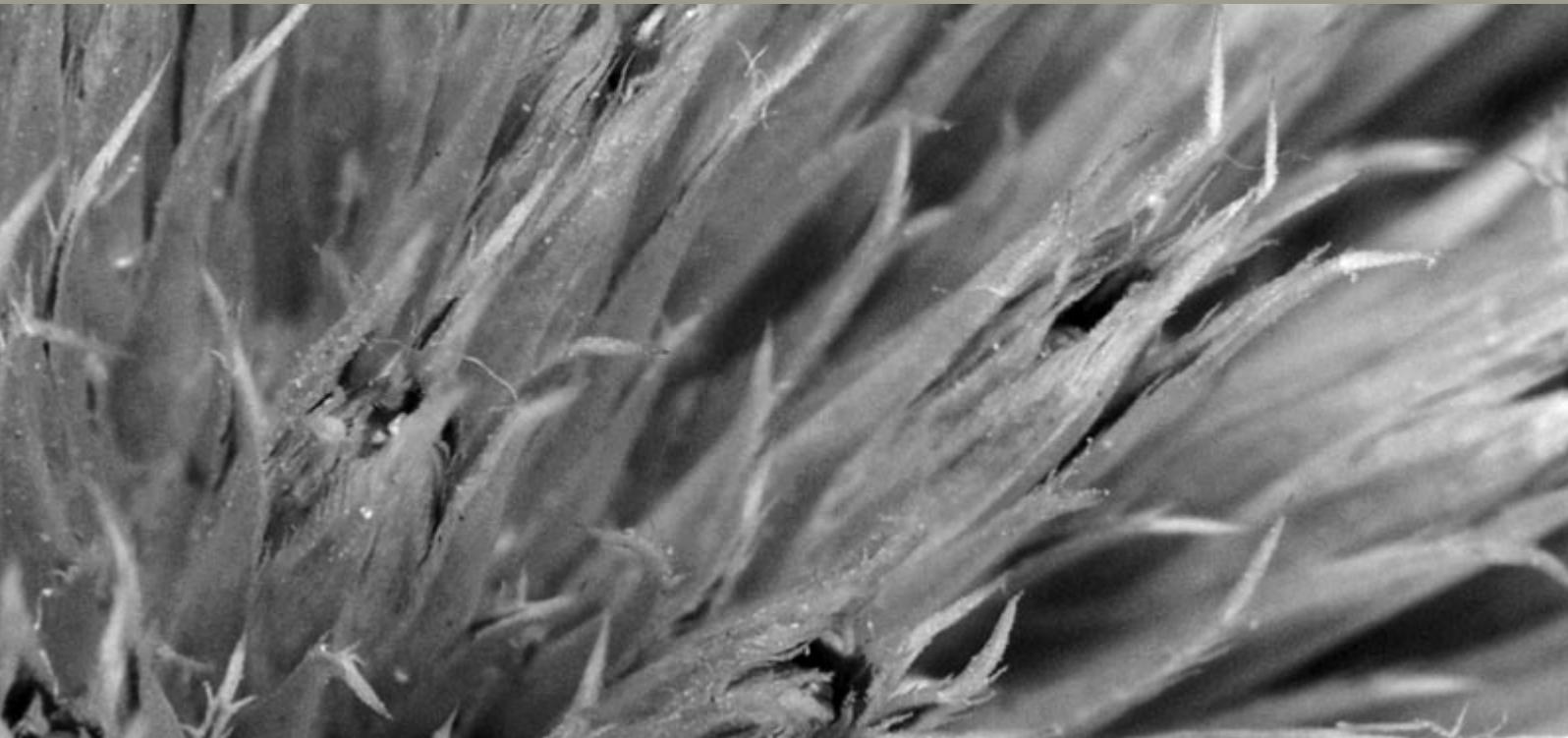


# Business Advice to SMEs: Professional Competence, Trust and Ethics





# **Business Advice to SMEs: Professional Competence, Trust and Ethics**

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# Executive summary

## CONTEXT

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This report presents the results of a study of small and medium-sized enterprises (SMEs) and their advice-seeking behaviour. Small business owner-managers have been shown to be reluctant seekers of advice and support, although accountants have been consistently identified as a key source of advice for SMEs. The main reasons that SMEs seek advice from accountants are for compliance and taxation reporting purposes. Both the evidence and a priori thinking suggest that this may help to form a basis for providing subsequent forms of business advice.

## AIMS

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The aims of the research were to:

- provide a detailed understanding of the nature of the services provided by accountants and financial advisers to SMEs in Australia and the UK
- examine the intervening role of professional competence, trust and ethics in the demand for business services from accountants by SME clients
- uncover other factors influencing SMEs' purchase of business advice, to inform the underdeveloped literature on this subject
- draw out the implications for the accountancy profession on the basis of the results, and
- feed into a larger-scale survey of SME-accountant relations focusing on non-compliance business services.

## METHODS

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Following the development of a conceptual framework, fieldwork was conducted in Melbourne, Australia and in London, England. The research comprised audio-recorded, face-to-face interviews with SME owner-managers, accountants and financial advisers. As well as providing some data triangulation, this approach provided a rich source of information from each key informant. Normally, the interviews were conducted at the interviewee's place of work. The international dimension of the research provides a certain level of international validity for the conceptual framework.

## RESULTS

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The results confirm the role of accountants as the main advisers of SMEs. All the businesses had necessary relations with an accountant for statutory compliance purposes. Most owner-managers had taken up non-compliance advice from their accountants although this varied in scale and scope. The demand for discretionary (ie non-compliance or not tax return related) business advice from accountants and financial advisers can be regarded as a derived demand arising from the internal

and external pressures on the enterprise that are faced by the owner-manager. As expected, these results were consistent across the two national jurisdictions.

The results demonstrate that, in practice, accountants usually sell advisory business services to SMEs following the provision of traditional statutory or compliance services. The already existing relationship, forged through compliance and taxation work, provides accountants with relative ease of market entry to SMEs. In other words, compliance work provides a foundation on which the external accountant will provide additional services, including business advice. With the reduction in the statutory requirements of SMEs, however, there was also evidence that accountants were able to provide non-statutory financial advice without a prior relationship based on their having given SMEs statutory advice.

For many SME owner-managers, especially those of micro-firms, their business life is often lonely and isolated, and owner-managers seek a confidante to provide advice (ie intangible services), but this confidante is not necessarily the accountant. Thus, an important dimension of business advisory services is being a 'trusted partner', a confidante, having empathy and providing a personal relationship with the owner-manager.

All owner-managers emphasised the importance of trust as a basis for continuing the relationship with their accountant. Nonetheless, unless there is a critical (milestone) event within the SME (ie changes in regulation, purchase or sale of the business, retirement or succession, or changing family circumstances), which accelerates the need for advice, trust can take years to develop. As such, the results demonstrate the importance of trust as underpinning the establishment and maintenance of owner-managers' relations with their advisers.

Trust is typically built during a relationship between the accountant and the SME client through the provision of compliance services, and is developed over time. Social rapport is required as a minimum to allow a relationship to develop and for trust to be established. While there needs to be an element of shared values for social rapport, in most cases there is no necessity for socialising outside the business relationship for social rapport to be effective.

Demonstration of an accountant's competence and business acumen are critical before an owner-manager will rely on their external accountant for business advice. Often the external accountant is not used as a source of business advice because the SME perceives them as not possessing sufficient business acumen. In contrast, all external accountants interviewed perceived themselves as having the necessary skills to provide business advice. Competence is one of the core principles in the code of ethics for professional accountants, yet there appears to be an expectation gap concerning the competence of the external accountant to provide business advice.

Nurturing the relationship and building up trust are necessary to facilitate the exchange of business advice. In particular, both accountants and their SME clients emphasised the importance of external accountants' ability to demonstrate empathy, in order to develop successful client relationships and the provision of business advisory services. Empathy was described as understanding and genuinely caring about the clients' interests, and it requires the accountant to take time to understand the clients' business and personal needs.

Variation in perceived objectivity and confidentiality of the external accountant (two core ethical principles for professional accountants) did not influence SMEs' propensity to purchase business advice. Both owner-managers and accountants agreed that objectivity and confidentiality are a minimum prerequisite for the provision of any level of professional service.

On the supply side, the results demonstrate that accountants seek to sell business advice over and above compliance and taxation services. Although this has been the case for decades, this was particularly emphasised recently as the need for a statutory audit has been relaxed and accountants seek to expand their portfolio of services. Further streamlining of statutory reporting requirements will reduce the volume of compliance work and provide an impetus for accountants to develop other sources of revenue such as business advisory services.

There were some differences in the procedures of advice provision. Larger accountancy practices tended to be able to provide a wider portfolio of services while small practices tended to use a referral network of complementary providers.

Where there is a demand for business advice emanating from the need to enhance competitive advantage and help owner-managers solve problems, the advice that an SME seeks needs to be highly specialised in relation to the industry and/or in relation to business-specific knowledge. While accountants are perceived to be competent in providing compliance services, some SMEs believed that their accountants do not possess the necessary skills to add value through providing business advice for their specific industry.

It may be inferred from the results that an expectation gap exists between what the SME owner needs and what the external accountant is able to supply. All SME owners use multiple advisers; however, not all SMEs will use an external accountant for business advice services. The market for business advice is highly competitive, and while external accountants are well placed to acquire this work, they need to convince clients they can provide value-for-money services and have the necessary business expertise to help them tackle their problems and reach their objectives.

A major factor that drives the demand for advice is the personality of the SME owner. Individuals who are highly confident of their own abilities are less likely to seek advice in the absence of a milestone event, while individuals who like to validate decisions are more likely to seek frequent professional advice.

## **RECOMMENDATIONS**

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Accountants are in a good position to supply the SME demand for 'other services'. They have plenty of clients, derived predominantly from supplying compliance services. Many other professional service providers may, however, be more proactive in marketing their services to SME owners, thus capturing a market share, and they may also be more qualified to provide such services.

To enhance their capacity to provide business advice, accountants should develop more specialist business expertise, or work on creating a structure which provides easy access to such expertise.

The results suggest that accountants may need further training in business advice as well as in communication (selling/marketing) skills. Some accounting firms may need restructuring to facilitate increasing their provision of 'other services' while some may seek to develop strategic alliances with other support providers.

Accountants may be able to market their services in a more structured selling format than the current 'wait for them to ring' style of selling. For accountancy firms dealing in the SME market, the time might be opportune to restructure.

An important question the accounting profession needs to debate is whether it should overtly market its services to prospective clients. The question then arises: will this erode accountant's conventional role as the trusted advisers that have empathy for the SME business? Would this lead the SME owner-manager or client firm to become suspicious of their accountant's motivations?

## **FURTHER RESEARCH**

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The results and analysis provide an excellent platform for further research. In particular, the findings would benefit from further validation through a quantitative study. This would also focus more on the accountant and owner-manager rather than on the financial adviser. This study would address the length of the SME-accountant relationship; the services bought; the critical triggers to the purchase of additional advice; the reason(s) for any termination of the relationship; and whether accountants should overtly market their services to prospective clients.

# 1. Introduction

## 1.1 BACKGROUND

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This report presents the results of a project that investigate the issues of professional competence, trust and ethics in the context of transactional exchange, between the suppliers of professional business advisory services and small and medium-sized enterprises (SMEs).<sup>1</sup> Previous studies find extensive use of external accounting services by SMEs (eg Bennett and Robson 1999; Gooderham et al. 2004; Carey et al. 2005; Doving and Gooderham 2008; Carey and Tanewski 2009). Indeed, in the UK and Australia, accountants are regarded as the most frequently used source of external advice, ahead of banks, solicitors and public sector providers (Bennett and Robson 1999; Carey et al. 2005; BERR 2009). Research also shows that external accountants have expanded their service offerings to include a broad range of business advisory services supporting a range of information needs serving both external and internal stakeholders (Greenwood et al. 2002; Fogarty et al. 2006). Few studies have, however, explored the determinants of advisory services that external accountants provide to their SME clients, and a limitation of previous research is that it is primarily descriptive in nature. More specifically, such research provides only a limited understanding of the role that professional competence, trust and ethics play in the relationship between client and adviser (eg Kirby et al. 1998; Bennett and Robson 1999; Bennett et al. 2001; Gooderham et al. 2004; Carey and Tanewski 2009). Hence, the primary objectives of this report are to present new research evidence aimed at unpacking the intervening role that institutional and professional competence, trust and ethics play in the supply of business advice to SME clients, as well as to uncover other factors influencing SMEs' purchase of business advice.

For decades, external accountants have provided historically oriented compliance and monitoring services (eg taxation, compilation and audit) designed around regulatory requirements or to satisfy either statutory or voluntary contractual constraints (Parker 2001; Carey and Tanewski 2009). These 'traditional' services typically focus on the preparation or interpretation of financial data within existing rules and standardised formats (eg GAAP). Since the 1980s, however, external accountants have expanded their range of monitoring and advisory services, to support a broader range of information needs in recognition of the emerging requirements of businesses (Greenwood et al. 2002). Consequently, accountants have developed multidisciplinary practices offering a more diverse range of skills and services to provide support to organisations that are increasingly demanding services and products tailored

to their needs combined with speed, quality and personalised attention (Parker 2001; Greenwood et al. 2002; Fogarty et al. 2006). These changes have been described as supporting the evolving information needs of both external and internal stakeholders. This argument also acknowledges the fact that the value of organisations and their business advisory services, particularly in a knowledge-based economy, resides increasingly in intangible resources such as competencies, tacit knowledge and social relations (Elliott 1994, 2002; Parker 2001; Elliott and Jacobson 2002).

