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Business advice by accountants to SMEs: Relationships and trust

Robert Blackburn^a, Peter Carey^b and George Tanewski^c

^aKingston University, UK, contact - Email: r.blackburn@kingston.ac.uk; ^bDeakin University, Australia, contact - Email: pcarey@deakin.edu.au; ^cMonash University, Australia, contact - Email: george.tanewski@monash.edu

Abstract:

Accountants are the most frequently used source of business advice by SMEs. Yet there is little theoretical understanding of this relationship. In this paper we investigate the influence of relationships and trust on decisions by SMEs to purchase non-compliance advice from their external accountants, drawing upon Mayer, Davis and Schoorman's (1995) model of trust. In-depth interviews with accountants and SME owner-managers support the proposition that relationships and trust are necessary conditions for enabling latent business advice demand. Integrity and empathy are two dimensions of trust, and both qualities appear fundamental to the accountant's ability to retain SME clients. But they do not directly influence SME decisions to purchase subsequent business advice. The analysis shows it is the specific competence of the external accountant that directly influences the SME's business-advice purchase decision. SME managers and principals with less trusting natures require accountants to clearly demonstrate their competence, usually following a significant business challenge, before business advice is sought. SME owner-managers with more trusting natures are more open to buying business advice, but the market is competitive. Overall, the a priori assumption that an already established relationship developed through compliance services will lead an SME to buy business advice is not supported.

Key words: external accountant, business advice, relationships, trust, SME

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INTRODUCTION

This paper examines the role of relationships and trust in the provision of business advice by external accountants to their 'small and medium sized enterprise' (SME) clients¹. While the role of trust has been examined in the accounting literature from a within-organisational perspective (e.g., Busco, Riccaboni and Scapens, 2006) and from an inter-organisational context of business alliances and networks (e.g., Tomkins, 2001), it has not been explicitly examined from the perspective of external accountants providing business advisory services to their existing SME clients.

Over recent decades, external accountants have expanded their services to include 'business advice' alongside the traditional statutory/compliance-type services – namely taxation, compilation and audit (Parker, 2001; Anderson-Gough et al., 2002; Greenwood et al., 2002; Gooderham et al. 2004; Berry and Sweeting, 2006; Fogarty et al., 2006; Jarvis and Rigby, 2012). Indeed, the 'bread and butter' compliance services of many small and medium-sized accountancy practices (SMPs) has diminished in recent years as a result of the more extensive use of computer technology by SMEs for doing their own accounts, and the introduction of audit exemptions (Blackburn and Jarvis 2010). As a result, SMPs have sought to widen their portfolio of services (Doving and Gooderham 2008; Blackburn and Jarvis 2010; Professional Oversight Board, 2010; Kitching et al., 2011). These developments follow the trend among large accounting practices, for which business advisory services have become an important source of revenue growth to offset a stagnating market in audit and tax services (Anderson-Gough et al. 2002; The Economist 2010; Professional Accountancy Association, 2010).

From the SME perspective, it is widely recognised that external sources of advice and support are important in the resource acquisition, mobilisation and decision-making of owner-managers (e.g., Doving and Gooderham 2008; Hanlon and Saunders, 2007). Business advisory services are intended primarily to assist the client firm's management to achieve its strategic and day-to-day objectives. In practice, business advice provided by external accountants to SMEs span acquisitions, succession, wealth management and investments, corporate finance, tax planning, cash-flow planning, systems reviews, human resource issues and payroll (e.g. Parker 2001). This paper accordingly defines 'business advice' broadly as: *Professional services provided by accountants to assist or advise clients in their strategic direction and operational running of their firms.*

An important contribution of this article is to enhance understanding of the role of accountants in providing business advice to SME clients. Prior research finds that the daily conduct of professional accountants in larger organisations is influenced by the professional bodies and the structure of their environments (e.g., Anderson-Gough et al. 2002; Covalleski, Dirsmith, Heian, and Samuel, 1998; Dirsmith, Heian and Covalleski, 1997; Grey, 1998). However, there is limited research examining interactions between accountants and their SME clients, particularly around the provision of business advisory services. The research that does exist in this area, which primarily emanates from the entrepreneurship and SME literatures, finds extensive use of external accounting services (e.g., Kirby et al. 1998; Bennett and Robson, 1999; Gooderham et al. 2004; Carey et al 2005), but

