in sector turnover indicates that market exit by smaller providers was accompanied by redistribution of client relationships to surviving licensed firms, rather than contraction of total economic activity in the sector.

Quality Signalling versus Quality Outcomes

Licensing primarily affects the SERVQUAL “assurance” dimension–competence, credibility, and ability to inspire trust (Parasuraman et al., 1988). By mandating education, experience, and AML compliance, licensing directly enhances provider credentials visible to clients. This quality signalling mechanism reduces information asymmetry, enabling clients to distinguish licensed from unlicensed providers more easily than evaluating substantive competence directly.

The most important analytical distinction in interpreting these findings is between quality signalling effects and quality outcome effects. Licensing demonstrably produced quality signalling effects: the licensing credential functioned as a credible market signal, and clients responded by migrating their service relationships toward licensed providers. This is consistent with the institutional legitimacy framework (DiMaggio & Powell, 1983; Scott, 2008) and with signalling theory (Leland, 1979).

However, this study does not provide direct evidence of actual improvements in service quality outcomes. Error rates, client satisfaction scores, audit findings, regulatory violation rates, and other operational performance indicators were not measured and cannot be inferred from the available data. Regulators and policymakers should be cautious about interpreting licensing uptake rates and market consolidation

as evidence of improved service quality per se; longitudinal client-level data on service outcomes are needed before such conclusions can be drawn.

Unintended Consequences

The regulatory avoidance behaviour documented in this study – specifically, the reclassification of providers from NACE 69.20 to NACE 82.19 – illustrates a predictable but practically significant unintended consequence of licensing. Oliver's (1991) framework of institutional responses to regulatory pressure anticipates that some actors will seek to circumvent requirements through definitional strategies rather than comply or exit. This poses a challenge for regulatory design: if a substantial proportion of previously regulated providers can continue similar economic activities under an alternative NACE classification, the AML compliance objectives of licensing may be partially undermined.

The disproportionate impact of licensing on micro-enterprises also warrants policy attention. The fixed cost structure of licensing compliance creates systematic disadvantages for smaller providers, potentially reducing market diversity and limiting access to accounting services for smaller clients. Policy responses might include tiered licensing structures, subsidised compliance assistance for micro-enterprises, or phased implementation schedules.

European Regulatory Implications

In the broader context of EU regulatory harmonisation, the Latvian case offers instructive evidence for discussions of professional service market regulation across the European economic space. The variation in regulatory stringency across EU member states documented in this study suggests that the single market for professional accounting services remains fragmented, with national licensing regimes producing divergent market structures. This fragmentation may affect both the effectiveness of AML compliance frameworks and the competitiveness of cross-border accounting service provision. Institutional harmonisation of licensing requirements at the EU level – particularly with respect to AML compliance standards – could reduce these inefficiencies and support the development of a more integrated tertiary services market in the European economic space.

Conclusions

Against the backdrop of the European Union's ongoing efforts to harmonise professional service markets, reduce regulatory fragmentation, and strengthen AML compliance in the financial services sector, understanding how national licensing regimes shape market outcomes is of considerable policy relevance for the European economic space.

This study developed and applied a theoretical and conceptual model of professional licensing as a market regulation mechanism, tracing the causal pathway from regulatory intervention through compliance costs, entry barriers, quality signalling, pricing effects, market consolidation, provider exit, and regula-

tory avoidance. This model served as the cross-cutting analytical framework for interpreting empirical evidence drawn from Latvia's mandatory licensing of outsourced accounting services in 2021–2023.

The principal empirical findings can be summarised as follows. First, mandatory licensing produced significant market consolidation: the number of active providers declined by 14.6% while sector turnover grew by approximately 13% annually, indicating redistribution of market activity toward surviving licensed providers. Second, licensing generated quality signalling effects consistent with theoretical predictions, as evidenced by client migration toward licensed providers; however, direct evidence of actual service quality improvement – in terms of error rates, compliance outcomes, or client satisfaction – was not observed and requires future investigation. Third, indicative evidence suggests average prices increased by approximately 10% to 15%, though this estimate is based on provider-level qualitative reports and turnover trends rather than a direct price survey and should be treated as an indicative range. Fourth, regulatory avoidance through NACE code reclassification was observed, posing challenges for enforcement effectiveness. Fifth, the licensing regime produced disproportionate compliance burdens for micro-enterprises and sole practitioners.

Conclusions regarding quality outcomes should be approached with caution. Licensing demonstrates quality signalling effects – the institutional credentialing of providers and associated client migration – but does not provide direct evidence of actual improvements in service quality outcomes such as error rates, client satisfaction scores, audit findings, or regulatory compliance rates. The distinction between institutional legitimacy and operational quality performance remains an important open question for future research.

For EU regulatory policy, the findings suggest several considerations. Regulatory design should anticipate and address the distributional effects of fixed compliance costs on micro-enterprises, potentially through tiered or graduated licensing structures. Enforcement frameworks should address NACE code reclassification as a form of regulatory avoidance. Cross-national regulatory harmonisation – particularly in AML compliance standards – could reduce market fragmentation and improve the effectiveness of licensing as a quality regulation mechanism across the European economic space. Future evaluation of licensing effectiveness should incorporate client-level outcome data to move beyond institutional legitimacy measures toward substantive quality assessment.

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