While maintaining its traditional focus, the accounting profession has increasingly represented its members as business advisers, with the view of 'adding value' to the client (Greenwood et al. 2002; Berry et al. 2006; Fogarty et al. 2006). This has been bolstered by the fact that the 'bread and butter' of many small accountancy practices, that is, the requirements for a statutory audit, has declined as exemptions have been raised. As a result, accountants have actively sought to widen their portfolio of services (Ram and Carter 2001). An example of the broader range of services offered by external accountants is provided by Martin (2004), who finds that accountants have developed expertise in the provision of succession advice. While much of this is financially related, research suggests that this goes beyond conventional taxation and financial issues, including business development advice and 'emotional' support.

The marketing campaigns of the accounting profession and the accounting firms' own advertising literature projects how external accountants offer business advisory services beyond traditional compliance and monitoring services. Advertising promotions of the Australian profession include 'Take a different view', 'We mean business' (CPA Australia 2007) and 'Employ our thinking' (ICAA 2003). The current campaign by the ICAA (2010), 'Number one in numbers', signals a re-investment in the core strength of the profession, but the theme of the external accountant as a business adviser continues to resonate through the campaign. Similarly, in the UK, the ICAEW and ACCA demonstrate through various literatures the importance of accountants as advisers in managing the 'non-financial'.

The emerging category of business advisory service or business advice (ie management consulting or non-audit services (NAS)) is designed primarily to assist in the management of the firm, rather than directly servicing the needs of external stakeholders.

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1. The definition of a 'small and medium-sized enterprise' (SME) in the Australian context is derived from the Australian Bureau of Statistics (ABS) as businesses with 5–200 employees. The ABS defines a micro business as <5 employees, a small business as 5–19 employees and a medium-sized business as 20–200 employees. In the United Kingdom, a SME is defined as a business that employs fewer than 250 people, a micro business as <10 employees, a small business 10–49 employees and a medium-sized business as 50–249 employees (BERR 2009).

This study adopts the term ‘business advice’ to mean those professional services, provided by accountants, that assist or advise clients on multi-dimensional, strategic and operational aspects of business and financial management. This may involve: acquisitions; wealth management and investments; corporate finance; cash-flow planning; succession; review of systems; human resource issues; and payroll.

Where an accountant also provides statutory audit services to their client, there has been debate for many decades as to whether auditors should also provide non-audit services, which would include business advice, though the debate is focused on public interest enterprises (ie listed public companies). Regulatory changes in the US (eg Sarbanes–Oxley (SOX)) have severely restricted the market for many professional services provided to listed audit clients. The impact is less prescriptive in other jurisdictions. For example, in Australia the only legislative impediment faced by ‘public interest entities’ before simultaneously purchasing business advice from their auditors is the requirement for companies to disclose the services purchased (and the associated fee) as well as provision of statements by the auditor and the board that such services have not compromised auditor independence (Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act (2004); Corporations Act 2001 (2010)).

In the SME environment there is no legislative restriction on the joint provision of statutory and non-statutory services. This is because in the SME environment firms experience greater alignment between owners and managers, and thus less agency conflict, than large, private and publicly listed firms. The professional guidance allows joint provision of services provided threats to the fundamental ethical principles are appropriately managed (APS 8 1994; APES 110 2006; IESBA 2009). Responsibility for determining an acceptable threat to fundamental principles rests with the professional judgement of the external accountant. Notwithstanding the above, when external accountants provide audit services to SMEs, some of the former may be reluctant to provide business advice as well, owing to political sensitivities concerning auditor independence post-Enron.

While business advice appears to be an emerging segment of the market for professional services, few empirical studies specifically differentiate between statutory compliance and monitoring services (eg taxation, compilation and audit) from voluntary business advice purchased by the SME client. For example, Bennett and Robson (1999) examine the extent, sourcing and impact of external advice to SMEs in the United Kingdom. While their study identifies a wide range of sources (ie both private sector and public sector sources) of business advice offered to SMEs, they do not specifically examine non-statutory advice that external accountants provide to SMEs. Focusing on external accountants, Gooderham et al. (2004) investigated the determinants of micro and small business reliance on the external accountant as a business adviser in Norway, but again this study does not

differentiate between statutory compliance and voluntary business advice provided to SME clients by external accountants. One of the few studies to differentiate voluntary business advice purchased by the SME client is Carey et al. (2005) who reports that 67% of SMEs surveyed voluntarily purchased business advice from their external accountant.

Accounting practitioners have long promoted the benefits of voluntary professional services to their SME clients, but the empirical research has not adequately established the determinants of business advice, or provided a conceptual framework which explains the determinants of the demand for and supply of voluntary business advisory services. In particular, the literature has not examined the role that professional competence, trust and ethics play in the relationship between client and adviser.

## 1.2 AIMS AND OBJECTIVES OF THE RESEARCH

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The specific objectives of the research are to:

- provide a detailed understanding of the nature of services provided by accountants and financial advisers to SMEs in Australia and the UK
- examine the intervening role of professional competence, trust and ethics in the demand for business services from accountants by SME clients
- uncover other factors influencing SMEs’ purchase of business advice, to inform the underdeveloped literature on this subject
- draw out the implications for the accountancy profession of the results obtained
- feed into a larger-scale survey of SME–accountant relations focusing on non-compliance business services.

The remainder of this report is organised as follows. Chapter 2 provides a review of empirical literature exploring the market for business advice in the SME environment, and outlines a conceptual framework to explain the determinants of demand for and supply of business advice. Chapter 3 discusses the research methods used in the study. This is followed by an exposition of the results (Chapter 4) and a discussion of the study’s findings (Chapter 5). Conclusions, implications and recommendations are given in Chapter 6.

## 2. A conceptual framework and empirical evidence

### 2.1 THE PROVISION OF BUSINESS ADVICE TO SMEs

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Changes in the nature of services offered by external accountants can be regarded as a broadening of the range of their conventional core services. These more recently developed service offerings<sup>2</sup> are regarded as focusing primarily on the generation of information to help inform and assist in the management of the firm (rather than servicing the needs of external stakeholders). Firth (1997) defines a management consulting service as an outside firm hired to make recommendations and/or charged with the task of planning and implementing a course of action. Virtually all management consulting services could, potentially, be provided in-house by hiring relevant experts as full-time employees, although hiring full-time staff is a time-consuming process and there are obvious issues associated with shedding staff if they are no longer needed. In the SME environment, external professional services may be used to gain specialist knowledge, fill a role not provided by internal staff or management expertise, both for specific and one-off tasks, and to develop new internal procedures and processes (Robson and Bennett 2000; Bennett and Robson 2005).

This report adopts the label 'business advice', however these services are also known by other labels including 'business advisory services' (BAS) 'management advisory service' (MAS), 'management consulting service', or, when provided by the firm's external auditor, 'non-audit services' (NAS). The professional standards adopt the term 'management consulting services'. APS 8 (APS 1994)<sup>3</sup> states: 'Management consulting services...means the rendering of professional services in the course of assisting or advising clients in any aspect of business management whether the client is engaged in commerce, industry, government, semi-government or non-profit making enterprises'.

For the purposes of this study, we interpret business advice as the provision of services that assist owner-managers in the strategic direction and operational running of the firm.

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2. A stream of literature has grappled with the identification of additional services that an accountant/auditor might provide to enlarge the service base (see, for example, the *Elliott Report* (AICPA 1997; Elliott 2002). Example services include risk evaluation, fraud reviews, evaluation of systems of internal control, valuations, solvency audits, forensic accounting, environmental and sustainability reviews/audits (see, for example, *Elliott Report* (AICPA 1997; Elliott 2002). These services are concerned primarily with matters of compliance and monitoring. While traditional services have focused on historical information, these services might be future orientated and are not always financial in nature.

3. The professional standards (APS 1994) set out some basic principles governing the professional responsibilities that a member must exercise in the course of management consulting services practice. General standards provide advice concerning the maintenance of independence (eg do not participate in the executive function of the client, para. 7), ensuring the member has appropriate skill and competence, the exercising of reasonable care, confidentiality, and professional behaviour.

### 2.2 BUSINESS ADVICE IN THE SME ENVIRONMENT

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There has been a recognisable expansion of the relationship between accountants and SMEs. During the 1980s larger accountancy firms were increasingly recognised as providing management advisory services to their clients, in addition to their conventional auditing and compliance services. This was not just a UK or Australian phenomenon, as indicated by evidence from North America (Greenwood et al. 2002); it was also being identified by the accounting practices themselves. Despite their early reluctance, by the late 1990s smaller accounting practices were developing more broadly based strategy and business consulting practices, focusing on niche industries (Farrell 1998; Parker 2001). Frank et al. (2001) argue that small accounting firms and sole practitioners will play a growing role in the 'multi-disciplinary' practice arena.

On the demand side, although evidence from both the UK and Australia provides a general picture of a rise in the take-up of non-statutory compliance advice from accountants, there is insufficient detail on the reasons for take-up and the nature of the advice offered. Broadly, owner-managers of SMEs have been depicted as reluctant seekers of external support and advice, preferring instead to try and 'go it alone' and deal with non-compliance challenges themselves – so much so that Curran and Blackburn (1994) describe this as a 'fortress enterprise' mentality. SMEs have had a long-standing relationship with their accountants, however, not least because of the need to 'do the books' for the auditors.

#### Evidence from the UK

In the UK, the Bolton Report (Bolton 1971) found accountants to be a key source of advice for small firms although their precise role was not identified. Other studies show that external accountants have consistently been found to be the most frequent source of professional services to the SME (Curran and Blackburn 1994; Kirby et al. 1998; Bennett and Robson 1999; Deakins et al. 2001; Collis and Jarvis 2002). Bennett and Robson (1999) report results from 2,474 SME respondents and find that 95% of respondents used external advisers for advice; of whom the main advisers were accountants (83%), banks (62%) solicitors (56%) customers (47%), suppliers (36%) consultants (32%) and trade/professional associations (31%).<sup>4</sup> Like the previous studies in the area, Bennett and Robson (1999) use a broad definition of business advice which combines statutory compliance services with

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4. The Bennett and Robson (1999) survey includes micro as well as small, medium and large businesses. Respondents are stratified as 74% 1–49 employees, 22% 50–199 employees and 4% 200–499 employees.

voluntary (non-statutory) business advice.<sup>5</sup> They employ a notion of 'trust' following Zucker (1986), and indicate that accountants operate within a specific institutional framework which brings with it a high level of institutional trust as a result of regulations governing the supply of advice. This contrasts with 'personal trust', which relies on personal acquaintances and social relations (Bennett and Robson 1999). More recently the UK government's Annual Small Business Survey finds that accountants are the key source of information and advice in relation to both regulation and non-regulation issues (BERR 2008; 2009). The results suggest that accountants tend to be approached slightly more often in relation to regulatory rather than non-regulatory issues (16%, for example, compared with 12% for general advice. See BERR 2008).

The extent to which accountants are regarded by owner-managers as a source of non-statutory compliance services is ambiguous in the literature. Scase and Goffee (1980), using a qualitative research method, report on the interaction with accountants for taxation and compliance services, and demonstrate the reliance of small business owners on their accountant for taxation and compliance services as well as advising the firm on pricing issues. The basis of a survey of 336 small businesses in the north of England, Kirby et al. (1998) find that although accountants are the most likely source of 'non-statutory services', only 37% of respondents indicate that they use their external accountant for 'general financial advice'. They report that small businesses with 20–49 staff, perceive a role for external accountants 'to act as out-sources, provide budgetary and financial information on payroll and PAYE, management accounting and management advisory services'. Marriott and Marriott (2000), using semi-structured interviews of owner-managers in 15 small companies in 1997/8, report that while management accounting information was used by the businesses, 'there appears to be significant potential for accountants to expand the management accounting services they provide to smaller companies'. Berry et al. (2006), in a survey of 140 small business in the Manchester city region in the UK, find that while 69% of respondents use their external accountant for 'statutory advice', only 33% see the role of their external accountant 'as one of business management advice', and 31% engage their external accountant 'in financial management support work'. The above findings suggest that, in the SME environment, accountants are predominantly used for compliance services, although there may be some demand for other forms of business advice. The latter may also be on the increase but whether this is supplied by accountants is open to debate given the growth in supply by competing providers, including specialist consultants. The results also imply that the

demand for accountancy services is a derived demand, that is, it is a result of the need to meet both the compliance requirements of the business and undertake a role that the owner-managers cannot do themselves.

#### **Evidence from Australia**

Evidence from Australia tends to support that found in the UK. In an empirical study of small businesses in Australia, Holmes and Nicholls (1989) find that owner-managers of small businesses engage external accountants for statutory services, but not (or rarely) for other services. 'Other services' is defined as information in addition to statutory information. During the 1990s, however, external accountants expanded their range of services. In a 2004 survey of 469 SMEs, Carey et al. (2005) find that the majority (97%) of SMEs purchase some accounting and/or advisory services from their external accountant(s), confirming that the majority (67%) of respondents identified business advice as one of the services purchased. The purchase of business advice, which SMEs perceive to enhance business performance significantly, accounts for 17% of the total fees paid to accountants. The major reason identified as influencing the decision to purchase business advice was the competence of external accountants.

These trends have also been observed in other developed economies. In a telephone survey of 305 micro and small Norwegian businesses, Gooderham et al. (2004) report that most firms (70%) rely on their external accountant as a business adviser. They conjecture that two conditions must exist for a small firm to purchase business advice: first, that it must be of high quality; and second, that the business must need to grow or develop, in order to be receptive to such relational exchanges.