¹ There are varying definitions of SME. In the United Kingdom, a SME is a business that employs less than 250 people, a micro-business <10 people, a small business 10–49 people, and a medium-sized business 50–249 people (see Department for Business Innovation and Skills, 2009). In Australia, (see the Australian Bureau of Statistics (ABS), 2001), a micro-business is <5 employees, a small business is 5–19 employees and a medium-sized business is 20–200 employees.

considerable variation in the level of business advice sourced from external accountants (Carey et al 2005; Blackburn and Jarvis, 2010). Studies have identified a range of antecedent factors that drive the take-up of business advice by SMEs, including size of firm, institutional debt, age of firm, firm growth rate and the perceived competence of the external accountant (Holmes and Nicholls 1989; Bennett and Robson, 1999; Marriott and Marriott, 2000; Gooderham et al. 2004; Berry and Sweeting, 2006; Carey and Tanewski, 2010). Yet this literature only provides limited theoretical insight into the extent of variation in which accountants are used as business advisers by SME clients. The only studies providing theoretical insights are Gooderham et al. (2004), highlighting the importance of the existing relationship which builds on the provision of compliance services between the accountant and their SME clients, and Bennett and Robson (1999), who identify the importance of institutional trust.

The main contribution of this article is to develop and corroborate a conceptual framework focused around relationships and trust explaining SMEs' decisions to purchase business advice. The conceptual framework distinguishes, for the first time, the antecedent factors of demand for business advice from the enabling roles of relationships and trust. Rather than being antecedents of demand for business advice, this conceptual framework suggests that relationships and trust are necessary conditions to enable latent demand for business advice by SMEs to be realised. However, it is often assumed the relationship that an accountant establishes with an existing SME client, via compliance work, is important in explaining their use as a business advisor (Blackburn and Jarvis 2010). Our conceptual framework questions this assumption and highlights that different dimensions of trust will evolve during the development of a client-supplier relationship. Accordingly, our analysis shows how the interplay of the different dimensions of relationships (i.e., social rapport and understanding business needs – two elements identified in the relational marketing literature explaining business relationships between suppliers and clients) and trust (i.e., integrity, empathy, competence, and propensity to trust) are the building blocks towards forming a quality relationship between the accountant and the client and how they influence, in conjunction with the demand factors, whether business advice is actually taken up by the SME client.

The study draws on several bodies of literature to conceptualise the accountant-SME relationship and to examine if the already established relationship based on compliance services can be readily extended to other areas of business advice. We define the SME-accountant business relationship by two elements – social rapport and understanding business needs, as identified in the relational marketing literature (Berry 1995; Hennig-Thurau 2000; Ryals and Payne 2001). We adopt the model of trust developed by Mayer, Davis and Schoorman (1995), which includes antecedent factors relating to the trustor (i.e., ability, benevolence and integrity) and the trustee (i.e. the propensity to trust). Trust is a complex issue and the seminal definition by Mayer et al (1995) is appropriate because it applies to business transactions, such as between accountants and their SME clients, and captures the complex and dynamic elements of trust. This study is contextualised in a business environment (Welter, 2011; Welter and Smallbone, 2006) and the definition of trust that we adopt recognises that commercial relationships are not governed by personal trust, but are conditional on specific situations (Nooteboom, 2002).

Data collected via face-to-face interviews with eight SME owners and 12 accountants support the conceptual framework's proposition that relationships and trust are *necessary* conditions for enabling (or mediating) latent demand. Although demand factors such as size, debt, age, growth and

intention to grow will determine an SME's *ex ante* need for advice, the enabling factors of relationships and trust are influential in whether business advice is actually taken up. The *a priori* assumption that an already established relationship developed while providing compliance services will lead an SME to buy business advice is not supported by the fieldwork. It is far from guaranteed that the SME owner-manager will buy business advice, even if trust has been developed.

Exploring the dimensions of trust, the field work results show that the perceived competence of the external accountant as a business advisor is a critical element in the SME's decision to purchase business advice. But trust is bounded within specific areas of competency, such as having expertise in a specific industry, and is thus not easily transferable to other advisory areas. While both integrity and empathy are fundamental to the accountant's ability to retain the SME client, these dimensions of trust do not directly influence the SME's decision to purchase business advice from their accountant. This is because without integrity, there will be no successful client relationships, even for basic compliance work. However, empathy allows the accountant to become closer to their SME client and to better understand their business needs. A successful relationship allows the accountant to develop an understanding of their client's business needs and for the SME to come to understand their accountant's potential as a business adviser. Nonetheless, it is the competence or business acumen of an external accountant that appears to primarily influence the SME's decision to purchase business advice, provided that both integrity and empathy have been reassured. SME clients with less trusting natures require accountants to clearly demonstrate their competence, usually following a significant business challenge, before business advice is sought. SME owner-managers with more trusting natures are more open to buying business advice, but the market is competitive and the existing accountant is not always the preferred source.