Overall, in reviewing the growth of advice seeking by SMEs, most studies talk of the use of business 'advice' in general terms. Few studies provide focused, empirical evidence on the nature of non-statutory services that external accountants provide to their SME clients. Moreover, the reasons for the take-up of non-statutory advice by SME owner-managers, and the supply of advice by accountants, remain relatively unexplored.

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5. Johnson et al. (2007) find that 29% of SMEs, predominantly micro businesses, located in South Yorkshire used external business support in the year 2000. They define 'business support' broadly to include business information, advice, guidance, consultancy, training, and financial support. While there were some exclusions (banking facilities and auditing) the study combines compliance and voluntary services and does not provide detail on the suppliers of these services.

### 2.3 A CONCEPTUAL FRAMEWORK FOR BUSINESS ADVICE

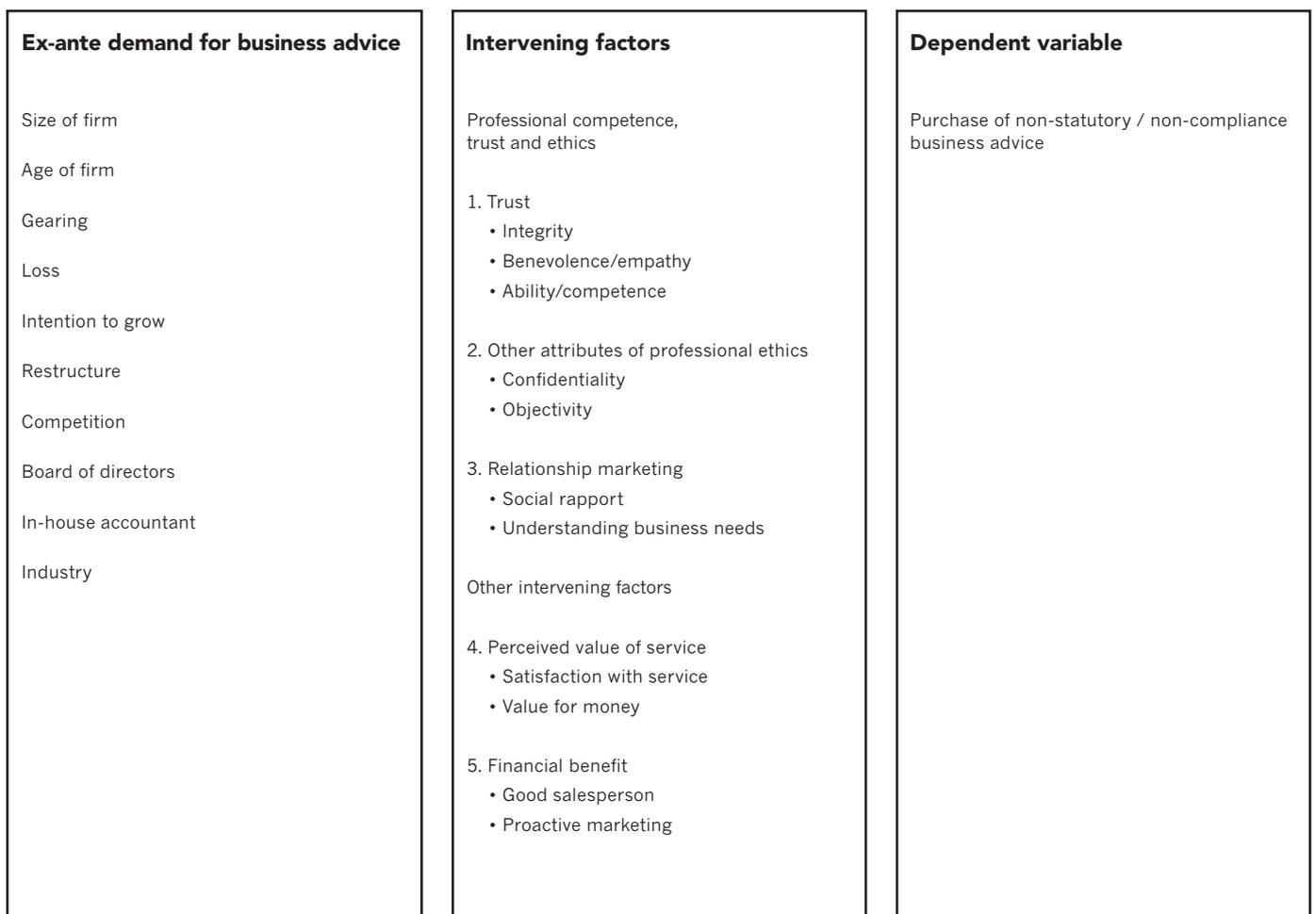
While the accounting profession has actively adopted a broader service focus which includes business advice, research does not provide a generally accepted conceptual framework that explains the determinants of demand and supply for such voluntary professional accounting services. There is currently no overarching theoretical framework explaining the determinants of demand and supply for business advice (Carey and Tanewski 2009). Building on the framework in Carey and Tanewski (2009), this section examines the SME–external business advice relationship, focusing on the role that professional competence, trust and ethics play in the demand for and supply of business advice.

The following sections outline the main theories used in the literature to explain the emerging market for business advice. This is followed by a discussion on the theory of the

role of trust in the provision of advisory services. On the basis of that discussion, we identify the influences and the interrelatedness of the role of professional competence, trust and ethics on the purchase of business advice.

Figure 2.1 provides a conceptual model which synthesises the ex-ante demand and intervening factors that influence the demand for and supply of business advice in the SME environment. There is limited understanding of the intervening role that professional competence, trust and ethics play in the development of the relationship between client and adviser. In order to understand better the role both antecedent and intervening variables play in the relational exchange between owner-managers and their advisers, we present a map of the ex-ante characteristics that, a priori, depict the conditions that initially prompt SME firms to purchase business advice, and the possible intervening factors that then influence the final decision either to purchase or to decline non-statutory/non-compliance business advice (see Figure 2.1).

**Figure 2.1: A conceptual framework for business advice**



## 2.4 INTERVENING FACTORS INFLUENCING THE PURCHASE OF BUSINESS ADVICE

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In this section we look at several theories about the provision of business advice.

### The agency perspective

Agency theory is identified as the dominant theoretical paradigm in the market for traditional accounting and audit services (Baiman 1990; Lambert 2001). Even so, hypotheses related to agency costs are tested with relative scarcity in the SME literature. Carey and Tanewski (2009) argue that this might be because SME firms do not experience adverse selection, moral hazard and holdout problems to the same degree as large private and publicly listed firms. The authors develop an application of agency theory to explain SME demand for business advice. They argue that the relationship between the SME owner and the accountant will allow for a reduction in information asymmetry and uncertainty in the contractual arrangement between them regarding business advice, which promotes greater relational interaction in the production of higher-quality business advice.

### The relational marketing perspective

Carey and Tanewski (2009) argue that complementing agency theory with the 'relationship marketing' literature provides further insight into the demand and supply side of business advice. The term 'relationship marketing' was first introduced by Berry (1983; 2002). Indeed Berry (1995) also comments that 'Relationship marketing is built on the foundation of trust'. It recognises that existing customer (supplier) relationships are assets, and that knowledge of the client (customer) combined with social rapport is central to successful relationship marketing (Ryals and Payne 2001). Business advice is largely an intangible product and clients will be uncertain as to the benefit of a service (Jones et al. 1998). Carey and Tanewski (2009) argue that through an active relationship, while simultaneously providing traditional accounting services to the SME client, the external accountant is able to demonstrate their ability and competence, build a deeper understanding of the client's needs, and through this process develop trust. Thus, the relational competence of the external accountant is important in explaining their prominence in providing business advice (Gooderham et al. 2004). Bennett and Robson (1999) describe both accountants and lawyers as 'high trust' institutional providers who work within government-backed self-regulatory frameworks of training, qualifications and codes of conduct. While the accounting profession has a reputation for competence, an SME is unlikely to rely on an external accountant for business advice unless they perceive them to be a competent and trustworthy source of advice.

It has also been argued that SMEs' competitive advantage can derive from the professional relationship that the owner-manager builds up with their external accountant (Gooderham et al. 2004). It is precisely through such

relational capital<sup>6</sup> that the SME owner-manager can 'tap' into the external accountant's expertise and knowledge of business processes, to provide strategic support to add to the valuable resources at the owner-managers' disposal. A number of authors point to the relationship that an external accountant develops with their client as an important factor in explaining their extended use as a business adviser (Bennett and Robson 1999; Doving et al. 2004; Gooderham et al. 2004), but the extent of the empirical support available for this view is inconclusive. For example, Gooderham et al. (2004) propose that a close relationship is more likely after a longer tenure, but do not find tenure associated with reliance on the external accountant as business adviser.

### The resource-based approach

Numerous theoretical models have been developed in the strategic management literature to explain how firms achieve and sustain competitive advantage. One of these, the resource-based approach, is probably the most popular framework used to examine the SME-external business advice relationship (see, for example, Gooderham et al. 2004; Johnson et al. 2007). The resource-based approach focuses on the source of a firm's competitive advantage as the basis for business success, and how the firm can maximise its value by combining and using all available resources (Barney 1991; 2001). The strategic management literature (eg Wernerfelt 1984) suggests that a firm's resources, particularly non-imitable resources, are fundamental drivers of both performance and competitive advantage.

By identifying the source of a firm's success, the resource-based literature provides a framework for developing an understanding of the potential role for the external accountant in helping the SME achieve competitive advantage. External advice can encapsulate a range of competencies that support the SME's intangible resources, providing a potential source of competitive advantage (Gooderham et al. 2004). The external accountant might support the competitive advantage of a firm by providing advice on market positioning (ie competitive forces approach) or in 'gaming' with competitors (ie game theory); though it is in the areas of financial management and with systems and processes that the external accountant has long-standing expertise. A firm might engage its external accountant to provide advice which directly assists performance (eg strategic advice on growing revenue), or advice that has an indirect impact on performance, such as advice directed at improving management control (eg advice on regulatory compliance, risk, systems, performance reviews), finance structure (introducing sources of finance) or financial planning (insurance, investment, superannuation). With their long-standing expertise in systems and matters of finance, the external accountant might help an SME client to achieve competitive advantage.

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6. Relational capital is also referred to as social capital, which is defined as the sum of actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit (Nahapiet and Ghoshal 1998).

The above discussion suggests that SMEs might rely on business advice from their accountant to augment their limited resources. The resource-based approach is the most commonly used framework to examine the SME–external business advice relationship. In the next section, using the resource-based literature, we will outline the antecedent factors which are associated with SME demand for business advice (eg size of firm, board expertise, intention to grow, competitive environment. See Gooderham et al. 2004; Johnson et al. 2007).

The report will now turn to the primary focus of this research, which is to examine the intervening role of professional competence, trust and ethics in the relational exchange between clients and their external accountants.

### **Professional competence, trust and ethics**

One of the specific objectives of this report is to examine the intervening role professional competence, trust and ethics play in the SME demand for business services provided by external accountants. This section contains a synthesis of the literature on professional competence, trust and ethics in the relational exchange for the market of business advice.

A good deal of the literature exploring the motivations and reasons for owner-managers' engagement with external organisations for trade, advice and support, either implicitly or explicitly, refer to notions of 'trust' (eg Bennett and Robson 1999). Trust, it is argued, is developed through a relationship, established over time, between parties to facilitate better understanding of mutual needs, enhance competencies and to assist in minimising potential uncertainties (Rousseau et al. 1998). The concept of trust has attracted a good deal of attention and debate more broadly in the economy and thus the role of trust in commercial exchange has been considered widely in the literature (eg Nooteboom 2002). For example, it has been argued that trust can reduce transaction costs (Andaleeb 1992), is a source of competitive advantage (Barney and Hansen 1994) and limits uncertainty and opportunism (Achrol 1997). In spite of the wide consideration of trust in commercial exchange, there appears to be no consensus on a universal definition of trust. The literature defines the concept in at least five ways.

- Perceived trustworthiness encompasses both cognitive and affective (or emotional) beliefs that one party will not exploit another's vulnerability (Anderson and Weitz 1989; Tyler and Stanley 2007). Indeed, Möllering (2002) argues that perceived trustworthiness is ultimately cognised through 'the eyes of the beholder'.
- Trusting behaviour comprises actions that incline one party towards risk, uncertainty or vulnerability to another whose behaviour is not under the former's control (Zand 1972; Tyler and Stanley 2007).
- Trust can be seen as a behavioural intention or reliance on a partner. Moorman et al. (1993) define trust as the 'willingness to rely on a partner in whom one has confidence'.

- Trust can be seen as vulnerability and willingness to take risks – by differentiating trust from cooperation, confidence, and predictability, and by considering the characteristics of the trustor, the trustee and the role of risk, Mayer et al. (1995) define trust as 'the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party'.
- Trust can be seen as socially defined phenomenon – this definition of trust, which is viewed as a characteristic of the social fabric that facilitates interactions among parties, takes into account interpersonal behaviours, communication channels and interpersonal trust ties (Håkansson 1982; Lewicki et al. 1998; Tyler and Stanley 2007).

The above definitions highlight that risk (ie uncertainty and vulnerability) and interdependence between the SME client and business adviser are essential components that must exist for trust to arise (Rousseau et al. 1998). In addition to the wide-ranging definitions offered in the literature, trust needs to be distinguished from a number of assumptions that are embedded in the concept, such as reliance, 'blanket trust', reciprocity and trustworthiness. For example, Holton (1994) argues that 'relying on a person's goodwill towards one is not a sufficient condition for trust'. In other words, it is possible to rely on a person even though we may not trust that person. 'Blanket trust' refers to a situation where a person may completely trust another on certain aspects, but they may distrust them on other behavioural aspects. Some definitions of trust imply that it is reciprocal, yet there is no reason to assume that reciprocity exists in the relationship. For example, there is no reason why an SME owner-manager who trusts their business adviser will, in turn, be trusted by their business adviser. The way the term 'trust' is used in the literature fundamentally implies the notion of trustworthiness, that is, the relationship is based on the ability, benevolence, and integrity of the trustee, whereas trust itself is the intention to accept one's vulnerability with respect to a trustee, on the basis of positive expectations of that person's actions.

Accordingly, Mouzas et al. (2007) propose an important distinction between trust that is pivotal in interpersonal relationships and trust and reliance in business relationships. Tyler and Stanley (2007) go further by distinguishing between calculative and affective trust. Calculative trust is based on rational choice and the evaluation of credible information, and arises when the trustor perceives that the trustee intends to perform an action that is beneficial. Affective trust, on the other hand, is based more on emotional inputs and is derived from repeated interactions and information acquired over time between trustor and trustee. In addition to these assumptions and distinctions, definitions of trust require that characteristics of both trustee and trustor be considered, such as the individual's propensity to trust and the expectations of how another will behave based on

implicit and explicit claims (Mayer et al. 1995). Notwithstanding some of these definitional considerations of trust, the literature generally accepts that some of the essential elements and antecedents of trust include ability and competence (Sitkin and Roth 1993; Mayer et al. 1995); benevolence (Mayer et al. 1995; Doney and Cannon 1997); and integrity (Sitkin and Roth 1993; Mayer et al. 1995).

The literature also suggests that trust may emerge with the increased length of the client–business adviser relationship (Bolton 1998). This idea is based on the premise that through lengthy interactions, parties to a relationship learn about each other, which minimises uncertainties and information asymmetries. The marketing literature suggests that ‘offer-related’ (ie competence, reliability, promptness) and ‘person-related’ (ie empathy, politeness) characteristics of the business adviser can affect the relationship as well as the establishment of trust (Grönroos 1990). Competence is defined as the degree to which SME clients perceive that the business adviser possesses the required skills and knowledge to supply professional advice, while reliability and promptness refer to the delivery of professional advice in a dependable and timely manner (Parasuraman et al. 1985). Empathy is defined as the degree which the business adviser possesses a ‘warm, considerate, and caring’ attitude (Parasuraman et al. 1988), and politeness refers to the degree to which the business adviser is perceived as being considerate, tactful, deferent or courteous.

The marketing literature documents that service relationships evolve during specific service encounters (Price et al. 1995), and that they become established over time (Crosby et al. 1990) while a client acquires information and a good understanding of their service provider. Nonetheless, Gooderham et al. (2004) find no association between the length of the SME’s relationship with their accountant and trust, suggesting that other factors such as service quality are more important for the establishment of trust. Indeed, Gooderham et al. (2004) find that, in Norway, the perceived competence of the external accountant is the most significant predictor of an SME’s reliance on them as business adviser. In contrast, Kirby and King (1997) suggest that the reason external accountants are not considered a source of management advice to small business ‘is not a matter of cost, rather one of perceived lack of knowledge/expertise of business demonstrated by the accountant’. On the basis of results from a later survey of small businesses, Kirby et al. (1998) reiterate that ‘small business owner managers believe that accountants lacked business awareness and were too remote from business’. Other literature (eg Zineldin 1995; Turnbull and Moustakatos 1996) suggests that the provision of financial services is characterised by high levels of trust. This is supported by Zineldin (1995), who argues that trustworthiness dominates the banking sector precisely because of the potential high risks and uncertainties in the industry, while Knights et al. (2001) maintain that trust is a necessary condition for the provision of services in the financial services industry. Meanwhile, Tyler and Stanley (2007) find that even though

banks base their relationships on calculative and operational trust, SMEs are nonetheless more trusting of their banks compared with larger companies. This is because the SMEs’ approach to the bank–client relationship is primarily based on affective trust, while larger companies are more calculative in their approach. An important insight provided by Tyler and Stanley (2007) regarding trust is that banks’ clients assume that bank personnel are competent and that they are able to handle their information in the strictest of confidence. Indeed, the Australian Accounting Professional and Ethical Standards, ‘APES 110’ (APES 2006), emphasise the importance of integrity, objectivity, professional competence and confidentiality. Similarly, in the UK, accountants have to follow the professional guidelines set by the six chartered accounting bodies of which they are members and work within a broad regulatory framework set out by government bodies. These tend to follow a series of international principles aimed at achieving high standards of practice and ethical conduct established by the International Federation of Accountants (IFAC), which covers both the UK and Australia. ACCA, for example, sets out six areas of activity: standards and ethics; licensing of practitioners; regulation and monitoring of statutorily reserved areas of practice; quality assurance of firms and the global quality assurance initiative; investigation of complaints; and discipline in respect of standards or rule breaches (ACCA 2010). Clearly, high standards of professional competence and ethical behaviour are embedded within these principles.

Following this discussion, the present study adopts a definition of trust derived from Mayer et al. (1995), who assert that trust comprises ability (competence), integrity and empathy (benevolence). Ability (competence) is the degree to which SME clients perceive their external accountant to possess the skills and knowledge to provide advice. Integrity is the extent to which the SME owner-manager believes the external accountant will adhere to a set of principles which they accept (ie the code of ethics for professional accountants). Empathy (benevolence) is the extent to which the SME client perceives that the external accountant will act in their best interests, ie understanding and genuinely caring about the client’s business and personal needs. Figure 2.1, our conceptual framework for business advice, defines trust accordingly.

In addition to professional competence, the preceding discussion suggests that other ethical principles in the code of ethics for professional accountants are likely to influence the exchange of business advice, namely confidentiality and objectivity. An SME will not seek advice from their external accountant unless they perceive that their accountant’s judgement is unbiased and without conflict of interest and that they can trust their external accountant to maintain confidentiality. We therefore include confidentiality and objectivity in the conceptual framework (see Figure 2.1).

In our discussion of the relational marketing literature above, we identified the importance not only of the external accountant’s understanding of their client’s needs

but also of social rapport in enabling the exchange of business advice. While understanding client needs is closely related to the elements of trust, social rapport provides a new dimension outside the scope of trust. We include, therefore, social rapport and understanding business needs as additional intervening variables under the broader concept of professional competence, trust and ethics in the conceptual framework outlined in Figure 2.1.

### **Perceived value of services**

An SME owner-manager is unlikely to purchase business advice from their external accountant unless they perceive that the service provides value for money. Cameron (1995) investigated perceptions of the value derived from the external accountant's fee by 882 New Zealand 'small' businesses (employing <20 staff). Traditional compliance services were regarded as cost-beneficial (value for money), but small-business owners were neutral in their perception of the value of the cost of business advice. Kirby et al. (1998) and Cameron (1995) demonstrate that the issue of cost (affordability) is a major impediment to small businesses use of their external accountant as a business adviser. Curran and Blackburn (1994) found the opportunity cost in terms of the time it takes to seek suitable advice to be a deterrent. In a 2004 survey of 469 SMEs, Carey et al. (2005) found that clients perceive their accountants as adding value to the firm. In particular, over 80% of SME respondents who purchase business advice are satisfied that they derive a financial benefit from such advice. We include perceived value of service as an intervening factor in the conceptual framework summarised in Figure 2.1.

## **2.5 ANTECEDENT FACTORS INFLUENCING THE PURCHASE OF BUSINESS ADVICE**

A number of antecedent factors have been identified in the literature as drivers of demand for business advice (eg Bennett and Robson 1999; Gooderham et al. 2004; Johnson et al. 2007; Carey and Tanewski 2009). Above, we outlined the resource-based approach, the most commonly used framework to explain the antecedent factors influencing the purchase of business advice. We now turn to a discussion of the empirical literature that has tested the impact of these antecedent factors on SMEs' demand for business advice. These factors are summarised in the first column of Figure 2.1, 'Ex-ante demand for business advice'.

### **Size of firm**

The first antecedent characteristic is the size of the firm. Larger organisations are more likely to have the resources to identify core competencies in-house, and they are also more likely to afford to buy advice from external sources, compared with smaller firms. Size therefore allows larger firms to command a competitive advantage in securing resources (Gooderham et al. 2004; Johnson et al. 2007). In addition, the larger the firm the more likely it is to meet specific thresholds, for example, those of accounting and taxation regulations, as well as health and safety and employment regulations. This counters the often-held assumption that smaller firms may have a greater need for

advice because they may lack important skills such as knowledge of financial controls (Deakins et al. 2001) and have difficulty obtaining and retaining competent staff because of their inability to offer competitive salaries and benefits (Jennings and Beaver 1997). Therefore, larger firms with greater capacity are more likely to command advice from their external accountants.

Results from surveys of small businesses on advice take-up provide mixed support for the above argument. For example, Gooderham et al. (2004) and Bennett and Robson (1999) find no association between the variables of firm size and source of business advice from external accountants, although Bennett and Robson (1999) suggest that demand for advice 'show[s] something approximating an inverted 'U' shaped distribution: ie highest for medium-sized firms and lowest for small and large firms.'

### **Age of firm**

The age of the SME firm will influence its demand for advice. Studies examining the evolution of SMEs (eg Deakins et al. 2002) find that the relationship between SMEs and their external adviser(s) (eg external accountants, banks managers, lawyers) is important during the earlier stages of the business. The reasons given are that SMEs require development of effective financial management practices during the earlier stages of the business's evolution, as well as to reduce the isolation and self-dependency of the owner-manager. The external accountant is an important source of advice during the early stage of the business development as the owner navigates the unfamiliar regulatory and operational challenges (Deakins et al. 2002). An SME is particularly vulnerable to failure in the early years (eg Perry and Pendelton 1983; Peacock 1986; Office for National Statistics 2009). This vulnerability creates incentives for the management of an SME to seek advice from their external accountant to navigate the business through the difficult early years. Nonetheless, Johnson et al. (2007) find that neither size nor age of the firm per se is associated with the use of external business advice. Unfortunately Johnson et al.'s study does not provide details on who is supplying the advice, and the role of the accountant is not sufficiently demarcated to allow us to draw reliable detailed conclusions.

### **Financial condition of firm**

The financial condition of the firm is depicted as an additional antecedent in Figure 2.1. SMEs facing heightened financial risk are more likely to source advice from their external accountant (ie on financial management to aid in overcoming their financial difficulties). Holmes et al. (1991) conjecture that small firms seek external support only when a 'crisis point' is reached. Proxies measuring financial risk include gearing and a history of loss making. The proportion of debt to total assets (gearing) is a direct measure of the firm's financial risk because firms with high gearing are more vulnerable to financial crisis (default) (eg Firth 1997; Whisenant et al. 2003). Faced with heightened financial risk, management has incentives to seek professional external advice to develop a strategy to minimise the risk.

Also, in assisting the SME to secure long-term viability, business advice from an external accountant will serve to protect the interests of the lender. A more highly geared firm might therefore be subject to pressure from its lenders to seek advice to ensure the firm's continued viability. Another measure of financial risk is when the SME firm reports a financial loss. Poorly performing SMEs have an incentive to seek advice from their external accountant to find resources that will assist in achieving sustained profitability.<sup>7</sup>

### **Prospect of growth**

Businesses that intend to grow are more likely than others to need (and hence benefit from) external advice or support. This is because growth and its associated organisational changes are likely to provide a challenge to the internal resources and knowledge base of the SME firm, most obviously in relation to the managerial skills and capacities of the owner-manager (Kitching and Blackburn 2002; Blackburn et al. 2006; Johnson et al. 2007). Gooderham et al. (2004) suggest that the firm must have the ambition to grow or develop (strategic intent) before looking for advice, but with such an intention the external accountant is a likely source of business advice. Chell and Baines (2000) provide evidence to support the contention that small businesses that are focused primarily on creating wealth and accumulating assets are more likely to use external sources of advice. Johnson et al. (2007) also demonstrate that firms with growth orientation (using anticipated employment growth as a proxy) are predisposed to using external support. Similarly, Cassar and Ittner (2009) found that professional services are retained when there are expectations of future growth.

### **Restructuring**

A business that plans to restructure is more likely to source externally provided consultancies (Firth 1997). The financial expertise of an external accountant makes them a likely source of advice. Houghton and Ikin (2001) specify that the likely role of an external accountant when a company restructures is not only that of providing input during the initial strategic planning of a restructure, but also during implementation to post-implementation monitoring and compliance audits (reviews).

### **Competition**

In a more competitive business environment there is heightened risk that an SME will not survive. Gooderham et al. (2004) argue that with heightened competition a small business is less likely to survive because its narrow resource base does not allow it to adapt its products or services. The external accountant is a potential source of critical competencies for survival and development. Nonetheless, Gooderham et al. (2004) do not find that degree of competition was associated with respondents' reliance on their external accountant as a business adviser.

### **Board of directors**

The board of directors is normally charged with monitoring and oversight as well as the pursuit of business prosperity (Hample Report 1998). According to the resource dependence perspective, the board of directors can be used to provide critical resources such as advice, counsel, legitimacy, reputation and support for the firm (Hillman and Dalziel 2003). The external accountant might augment a variety of roles that a board of directors usually plays. These may include:

- providing assistance in the formulation of strategy
- providing expert knowledge on the design of internal systems and use of internal resources
- providing legitimacy to the external environment, administering advice and counsel on a range of business and non-business issues (Westphal 1999)
- linking the owner to potentially important external stakeholders or other entities, and facilitating access to resources such as capital (eg Hillman and Dalziel 2003).