Section 2 provides a review of the literature explaining factors associated with SMEs' demand for business advice, including relationships and trust. This review is used to assist in the derivation of a conceptual framework for business advice, which is then corroborated using fieldwork research.

LITERATURE REVIEW

Factors associated with SMEs' demand for business advice

Over the past two decades, a limited number of studies have empirically investigated the determinants of SME demand for business advice. Bennett and Robson (1999) reported that variation in SME demand for advice from an external accountant was explained by firm size and employment growth rate.² Berry and Sweeting (2006) similarly found demand for financial management and business advice was highest among owner-managers whose SME firms were growing most rapidly. Carey et al. (2005) reported that SME firms with higher growth rates and higher levels of institutional debt were more likely to purchase business advice. Holmes and Nicholls (1989) found that larger firms and younger firms were more likely to purchase advisory-type services. Marriott and Marriott (2000) concluded, from semi-structured interviews of small businesses, that the high cost of services was the major impediment to demand for business advice.

² Bennett and Robson's (1999) methodology did not distinguish compliance services (accounting, taxation and audit) and business advisory services, so the impact of the measures size and growth rate on demand for business advice is inconclusive.

Gooderham et al. (2004) measured factors associated with the degree to which firms relied on their external accountants as business advisers. Results from a telephone survey of micro and small businesses revealed that the competence of the external accountant and the SME client's receptiveness to business advice (i.e., propensity to trust) were significant determinants of SME demand for advice. In contrast, Kirby et al. (1998) concluded from a survey of small business owner-managers that accountants lacked the competence to provide business advice (i.e., they lacked business awareness and were too remote from their clients business problems). It is noteworthy that while Gooderham et al. (2004) predicted that the longevity of the accountant-SME relationship would be important in determining whether the accountant is used as a business adviser, they failed to find empirical support for this prediction.

Evidence of voluntary demand for business advice by SMEs suggests the existence of extensive latent demand for business advice. A number of potential explanations for SMEs' *ex ante*, or latent, demand for business advice from external accountants have been identified. SME owner-managers frequently source external advice (e.g., Bennett and Robson 1999) and are more likely to purchase business advice if they are larger, have higher institutional debt, are younger, exhibit a higher growth rate, have an intention to grow and perceive their external accountant to be competent (Bennett and Robson 1999; Berry and Sweeting 2006; Carey et al 2005; Holmes and Nicholls 1989; Marriott and Marriott 2000; Gooderham et al. 2004). Yet although useful in terms of mapping external relations, much of this literature measures and counts relationships, rather than explains the processes behind these patterns by providing an understanding of what actually shapes relations.

Unpacking relationships in business advisory services

While demand factors will determine an SME's *ex ante* need for advice, we contend that the existence and quality of relationships will influence whether business advice is actually taken up. It is intuitively appealing that the relationship an accountant establishes with an SME client through compliance work is important in explaining their use as a business adviser; though theory is underdeveloped and empirical support equivocal. This paper draws on several bodies of literature – including studies on entrepreneurship, accounting, management and marketing – to understand the role of relationships (and, within them, trust) in driving the demand for business advice.

Extant literature on the motivations for owner-managers' engagement with their external accountants refers either implicitly or explicitly to notions of 'relationship' and 'trust', (e.g. Bennett and Robson, 1999; Gooderham et al., 2004). Indeed, Gooderham et al. (2004) argue that the 'relational competence' of external accountants explains their prominence as business advisers. This may be linked to the socialisation process that takes place between the accountant and SME client (Roslender, 1992). Relationships are the bedrock upon which any alliances are formed between clients and suppliers (Tomkins, 2001) and trust is an important aspect of relationships (Schoorman et al., 2007).