Larger boards of directors should have the capacity to provide a greater range of skills and expertise to lend advice across both strategic and operational areas within the organisation, rendering external advice less necessary. Therefore, it is reasonable to assume that a larger board will diminish the need for the firm to seek business advice from external accountants because the advice can be sourced in-house from the board.

### **In-house expertise**

Similarly, if an SME employs a qualified accountant in-house it will have less need to source advice from an external accountant, especially if the in-house accountant is a full-time employee. Qualified accountants, whether employed by an SME or by a firm of external accountants, undergo similar academic and professional training to achieve their professional membership (ie ICAEW, ICAA, CPA Australia). They will have completed an accredited undergraduate qualification and passed the same professional examinations. Where the SME employs a qualified accountant, it is less likely to engage the services of an external accountant as a business adviser because the expertise is available in-house.

### **Industrial sector**

Different industry sectors may exhibit variation in the need for business advice. Bennett and Robson (1999) identify a greater SME demand for business advice in general in the manufacturing sector. This might be explained by the fact that manufacturing is a mature and highly competitive industry where business viability is constantly under threat from international rivals.

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7. A competing argument is that, facing heightened financial risk, SMEs are more financially stretched and thus less able to afford to buy business advice from their external accountant.

### 3. Research methods

Given the focus of the study on the relationship between owner-managers and their external advisers, and the need to unpack these relations, the main method of data collection was through face-to-face interviews with key informants in Melbourne, Australia, and London, UK. These included owner-managers, accountants and financial advisers. The interviews followed an interview protocol which provided scope for exploration of issues that emerged in the interview while at the same time cover a broad flow of topics that we sought to investigate (see Appendix A: Interview protocol).

**Table 1: Summary of interviews UK and Australia**

	UK	Australia	Total interviews
Accountants	4	7 (5 firms)	11
Financial advisers	2	1	3
Small businesses	3	4	7
Total	9	12	21

Of the 21 respondents, a spread of professional accountants, financial advisers and SME owner-managers were interviewed in Melbourne and London. Five accounting firms (seven respondent accountants) were from second-tier accounting firms with international affiliations, two were medium-sized accounting firms, and two were small accounting firms. Of the three financial advisers, two were working in specialist financial advisory firms (one was from a small firm and one from a large firm), and one had recently been employed as a specialist

adviser in a second-tier accounting firm. These key informants were approached through their membership of professional organisations, including ACCA in England and the CPA and CAs in Australia. All the interviews with SMEs were with the owner-manager, or a partner/shareholder of the organisation. These were selected through accountants, using the criterion of independence, and hence they had autonomy over decisions made within the enterprise. There was no deliberate attempt to ‘triangulate’ stories from accountants and their own clients because of potential breaches of confidentiality and ethical issues. Moreover, owner-managers and/or accountants may have been reluctant to disclose certain issues if the research design had linked specific firms to specific accountants. On the other hand, the business owners that were interviewed may, or may not, have used the accountants we also interviewed. The interview focused on their interaction with accountants and financial advisers in relation to their firm rather than on their individual, personal matters. However, this distinction between ‘business’-specific and ‘personal’-specific advice becomes increasingly opaque when owner-managers require advice that spans individual and business issues. For example, this is often the case in family firms and in some micro firms when the income of the firms is also the income of the individual.

All the interviews were audio recorded and transcribed. Interviews lasted from 60 to 90 minutes and took place in the interviewees’ offices between July 2008 and February 2009. In addition to conducting the interviews, the research team read through all the transcriptions to build up a thematic analysis of the way in which trust and its various components are influential in relations between SMEs and advisers.

## 4. Descriptive results

### 4.1 SAMPLE DETAILS AND DESCRIPTIVE RESULTS

The SMEs that participated in the study were from a selected range of industries (See Table 4.1). All the SME respondents were owner-managers, partners or shareholders. Table 4.1 shows the nature of business advisory services that SMEs purchased from their external accountant. Results suggest that while some firms relied heavily on their external accountant as an adviser (ie SMEAus02, SMEUK01, SMEUK02, SMEUK03) others purchased a more limited range of advisory services (ie SMEAus01, SMEAus03, SMEAus04).

The types of business advisory service in Table 4.1 can be further characterised as:

- financial services, which can be classified into business advice covering issues such as cash flow and financial banking statements; and individual and family issues such as superannuation, asset structuring, income distribution and wealth accumulation strategy
- business operational services, such as production efficiency, lease negotiation, payroll, human resources (HR) or information technology (IT)
- business dynamics, such as on the purchase, transfer or sale of a business
- intangible services, such as ‘being a sounding board’ psychologist and friend
- family services, such as wills, estate planning, succession planning and mentoring.

**Table 4.1: Summary of SMEs interviewed**

Company*	Sector, industry	Size: no. of employees	Business advisory services bought from external accountant	Business advisory services, other advisers
SMEAus01	Wholesale/importer consumer products	30	None	Financial planning (investments), mentoring, coaching, strategic planning, benchmarking, para-legal, human resource support
SMEAus02	Manufacturing/ wholesale/ exporting unique Australian clothing	80	Acquisition and new business advice Financial modelling Assisting with bank finance	Textile industry consulting group, HR, marketing
SMEAus03	Packaging food and drugs	50	Business structuring	Task orientated marketing, production
SMEAus04	Retail and wholesale	180	Sale of business	Mentoring/coach, HR
SMEUK01	Personal service – hairdressing	20	Property and finance advice milestone events, payroll, HR	
SMEUK02	Retail and wholesale, manufacturing service – bespoke clothing sampling	7	Structuring, HR	Regional business centre – various
SMEUK03	Service Business-to-Business – design and marketing	5	Financial advice, general business advice	

\* Each company and interviewee is identified by a code to preserve anonymity.

**Table 4.2: Summary of accountants interviewed: provision of services to SMEs**

Accountant interviewed	Size of accountancy firm	Interviewees	Types of business advisory services provided by firm	Proportion of firm's revenue contributed by business advisory services
AAus01	Second tier	Partner – SME accounting services	Financial management services Planning, forecasting, succession planning, superannuation, asset protection	40%
AAus02	Second tier	Partner – SME private clients	Banking, wealth creation, succession planning	40%
AAus03	Second tier	Partner – SME audit	Financial statements, valuation, business sale and purchase, due diligence	20%
AAus04	Second tier	Partner – SME private clients	Corporate advisory, private wealth advisory, investment strategy, succession planning, business sale and purchase, forensic accounting	60%
AAus05	Second tier	Partner – SME private clients	Structuring, superannuation, IT, HR, finance brokering, providing networking	25%
AAus06	Second tier	Partner – SME private clients	Purchase and sale of business, structuring, financial management, wealth management, superannuation, banking	25%
AAus07	Small	Partner	Financial planning, mortgage broking, superannuation, business strategy, general business advice	50%
AUK01	Second tier	Partner – SME clients	Business purchase and sale, HR, financial management, company secretarial	n/a
AUK02	Medium	Partner – SME client services	Company secretarial, HR, business purchase and sale	50%
AUK03	Medium	Partner	Financial planning, retirement planning	100%
AUK04	Medium	Partner Financial Adviser (part of accountancy firm)	Financial planning, retirement planning, pensions, protection	100%

Tables 4.2 and 4.3 summarise the type of business advisory services provided by accountants and, where possible, the contribution of this activity to total fee income. The 11 professional accountants interviewed worked at nine accountancy firms. Two of the three professional financial advisers worked at unrelated financial advisory firms and one worked in a second-tier accounting firm. Five of the nine accounting firms were classified as second tier with international affiliations; two were medium-sized firms, while two accountants were from small accounting firms. Of the financial advisers, one was from a small firm, one from a medium-sized firm, and one from a large firm.

While accountants and SMEs alike often found it difficult to distinguish business advice clearly from statutory compliance services, the overwhelming majority acknowledged that business advice was an emerging and important segment of the service market. Business advice extends from matters directly relevant to the SME business, to that given by the external accountant acting as trusted confidante and adviser on private and family matters.

**Table 4.3: Summary of financial advisers interviewed: provision of services to SMEs**

Financial adviser interviewed	Financial adviser firm size	Interviewees	Types of business advisory services provided by firm	Proportion of firm's revenue contributed by business advisory services
FAUK01	Large	Partner – financial adviser	Financial planning, investments, mortgages, pensions, protection	90%
FAUK02	Small	Partner – financial adviser	Investments, pensions, mortgages, protection	100%
FAAus01	Medium	Partner – SME services – financial adviser	Business sale and purchase, wealth management, structuring, superannuation, IT, estate planning	60%

Interviews with financial advisers were an initial integral part of the research design because of the nexus between individual needs and business needs found in earlier research (Carey et al. 2005). As the research progressed, however, it became increasingly apparent that financial advice was provided by accountants, and that financial planning has become part of the overall portfolio of advice that they provide. The validity of this indicative finding – that is, that financial advisers are focused on the individual rather than on the business – may be worth testing in a larger-scale empirical research survey.

## 5. Understanding the demand for and supply of services

### 5.1 THE CONTEXT OF THE SME AND IMPORTANCE OF THE OWNER-MANAGER

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In order to understand the reasons why an SME is likely to purchase services from an external accountant we first need to understand what an SME is. Our results found that, for many owner-managers, running a business is not just about 'doing the business'. It is also closely aligned to the personal motivations and life matters of the owner, including personal objectives and family activities, which involve matters and decisions that are deeply considered and affect more than just the business operations. Such findings are not unusual, and are especially the case with micro enterprises.

The SME owner is often a sole proprietor or sole decision-maker and needs a trusted adviser who is empathetic to the needs, desires and dynamics of their particular business and family. As one SME respondent said:

*I trust him [the accountant] implicitly with my intimate details of my thoughts about where the business is going and where the family is going. (SMEAus01)*

Another explained that the firm had developed successfully using the same accountant.

*Well I just think it's a 30-year relationship where we totally trust what they do and we've always been satisfied with the standard of the service...we don't question it... Yeah, I'm not questioning that at all because in many ways it's probably the best way to go, isn't it? But it's almost irrational in some ways in the sense of the way we buy everything in today's society. Shop around with the internet and all that. But I mean with this sort of service it's more complex, isn't it? (SMEUK01)*

This analysis was reinforced by several of the accountant respondents. One accountant said: 'When we talk about 'the SME market', we are talking family businesses and to provide effective advice you need to understand the family first' (AAus02). The same accountant continued:

*The SMEs are about the life of an individual, a couple or 2-3 partners, it's not a clinical business and it's not about the delivery of clinical services and that's why we need trust. (AAus02)*

Another accountant's response chimed in with this perspective.

*The business of the SME is so deeply embedded in that individual's personal wealth...that it is critical the adviser understands the SME requirements and delivers to those requirements. (AAus04)*

A UK accountant pointed out that this was not merely confined to micro firms.

*We give a very personal service and we are very accessible and we do care about our clients and that, I think, comes through within a relationship and if people feel that, and that all comes back to trust. They consider that we are on their side and we will do our best within our professional boundaries. (AUK01)*

In short, another way to describe voluntary advisory or non-compliance services provided by an external accountant to their SME clients is business and personal intrinsic services. These services are essential to the well being of the individual, the business and the family.

### 5.2 SOURCES OF DEMAND FOR ADVICE

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#### SME business environment dynamics

Environmental turbulence, in the form of market and/or regulatory change, is an important stimulant for the owner-manager to seek external advice. Most SME environments tend to be dynamic, with businesses facing constant turbulence caused by legislative reform, competitor improvements, broader economic conditions (such as a recession or boom), public policy changes (such as a change in fiscal policy) and the respective and individual thoughts and actions of the SME owner(s).

This dynamic environment gives rise to a demand for business services, such as advice on the purchasing or selling of a business, effectively structuring a business or personal wealth holdings and distributions. The interviews with accountants and SMEs underlined this commonly held view. One accountant explained that 'demand depends on the phase of the business, maybe a lot of advice early, then when buying or selling a business' (AAus06).

Another accountant emphasised that:

*problematic economic times can drive demand or one-off events such as divorce, a more competitive industry or a highly geared business. (AAus04)*

All firms will face succession or business transfer issues and often the accountant is the owner-managers' first port of call for advice.

*They might just want to talk about the succession of the business, for instance. I mean that's quite a big issue. We've got an ageing population with sole traders and partnerships. They need to get their firm fit totally to carry on after they retire, so those are issues. Inheritance tax – I want to give this property to my son but I don't like his wife. I think they might divorce. How can I do this without her getting involved?...All sorts of issues. [A] lot of it's very personal to their business and that's why you need this relationship [of] trust, because it's that knowledge of their business and their life. (AUK01)*

Such episodes could be termed 'milestone' events and may prompt the SME owner to seek out the services of the external accountant, having already built a continuing relationship of trust. Most small firms do not have sufficient in-house resources, certainly to deal with 'one-off' events such as a rapid growth spurt or, on the other hand, business exit, and this means that they tend to look to their external accountant to fill the gap in their experience and knowledge base. In such situations, accountants could be regarded as an external resource.

Less experienced SMEs and those SMEs with multiple owners appeared to be more likely to seek external business advice. Furthermore, bank debt requirements drive demand for external accounting services in the form of cash flow and quarterly statements.

### **The importance of perceived added value of business services**

The fieldwork demonstrated a fundamental difference between owner-managers' motivations for seeking non-compliance business services and compliance services. A key element that determines whether an SME purchases non-compliance business advice is whether they perceive that the advice adds value to their business. In contrast, compliance work is generally seen by owner-managers as a necessary cost to the SME business, but one which added little, if any, value to the business. As one owner-manager said about his compliance accountant 'he's your compliance keeper and you certainly rely on somebody to make sure you're doing what you have to do' (SMEAus04).

Similarly, one UK owner-manager implied that, other than in the provision of advice at key points, the accountant's services were a cost to the business.

*The way I see it, the accountant doesn't make me money really. Well, this last month he didn't anyway. He was making money, not me. So, you know, if I've got any queries...For instance, we did a bit of international trade, which is an area that I don't really know about. Like 'How do you deal with that?' and that's...asking the accountant questions...He did help me with the initial set-up of how to run a limited company. That's where I learned how to do it – from the accountant. (SMEUK02)*

Another owner-manager put his view more succinctly: 'I don't read the accounts. I just accept what we're charged and think, well, it's got to be done' (SMEUK01).

The view that compliance services were a cost rather than a benefit to the business was reinforced by most accountants, who agreed that the compliance services provided no value to the SME business. As one accountant said:

*the value they get from compliance is nil, but they get immense value from just being able to pick up the phone and talk to someone who knows their affairs back to front and give[s] them an answer on the spot. (FAAus01)*

In explaining this different owner-manager perspective, one accountant speculated:

*Our [compliance] work tends to be repeat work so that's an overhead. The specialist advice – when you want something specific – if it's what they want then they'll pay for it. (AUK01)*

In contrast to the perception of the value of compliance services, business advice services provided a more positive story. Business advice services were regarded as adding value to the business because they are what the SME demands rather than being a derived demand to meet statutory requirements. A number of factors influenced its take-up. One owner-manager emphasised that as long as the 'price was right', then business advice was important.

*I think the cost of it doesn't really come into it, not at the very beginning I don't think...it just doesn't because, let's face it, if someone gives you very good advice and it's someone you really trust...it's worth paying for the advice. But saying that, if it was a ridiculous price, then 'no'. (SMEUK03)*

Before buying advice, one SME indicated that the following trade-off is necessary: 'Are there benefits that go with the service, and how much does it cost?'. (SMEAus03). This view was reinforced by accountants, and one said, 'there is more pressure from the client base to get more value added.' (AAus03).

### **5.3 OWNER-MANAGER INFLUENCE ON ADVICE SEEKING**

The extent to which external business advice was sought and purchased was found to be influenced by the owner-manager. As one accountant respondent said:

*The driver of demand is...the personality of the SME owner being either 1) self-directed people, or 2) people who seek advice to assist them make decisions. (AAus04)*

In some cases, advice seeking was an iterative process whereby owner-managers heard of a service from a source other than their accountant and this stimulated them to take action.

We term the first group 'self-directed individuals'. These owner-managers are more confident to rely solely on their own judgement and, therefore, are less likely to buy advice because they believe they possess the necessary business expertise. These individuals were also more likely to buy business advice following a 'milestone event', which might be externally or internally generated. Typically, these events could include changes in regulation, a fundamental shift in the business cycle, retirement or succession, or changing family circumstances. The second group of owner-managers were individuals who liked to validate decisions by seeking confirmatory advice. This 'validator' group took more time to develop their confidence in a decision path and thus tended to make more considered decisions. This group were also more likely to seek regular

advice rather than seeking it in response to an imposed change or event.

These two SME types are illustrated by the following contrasting attitudes represented by SME respondents. One SME said: ‘accountants did offer other services but I didn’t want them’ (SMEAus04).

Similarly, another owner-manager indicated that:

*because it’s a huge [accountancy] company they’ve got lots of different departments....They’ve got a marketing department, they’ve got this department, got that department and because you’re part of this company you could access these – obviously at a cost. But, you know, as I say, it’s early days yet. (SMEUK02)*

On the other hand, validators are illustrated by an owner-manager who stated that:

*You’ve got to not let your ego get in the way...some successful people are very autocratic, but I’m not that sort of person...you can become blinkered and convince yourself that you’re right about things when actually you don’t have the knowledge base to make decisions. (SMEAus01)*

Even when an accountant is not actually the appropriate source of advice, validators may request their advice.

*I feel we can say something to him which I wouldn’t want to say if you’d come along as a financial adviser. It’s not quite the same. He’s not a financial adviser, but I would trust him to ask...‘What do you think we should be doing on this?’ and if he said ‘That’s really out of my sphere, but I would do this,’ he would probably recommend someone to us. (SMEUK03)*

As one accountant said:

*The SME client is very driven, they know it all, a lot of them are still mainly one owner, they have created the business, it is hard for them to let go. (AAus01)*

Providing further insight into the group categorised as ‘validators’, another accountant said that those SME owners who are a bit unsure of themselves were more likely to seek his advice (AAus07). Following an analysis of the transcripts, we classify four of the seven SMEs as ‘self-directed’ and three of the seven SMEs as ‘validators’ (Companies SMEAus01; SMEAus03; and SMEUK03).

## 5.2 EXISTING SME–ACCOUNTANT RELATIONSHIPS AS A BASIS FOR NON-COMPLIANCE BUSINESS ADVICE

As expected, the fieldwork showed that accountants with an already established relationship with SME owner-managers were in a strong position to provide further business advice to these firms. Even so, this was not guaranteed and it was important that trust had been developed between the owner-manager and the accountant. Trust was developed through a combination of supplying compliance services to SMEs and demonstrating competence and professionalism in this process. In some cases, owner-managers relied on a recommendation from their accountant to a supplier of non-compliance business advice, if the requirement was outside the expertise of the accountancy practice.

### Accountants rely on referrals rather than perform proactive marketing

One of the important questions in the study was the extent to which accountants exploited the relationship with their SME clients in order to supply non-compliance services. The results suggest that most accountants are passive rather than active marketers of their non-compliance services. As one respondent accountant stated: ‘demand for my services is largely referral based, from a partner within the firm or a key contact from within the SME network’ (AAus04). Another accountant said: ‘almost categorically, business advisory services are a spin-off from the compliance services.’ (AAus02)

A referral provides the SME owner-manager with some initial assurance that the accountant is sufficiently competent. Even with the advent of Internet technology, personal referrals are still an important way of acquiring new businesses.

*We’re not really good at marketing. Our business has grown to what it – I mean we now have nearly 40 people – but it’s not because we’re particularly good at marketing. It’s how we [operate]. Look at our website. It’s pretty much non-existent. (AUK02)*

The reliance on recommendation did not mean a steady-state business and could facilitate growth, as explained by one accountant.

*We currently get something like 70 [new] clients a year and we probably lose three or four clients a year so we are a growing practice but we’re not expanding exponentially. Just gradual progressive growth and we don’t market to any degree because we’ve got this flow of clients coming in from recommendation. (AUK01)*

This is not to deny the role of the Internet as a marketing and information source. Our findings suggest that websites were occasionally used by owner-managers as a supplement to a recommendation. On the other hand, accountants themselves often researched potential clients through the internet:

*99% of all clients come through recommendation and that's very important. I always say to clients 'If you're happy, recommend.'...I've had a couple of telephone calls with them [the firm to which they were recommended]. 'What sort of things do you [provide]...? I've learned about the business through the Internet and I've got information from the previous accountant. (AUK03)*

### **The marketing of services through networks**

A common technique used by accountants for communicating their broader expertise to clients was through the use of networks or forums for SME owner-managers. The majority of accountants interviewed indicated that it was through these networks that SMEs became familiar with the other services that an external account might provide.

In some cases, these additional services were provided within a context of wider environmental changes. Many SME owner-managers do not have the time to scan the environment beyond the immediate confines of their business. As such, the role of membership organisations, such as chambers of commerce and trade, and professional bodies, were often instrumental in brokering communication. For example, where there are government changes to legislation such as Fringe Benefits Tax (FBT), Goods and Services Tax (GST), Value Added Tax (VAT), Superannuation Guarantee, Superannuation Contributions, and Self Managed Superannuation Funds, many accountants indicated that they responded to these changes by creating forums and information meetings to inform their clients of the changes, and in so doing were able to display their competence which may lead to further work. As one accountant said, 'We run seminars to show we can supply [other discretionary services]'. The same accountant went on to say 'we respond to a need like government change by holding forums' (AAus06).

Accountants were invariably members of local chambers of commerce or relevant professional and sector business groups which acted as a vehicle for both the dissemination of their services and the ability to glean new information regarding their market. One accountant, for example, made their presence known in the local newspaper.

*I mean we rarely advertise. I...do an article for my local paper once a month. But that doesn't make my practice [explicit] because I do that for [an accounting professional body] so I'm used to being the spokesperson, so it's my name and my picture, so there's a recognition there. You have contacts with local solicitors and bank managers. (AUK01)*

### **SMEs' mixed views on the value of accountants in providing discretionary services**

We found that all the SME owners used a number of advisers, and despite having an existing relationship with their accountant for compliance services, not all SMEs used an external accountant for other business services. There were a number of reasons for this lack of demand. The market for business advice is highly competitive and while external accountants are well placed to gain this work, they need to convince clients that they have the necessary business expertise to deal competently with the owner-manager's issues.

While all SME owners understood and agreed about the necessity of having a competent and trustworthy external accountant for compliance services, most utilised other professional service providers for discretionary services instead of, or in addition to, their external accountant.

A number of owner-managers regarded the use of accountants for accountancy matters as essential, but instead of extending their relationship, preferred to use other sources for other issues. For example, one SME respondent used an external accountant for compliance services, a financial planner for wealth management services and an independent business adviser for business advisory services (SMEAus01). The owner-manager stated that he used the business adviser for mentoring, consulting, coaching, business development, strategic planning and paralegal services. The owner also believed that no one person has all the required knowledge to operate successfully, and used the business adviser to benchmark himself against other business owners. The owner indicated that as his business became more complex, the depth, complexity and the variety of advice required increases.

Having credibility in the industry was cited by some owner-managers as significant in the advice-seeking, decision-making process, although for a few this was regarded as crucial. One owner-manager used a business adviser who was once a successful business owner, and is someone who provides mentoring and coaching services, is seen as a good sounding board and as 'someone I can tell stuff you couldn't tell staff or the management team' (SMEAus04).

This SME owner argued that many accountants were 'out of touch' with his particular industry and had not received value for money for past discretionary services provided by an external accountant. Notwithstanding that experience, the SME owner had recently sold a business and experienced excellent service from the external accountant, saying 'the accountant really stood up from the sale transaction viewpoint and showed me their [the accountant's] worth' (SMEAus04).

Some accountants were conscious of the need for accountants to be more of a sounding board for a range of issues – a general practitioner for the SME.

*If they've got a problem we talk it through...I mean, it can be a sole trader or a partnership person in that partnership. And they've got a problem and they have got nobody on their side. They can't talk to the bank because the problem might be the bank. So we are somebody who's on their side, and often that's the case if they are folding up... they just want to use you as a sounding board, or [it's] an [opportunity] for us to say, 'Well, have you thought of this?'* (AUK01)

The reluctance displayed by a minority of owner-managers to extend the advice function of their accountant appeared to be based on a notion that specialisation required a division of labour between different advisers in the network. This was exemplified by one owner-manager who said: 'I don't use accountants for business advice and for marketing and production. I go to people who are most involved in those fields' (SMEAus03). The same SME owner said: 'I don't think the accountant is that critical in the business' (SMEAus03).

From the supply perspective, a number of accountants interviewed suggested the need for increased specialisation within their particular fields of expertise. Where possible, accountants were keen to provide an appropriate level of expertise, especially if the business was considered to be of a sufficient scale. In some instances, this had led to the establishment of a dedicated account manager, who used the expert services within the firm to satisfy the SME clients' demands. As one respondent accountant said: 'SMEs come to mid-sized accountants to get expertise in a certain issue, and advice across broad issue[s]'. (FAAus01). The accountant continued 'we have one single contact point, but then use the broad skills of the firm'.

Another accountant said:

*we say to our clients, we're your one-stop shop. Our clients come to us if they need any recommendations to anything else, and [for] even very specialist work that we don't carry out, we will go and find it [the expertise].* (AUK01)

Although they are the first port of call, smaller accounting practices will not always have the required specialist expertise and will, therefore, refer their client's to other members of their network. For example, one small firm required a solicitor.

*One time we needed a solicitor for something. There was some money that was owed to the company...and he said 'I know someone who can help you do that'. (SMEUK03)*

The preceding analysis suggests that an expectation gap has opened up between what the SME owner needs and what the external accountant is able to supply. As one SME owner said: 'They [the accountant] could be more specialised in certain areas that can truly offer advice, rather than trying to be a jack of all trades' (SMEAus04).

While small accountancy practices appeared to gain an advantage in terms of empathy with small firms, some of our interviewees were prepared to question the capacity of their accountant to provide business advice, no matter how close the relationship: 'I suppose it might be if a few things happened and I thought, 'Hang on, he's not coping. Maybe he's got too much on' (SMEUK03).

This suggests that even smaller accounting practices might further embrace a variation of the model adopted by larger international accounting firms with their focus on industry specialisation, and draw upon a network of approved advice-suppliers. This may involve nurturing a multi-disciplinary network of suppliers, organised around industry expertise. Although this may mean that the smaller accountancy practices do not try to provide a comprehensive service in-house, their role as the referral hub would be significant.

Indeed, most of the accountants interviewed recognised the importance of either developing specialist business expertise or creating a structure which provided easy access to such expertise. To illustrate this point, one accountant said 'accountants are a distribution network' (AAus05), implying that if they did not possess the specialist knowledge required, they would find a specialist for the client SME. For the larger mid-tier accountancy firms interviewed, this sometimes meant referring SME clients to others within their business: 'new standards require more specialisation, so we give more work to other partners who specialise in a particular area' (AAus03).

A further strategy was to recognise that the accountancy practice specialises in specific market sectors.

*It's actually going for niches because it allows you [to bat much higher]. If you were just a firm that takes on everything, you're not batting higher.... So some of our biggest niche markets are TV, media and barristers.* (SMEUK03)

Despite such insights on the part of individual accountants, perhaps accountants in general have not sold or communicated their ability to provide discretionary services comprehensively sufficiently to their clients, and this is a matter for further discussion within this report.

## 5.5 SMES AND THEIR ACCOUNTANTS: THE PROCESS OF DEVELOPING TRUST

The interviews with SME owner-managers explicitly explored the role of trust. Although we heard a number of different stories regarding the development of the SME-accountant relationship from both parties, a general pattern emerged. It was clear that trust is built through a relationship between the accountant and the SME client, and takes time to develop. The initial basis for trust to develop is a display of competence by the accountant. This is usually demonstrated in the provision of statutory services. With time, and through a series of interactions with the SME, external accountants are then able to demonstrate empathy with their clients. A relationship forms which is then reinforced with social rapport.

There was consensus among the SMEs interviewed that accountants are among their trusted advisers. This was emphasised by one accountant in discussing this in relation to their clients.

*They've got to trust. They've got to believe...I'd say it's no different than them going to see a doctor. If they're going to see a doctor and they go to see two or three people, they've got to think they're going to get the best...that's why I said that recommendation is so important. Because if you need a doctor, the best way you're going to go to that doctor is to say, 'Well, you know, Mr Smith had the same problem I've got and that's why I'm going to go and see him.'* (AUK03)

Before an owner-manager of an SME can rely on their external accountant for business advice, it is critical that the accountant possesses and displays qualities such as competence, empathy, honesty, integrity, and has good social rapport. These are the elements in the relationship that build trust. One accountant said:

*our business is about building relationships...[and]...it's the ability of the client to be able to contact you and for you to answer their questions in an intelligent manner [competence] and honestly [integrity]. If I can't answer the question, I get one of our specialist partners to answer it, and I communicate and manage the answer [empathy].* (AAus03)

### Trust develops over time

The relationship between the SME client and the external accountant is built over time. In some instances the SME may not purchase other non-statutory (business advisory) services from their external accountant for one to five years from the initial contact or discussion. As one accountant said: 'We start from an ethical and trusting base: the client relationship builds over time' (AAus06).

One SME underlined the significance of time in the development of trust.

*Well, I just think it's a 30-year relationship where we totally trust what they do and we've always been satisfied with the standard of the service.* (SMEUK02)

### The role of social rapport

While competence was an essential element for the development of trust, social rapport also emerged as a significant factor in helping build a base for the accountant to sell other services. As one accountant said:

*social rapport plays a big part in building trust, you don't need to socialise outside of work but just going to see them a couple of times a year.* (AAus03)

Another accountant said:

*the people whose persona is more identifiable with my own will go beyond the compliance work and purchase other services.* (AAus05)

For one accountant, social rapport was considered 'essential' for the development of the relationship with specialist clients.

*Once you get known in the industry...people walk in wanting to come to you because you've found out about their industry as well. 'What are the trends? What is happening? What's happening at the Revenue? What's happening in the courts?'* (AUK03)

Owner-managers' views on the role of social rapport tended not to mirror those of accountants, since they placed greater emphasis on the 'business' side of the relationship. This is not entirely surprising since the SME is not the one seeking to market these particular services. One owner-manager stated: 'social rapport is important for building that partnership, [and] being part of the team' (SMEAus01). The same owner-manager added: 'it's less [of] a personal relationship: the primary thing has always been the business side for both of us' (SMEAus01).

Another owner manager was less committed regarding the development of a social rapport: 'you can't have a business relationship with a friend' (SMEAus04). Owner-managers and accountants displayed a 'managed' social relationship and this tended not to spill over into socialising.

*I mean there might be something the bank had invited us to. [The accountant] might be there in his capacity as an accountant so no, we don't socialise in that way but after 30 years we do have a good relationship. If I bump into... on the street we shake hands and say 'how have you been, how's things going for you, what's happening?'... that type of thing. But no, I would say it's 90% a professional relationship.* (SMEUK03)

None of the SMEs indicated that their relationship with their external accountant had become a regular social relationship outside the context of a working relationship. Only two accountants indicated they socialised with clients outside the working relationship (Accountant AAus02 and AAus07). Interestingly one accountant said 'social rapport is critical' and that:

*business services, that's where the value added lies, but you can't do that unless you're mates, how could you? You don't understand it otherwise.* (AAus02)

This was not, however, a common approach.

The majority of accountants suggested that although they are surrounded by the trappings of an institutional environment (and therefore 'institutional trust': Bennett and Robson 1999), it is the individual who builds the relationship and cements that relationship for the firm. One accountant stated that the 'individual is building the relationship, not the firm' (AAus03), while another accountant said 'our firm is trying to make it about the organisation, but the truth is it's about the individual relationships' (AAus02). Even when the accountant had to relinquish being the single point of contact in the relationship with the SME, the language they used implied the retention of some control in the relationship: 'I provide one point of contact and then I use the broader skills of the firm' (FAAus01).

The interviews, therefore, provide mixed views regarding the significance of social rapport in the development of the SME-accountant relationship. It appeared that an element of social rapport was required as a minimum to allow a relationship to flourish, although it was not essential that this had depth other than for business purposes. For the accountant in particular, working on the relationship was important.

### **The roles of competence and expected levels of competence in the SME-accountant relationship**

Accountants are relatively well educated and are put through a rigorous professional examination and testing regime to enable them to practise as accountants. This gives rise both to their fundamental quality of competence and to assumptions by both accountants and owner-manager clients that they will exercise this competence by following industry standards.

The majority of accountants' work derives from referrals, either from within the firm or from within the SME owners' network. One accountant provided the following explanation: 'Referrals imply you are competent' (AAus05). SME respondents confirmed this view, as one SME said 'competency is a given' and 'it's only important I get advice that works' (SMEAus03). This was reinforced by another owner-manager, who argued: 'I need competent advice. They've got to be competent'. Thus, the fieldwork suggested that by working in a profession, accountants benefited from an assumed level of competence by owner-managers. This finding is similar to Bennett and Robson (1999) in their classification of accountants as having institutional trust. Our results demonstrate that this basic level of competence is fundamental to a continuing relationship that has been built on through social rapport over time and individual trust.

This notion of possessing an assumed level of competence because of the standards associated with the accountancy profession was echoed among accountants themselves. As one accountant pointed out, 'I am a chartered accountant. People accept that I have a level of knowledge and therefore it comes down to the relationship' (AAus06). He continued, 'if you're not competent then you will never form the trust and the long-standing relationships'.

All respondents agreed that the core competence of the external accountant is around compliance tasks. But not all accountants have developed broader business expertise to the same extent. For some accountants, compliance work continued to represent the core business, while for others non-compliance work was more important (see Table 4.2) and of growing importance. Interestingly, one accountant (AUK01) indicated that they had focused exclusively on developing their business advice competence, and at the same time had outsourced the firm's compliance work to India. The former was considered to require greater levels of business acumen and expertise, while the latter was considered more routine. This differentiation was reflected in the income stream for the accountant.

The above findings suggest that while accountants were assumed to be competent to provide compliance advice, since, after all, this is what they have been formally trained and examined in, they had to 'earn' the perceptions of their levels of competence from owner-managers. The accountants interviewed demonstrated a variety of techniques for communicating their competence in their provision of business advice. Some emphasised hard work and dedication around compliance services; as one accountant said: 'my hard work and competence has created trust' (AAus03). Other accountants, who relish the interpersonal side of the business, are more likely to directly market their broader business expertise to their clients.

### **The role of empathy in the accountant-SME relationship**

Empathy involves understanding and genuinely caring about the clients' interests. The fieldwork found that empathy was identified by all accountants and owner-managers as a critical ingredient to a successful relationship and the provision of business advisory services. For some accountants, empathy was almost an ethical issue and they had to demonstrate this in their dealings with clients. As one accountant said 'we have an obligation morally and ethically to represent their best interests' (AAus04).

Demonstrating empathy was not easy. One accountant said:

*The key ingredients of caring about your client are taking the time and trouble to understand his business. I visit my clients at their business, and it breaks down the tension.* (AAus05)

Turning to the owner-manager perspective, one SME emphasised the role of empathy: 'I need someone who understands small business and understands the pressures and workloads of the person that runs the company' (SMEAus02). Another owner-manager said 'You [the accountants] have to act as if you are a department of our business' (SMEAus01).

Empathy is important to the SME owner in their external relations but it is not the exclusive domain of external accountants. SME owners said that it was also important that their non-accountant business advisers also displayed empathy. For example, one owner-manager stated that their adviser had a 'genuine understanding of our business and who we are, [and] our objectives' (SMEAus01).

### The role of trust

Trust includes professional or institutional trust, the trust in the firm and the trust in the individual. Society awards accountants institutional trust.

SMEs require the services of accountants to help them comply with government regulation such as taxation. If the SME does not comply they may face punitive penalties and, in some cases, jail sentences. It is because of both the institutional setting and the provision of compliance services that accountants derive their trusted adviser status and facilitate the link between business and government. Arguably the accountants play a filtering role, making sure the system functions legally. Honesty is one of the most valued qualities in society; if someone is honest they are by implication trustworthy. The external accountant's primary compliance role requires them to be honest and honesty leads to trust.

Accountants are conservative in the manner they attend to their work, either in gathering and providing advice to clients or complying with government legislation and requirements. Should accountants break the law or recommend clients to break the law they may face financial penalty, loss of reputation or even being barred from practising and hence lose a livelihood which is well paid and valued in society.

An important role of the external accountant is to ensure their clients are in compliance with the law, and SME clients indicated that an important role of the accountant is to keep them honest. It is this very relationship of 'required honesty' that gives prominence to the trustworthiness of the accountant-client relationship.

The primary evidence highlighted the significance of trust as a linchpin in the SME-accountant relationship. There was a consensus that external accountants are trustworthy and that trust is critical to relational exchange. Trust, however, is not a given. As one accountant said:

*Why do people come to accountants?...Because they trust you, they begin to understand that you form part of their success story, but trust is an outcome not a driver.* (AAus05)

Accountants need to work hard to obtain the trust of the SME. As one accountant said 'initially it's to do with personality and the relationship, then trust follows' (AAus06). Another accountant said:

*Trust is critical, the SME places absolute trust in their accountant contact at the firm. If a partner of the firm refers a client to me, that client will generally accept that recommendation based on the trust the SME has in the ability of that partner.* (AAus04)

Most SME respondents indicated that trust is won by proving ability, showing empathy and building a relationship which can be relied upon. As one SME owner-manager pointed out, 'reputation leads to trust, networking leads to validation of the reputation' (SMEAus03).

## 5.6 SELLING DISCRETIONARY SERVICES – IS RESTRUCTURING REQUIRED FOR THE NEXT GENERATION OF ACCOUNTING FIRMS?

Our findings suggest that, in general, accountants do not market their services strongly to prospective clients. Instead, most new work is derived from referrals, either from internal partners or from the SME network of contacts.

As one accountant said 'I'm not a particularly gregarious character who goes out and woos my clients with charisma. More work comes my way due to my work ethic' (AAus03). This raises the question of whether or not the accounting profession should and could raise its levels of service marketing. Is there any point in providing sales training for accountants in order to increase their volume of other services business? This scenario may be counter-productive and requires the accountant to play a role 'out of type', a role they may not be suited for and a role that may lead to breaching the very foundations of trust that the SME requires from their accountant as trusted adviser.

As professional advisers, for some accountants the idea of being a salesperson of services was an anathema. For example, one accountant said, 'In identifying the opportunity [for advice] salesmanship plays no part, it's about analysing the SME requirements' (AAus02). This view was confirmed by another accountant who said:

*I don't knock on doors! It does not have the same credibility [as] a referral attached to it. Salesmanship in our business extends to the way you present yourself in terms of your ability, objectivity and ethics. It's not a hard sell of the services but a hard sell of you as someone with ability, credibility, integrity and ethics.* (AAus04)

Similar attributes of trustworthiness and a reluctance to do the hard sell were also found among financial advisers. Thus, a reluctance to become more proactive in promoting services was not exclusive to accountants.

Given the unpopularity of a significantly raised profile of accountancy services through marketing techniques, how could the accountancy profession develop in the future? One possibility is that accounting firms dealing in the SME market may need to restructure in order to align their services more closely to client needs. This may also limit the amount of other services work that is lost to other professional advisers. As one accountant said:

*To understand their [ie the client's] industry is really hard when you have 40–50 clients, basically across every industry, and it's hard to be an expert in them all; probably of all things clients say they want, it's the hardest [demand to meet]. (FAAus01)*

This view was reinforced by one SME who identified the limitations of smaller practices in particular.

*They [the accountant] could be more specialised in certain areas that can truly offer advice rather than trying to be jack of all trades. (SMEAus04)*

Does this analysis lead us to conclude that the accounting firm could be restructured to suit SME needs and the increasing desire for specialised services? Could it be possible that 'business development managers' are required by accounting firms to communicate with SME clients, in order to understand them better and deliver other services? As one accountant speculated 'accountants don't say enough about what services they can offer' and proffered:

*[there are] two types of salespeople – openers and closers. Accountants are not openers. So we employed tele-marketers who are experts at opening and we found a lot of people were interested to know more. (AAus05)*

The research implies that it is worthwhile pursuing the complex issue of the marketing of external accountants' non-compliance services to the SME market. This may involve much more than tele-marketing, and be much more involved than just making a phone call and passing it on to the accountant. The SME owner-manager may want a more continuous and solid relationship, and that involves clear communication. Similarly, if accountants are not good communicators, as we found from the interviews, then this issue must be investigated further with the implications for practice drawn out.

## 6. Conclusions and recommendations

The primary aims of this research are to provide a detailed understanding of the nature of services provided by external accountants to SMEs, to examine the intervening role of professional competence, trust and ethics in the demand for business advice, and to explore other factors that influence SMEs' purchase of business advice. The results confirm that owner-managers tend to purchase additional non-compliance business services from their accountant. On the supply side, it is clear that accountants sell other services off the back of traditional statutory or compliance services. The existing relationship, based on the purchase of compliance services, appears to provide a foundation from which the external accountant might also sell business advisory services. Accountants were conscious of needing to find the right balance between raising awareness that they sell 'additional' business services and not marketing these too aggressively. In fact, most accountants agreed that they tend not to sell advisory services actively to their SME clients. From the accountants' perspective the provision of advice tends to occur following interactions through compliance work.

Both SMEs and external accountants agreed that additional advice was frequently taken up in the early years of the business as the owner-manager faced many new challenges and had not yet developed the necessary business expertise. SME owner-managers agreed that they are seeking a confidante to provide advice over and above compliance services. Being a business owner is often a lonely and isolated life, but the confidante may or may not be the accountant.

SMEs expressed mixed views about whether external accountants are capable of providing useful business advice, yet all external accountants interviewed perceived themselves as having the necessary skills to provide business advice. While competence and business acumen were found to be critical before an owner-manager would rely on their external accountant for business advice, trust and an established relationship are necessary to facilitate the exchange. In particular, accountants emphasised the importance of ensuring that their SME clients had faith in their external accountant, and that they themselves had empathy and their clients' best interests at heart. The results also suggest that an expectation gap exists between what the SME owner needs and what the external accountant is able to supply. All SME owners used multiple advisers and not all SMEs will use an external accountant for other services. The market for business advice is highly competitive and while external accountants are well placed to acquire this work, they need to convince clients they have the necessary business expertise in order to close the current expectation gap.

An important factor which determines whether the accountant is perceived to be competent to provide business advice is their industry experience. There were mixed views among owner-managers on whether the accountant had to possess specific industry experience for them to be able to provide advice. Where there is a demand for business advice emanating from a need to

enhance competitive advantage, the type of adviser sought by an SME needs to have highly specialised industry knowledge. All SME respondents indicated that they purchase business advice, but not all SMEs use an external accountant. The market for business advice is highly competitive and while external accountants are well placed to acquire this work, they need to convince clients they have the necessary business expertise.

Most accountants indicated they have an existing relationship with the SME that is built on competence, empathy and trust. Hence, accountants appear to be in a good position to supply other services to their SME clients. Referrals imply competence and competence is a given (assumed), while trust is earned over time. Most accountants suggested that business advice is not sought proactively but emerges primarily from interactions through compliance work. Relationship building leads to provision of services following 'milestone events'. Such services might be associated with succession, family conflict, changes to regulation, and so on, but accountants are generally not found to be good at communicating the business advisory services they can potentially offer. As a result, many of the other services are captured by other professional advisers.

A major factor that drives demand for advice is the personality of the SME owner. We identify and propose two distinct types of personalities among SME owners. The first personality type we describe as a 'self-directed individual' who is confident of their own judgement, and who is less likely, therefore, to buy advice, believing that they already possess the necessary business expertise. These individuals tend to buy advice only following a milestone event such as changes in regulation, purchase or sale of the business or business segments, retirement or succession, or changing family circumstances.

The second distinct personality group we labelled as 'validators', who like to affirm decisions by seeking confirmatory advice. This group develops their confidence in a decision path over time and thus they tend to make more considered decisions. This group is also more likely to seek regular advice. As one SME said:

*we recognise we need help...anyone who thinks they have all the answers is a 'dill' [dim]. Small business can become very cloistered very quickly [and] you can become blinkered and convince yourself you're right about things when actually you don't have the knowledge base to make decisions. (SMEAus01)*

An important dimension of business advisory services is the view that the accountant is a 'trusted partner' providing a personal relationship, and is a confidante to the owner-manager. Fieldwork results highlight a number of elements required for the development of trust. Trust is typically built by means of a relationship between the accountant and the SME client through the provision of compliance services, and is developed over time. Social rapport is required as a minimum to allow a relationship to

develop and for trust to be established. While there needs to be an element of shared values for social rapport, in most cases socialising outside the business relationship is not necessary for social rapport to be effective. In addition, both accountants and their SME clients emphasised the critical importance of empathy to the development of successful relationship and the provision of business advisory services. Empathy involves understanding and genuinely caring about the client's interests and requires the accountant to take time to acquire genuine understanding of the client's business and personal needs. These results demonstrate that SME owners exhibit affective rather than calculative trust behaviours; that is, the relationship with the accountant is principally based on emotional inputs, and these arise from the repeated interactions and information acquired over time.

There was a consensus among interviewees that accountants do not market their services strongly to prospective clients. In contrast to many of their competitors for business services, accountants are neither particularly gregarious characters nor charismatic in selling their services. Instead, most new work is derived from referrals, either from internal partners or from the SME network of contacts, or is derived demand from compliance work.

This research specifically examines the role of trust and competence for SMEs seeking business advice. While the literature has considered trust and competence in business relations between larger organisations, evidence of the importance of trust and competence within the SME context in relation to business advice provided by external accountants is both scant and underdeveloped (eg Smith et al. 1995; Rousseau et al. 1998; Zaheer et al. 1998; Sharif et al. 2005). We demonstrate that SME clients will tend to purchase business advice only after they have nurtured a relationship with their business adviser(s) to minimise uncertainty, while simultaneously recognising that an SME's competitive advantage can lie in the professional relationship the owner-manager builds up with his/her external accountant. It is precisely through such a relationship, which is 'earned' by building up trust, that the SME owner-manager can tap into the external accountant's expertise and knowledge of business processes in different sectors of the economy. Thus accountants can provide strategic support to the bundle of valuable resources at the owner-managers' disposal.

We find no evidence that the concerns about auditor independence post-Enron, emanating from regulatory change affecting public interest entities, have influenced the likelihood that external accountants will also provide business advice in the SME environment.

## 6.1 LIMITATIONS OF THE STUDY

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This research has drawn on evidence collected in face-to-face interviews with a small sample of accountants, financial advisers and SME owner-managers in the UK and Australia. The results presented demonstrate originality, significance and rigour in their own right, through the exploration of the motivations and outcomes of the SME-business adviser relationships, and the differing perspectives on these relationships. Nonetheless, we accept that the limited numbers and the absence of symmetry in the UK and Australian fieldwork cases mean that caution must be exercised in generalising from the results or providing a country-comparative analysis. It was never anticipated that this research would offer baseline evidence on the relationships between accountants and SMEs. In addition to contributing to the knowledge base and practice, however, the results do pave the way for a more extensive study, so that the accountant-SME relationship, changes in this relationship and the role of trust may be analysed with statistical validity.

While the propensity to buy business advice might be influenced by variation in the SMEs ownership structure, six of the seven SME interviewees were 100% owners. It is not possible, therefore, to investigate the implications of variations in ownership structure on the firm's propensity to buy business advice.

Because of the small sample size we provide only limited detail on the nature of business advice purchased by SMEs. While the results indicate that the nature of business advice provided by external accountants appears to be consistent with their traditional expertise, future research could explore this contention.

## 6.2 IMPLICATIONS FOR PRACTICE

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The evidence presented shows that for a SME-accountant relationship to succeed, accountants are not required to 'hard sell' their services. The SME does not require this, and the accountant has not been found to be good at hard selling.

In order to respond to the increasing demand for specialist services and adding value beyond compliance services to their SME clients, it may be argued that accountants need to create an opportunity to enable them to capture the market share that is available through the pre-existing relationship of trust. We found that SME owners demand the value-adding service, yet do not necessarily seek out their external accountant for this service. Instead they rely on other business advisers. Some SMEs have multiple business advisers, which demonstrates that the market for business advice is competitive and creates a challenge for the accounting profession. An emerging technique used by accountants to communicate their broader expertise to clients is through the use of networks or forums for SME owner-managers. There may be scope for small and medium-sized accountancy firms to enhance their business acumen by reorganising their practice in order to develop greater industry experience.

Many accountants are in a good position to supply the SME's demand for 'other business services' as these may be built upon and be integrated with information gleaned from compliance services. By using the same supplier, SMEs may benefit from economies of delivery and information costs (eg Bennett and Smith 2002). Nonetheless, many other professional service providers may be more proactive in marketing their services to SME owners and thus capturing the market share, which leads to several questions. Should accountants overtly market their services? Will this lead to accountants not being seen as the trusted adviser who has empathy for the SME business? Might the SME become suspicious of the motivations of the accountant?

These questions are open to subsequent research and discussion. Overt marketing has not stopped other advisers used by the SMEs from displaying underlying attributes of competence, empathy and trust.

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# Appendix: interview protocol

## ROLE OF PROFESSIONAL COMPETENCE, TRUST AND ETHICS IN THE SUPPLY OF EXTERNAL BUSINESS (FINANCIAL) ADVICE TO SMEs

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Interview protocol is designed for:

- SME owner/director (6, that is, 3 in Aus and 3 in UK matched on the basis of industry/sector considerations)
- external accountant (6, that is, 3 in Aus and 3 in UK matched on the basis of size of accounting firm)
- financial adviser (6, that is, 3 in Aus and 3 in UK matched on the basis of size of financial advisory firm)
- bank managers (6, that is, 3 in Aus and 3 in UK matched on the basis of size of bank).

All interviews to be recorded and confidentiality assured to the interviewee.

### INTRODUCTION

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We provide a brief overview of the study, that is, we are attempting to understand the role the external accountant (financial advisor) plays in the SME's business, the type of business advice the external accountant (financial adviser) provides and the key factors that may influence the decision to purchase business advice (eg with a focus on trust, competence and ethics).

In addition, we explain that a part of the interview process is to pre-test (validate) a self-report questionnaire and that the interviewee's input in this process is very important.

### THE SERVICES PROVIDED BY EXTERNAL ACCOUNTANT/ FINANCIAL ADVISER

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Outline the types of services the external accountant/ financial adviser provides.

Validate our categorisation of services, that is, the distinction between traditional compliance services designed to satisfy regulatory, taxation, banking or other requirements (ie tax, accounting, audit) and services purchased voluntarily (business advice, eg review of management systems, general business advice and financial planning) or between mandatory and voluntary services.

- Business advice/accounting, tax, audit
- Mandatory/voluntary
- Reliance on the external accountant as business adviser (7-point scale)
- Others

Is business advice purchased as a separate service or is it part of statutory/compliance services?

Describe some of the benefits that these non-compliance advisory services provide to your business (to the SMEs business)?

What factors cause an SME to demand business advice?

Does the system of governance in the SME have an impact on the decision to purchase business advice?

Assume that your SME client has a need for advice (ie there is underlying demand), please explain some of the key factors that might influence their decision to buy business advice from you.

With regard to the following factors, assume your SME client has a need for advice (ie there is underlying demand).

#### 1. Trust

Trust is 'the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other party will perform a particular action important to the trustor, irrespective of the ability to monitor or control the other party' (Mayer et al. 1995)

- Explain the importance of trust in the decision by the SME to purchase business advice. [For example, 'I wouldn't let the external accountant have any influence over issues that are important to me'].
- Integrity – explain the importance of your integrity in the decision by the SME to purchase business advice?

#### 2. Benevolence

Explain how the importance of benevolence in the decision by the SME to purchase business advice? [For example, 'My needs and desires are very important to the external accountant'].

#### 3. Ability

Explain the importance of your ability in the decision by the SME to purchase business advice.

#### 4. Objectivity

Explain the importance of your objectivity in the decision by the SME to purchase business advice, ie make careful analysis of available information before making a decision.

#### 5. Confidentiality

Explain the importance of your confidentiality in the decision by the SME to purchase business advice.

## **THE ROLE OF BUILDING UP A RELATIONSHIP WITH CLIENT/ADVISER**

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### **1. Social rapport**

How important is the social relationship?

### **2. Understanding business needs**

How important is it to understand the client's industry?

How important is it to understand the client's business?

### **3. Salesmanship**

How important is it that you are a good salesperson?

How important is it to be proactive in encouraging your client to buy business advice?

## **TRADITIONAL VERSUS PROGRESSIVE**

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Some accountants may be more traditional and focus on providing only traditional compliance-type services, whereas other more progressive accountants may focus more on emerging business advisory services. Is this an important factor in the provision of business advice?

How important is it that both the accountant and the client have a common view of the world? For example, having a common background?

## **PERCEIVED VALUE OF SERVICE**

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For SMEs that buy advice, do they perceive that they receive value for money?

For SMEs that buy advice, are they satisfied with the service?

For SMEs that buy advice, do they perceive that they receive financial benefit?

## **CONCLUSION**

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To sum up our interview:

Given what we have discussed, are there any other factors (demand and/or supply factors) that might influence your decision to purchase (offer) business advice?

Provide a copy of the draft questionnaire to the interviewee and allow them to provide comments on the questionnaire.



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