Marketing literature helps us to understand the actual process of relationship building by showing how service relations evolve during specific service encounters (Price et al., 1995) and how they become established over time (Crosby et al., 1990). Central to successful relationship marketing is a good understanding of the client combined with social rapport (Berry 1995; Hennig-Thurau 2000;

Ryals and Payne 2001).³ Because compliance-type services require interaction with clients (Claycomb and Martin, 2002), a relationship is established that has the potential to form the basis for the provision of business advice. This relationship may enable the SME client to understand the accountant's abilities and competencies, and also enables the accountant to determine the client's needs.

Conceptualising trust

The use of the term 'trust' is widespread in the literature examining inter-firm relations. Trust, it is argued, reduces transaction costs (Andaleeb, 1992), is a source of competitive advantage (Barney and Hansen, 1994), limits uncertainty and opportunism (Achrol, 1997), and decreases business risks in hostile or turbulent environments (Puffer, McCarthy and Boisot, 2010). Trust is also essential for understanding any business relationship because "... to understand how any [business] relationship works, one must ... address the boundaries of trust within that relationship" (Tomkins, 2001, p. 165). The role of trust within organisations has been explored in organisational literature (e.g. Kramer and Tyler, 1996; Nooteboom, 2002) and in management accounting literature (e.g. Busco et al., 2006). Trust also has been examined in an inter-organisational context (e.g. Tomkins, 2001), as well as in specific institutional environments (e.g., Puffer et al., 2010).

Yet, a gap exists on the role of trust in the SME-accountant relationship and in the dynamics of that relationship. Evidence shows that small business owner-managers choose advisers based on 'previous use', personal 'recommendation' and advisers' understanding of their clients' business context (e.g. Bennett and Smith, 2004; Edwards et al., 2010). Bennett and Robson (1999) attribute the position of accountants as the leading advisers to SMEs to their status as 'high trust' providers who work within government-backed, self-regulatory frameworks of training, qualification and codes of conduct, all of which reinforce institutional trust (see also Cowton, 2009). Such 'trusted' sources might provide a means of helping firms to overcome information asymmetries when seeking advice.

In defining trust in the context of this present research, a number of dimensions are relevant. *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 only through '...the eyes of the beholder' (p. 140). *Trusting behaviour* involves actions that incline one party towards risk, uncertainty or vulnerability to another whose behaviour is not under their control (Zand, 1972; Tyler and Stanley, 2007). *Trust as a behavioural intention or reliance on a partner* refers to a dimension of trust defined by Moorman et al. (1993, p. 82) as the 'willingness to rely on a partner in whom one has confidence'. *Trust as socially-defined phenomenon* is characteristic of the social fabric that facilitates interactions among parties, thus taking into account interpersonal

³ The relationship marketing literature also suggests that characteristics of the business adviser that are 'offer-related' (i.e. competence, reliability, promptness) and 'person-related' (i.e. empathy, politeness) can affect the relationship as well as the establishment of trust (Grönroos, 1990). Accordingly, Gounaris and Venetis (2002) suggest that different dimensions of trust will evolve during the development of a client-supplier relationship and that understanding such relationships is a key to understanding trust. Ongoing business relationships are based on information exchanges that over time lead to trust, which in turn is likely to affect both the quality of the information exchanged and of the relationship developed (Denize and Young, 2007). In other words, business relationships may lead to the development of trust between parties over time, by minimising potential uncertainties and facilitating a better understanding of mutual needs and competencies.

behaviours, communication channels and interpersonal trust ties (Håkansson, 1982; Lewicki, McAllister and Bies, 1998; Tyler and Stanley, 2007).

While there are many definitions of trust in the literature, this study adopts the well regarded definition by Mayer et al., (1995) which encompasses the aforementioned dimensions while also embracing the characteristics of the trustor and the trustee and acknowledging 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 expectations that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party’ (p. 712).

This definition implies that we can never remove all uncertainty precisely because the relationship between the trustor and trustee lacks full information.

Mayer et al. (1995) postulate that the three key antecedent characteristics that lead to being trusted are *ability* (competence), *integrity* and *empathy* (benevolence).⁴ With *ability* (competence) being characterised in the present study as the degree to which SME owner-managers perceive their external accountant to possess the skills and knowledge to provide advice, a factor identified as influential in Gooderham et al. (2004); *integrity* being characterised as the extent to which SME owner-managers believe that the external accountant will adhere to a set of principles they find acceptable (i.e., the code of ethics for professional accountants); and *empathy* (benevolence) being characterised as the extent to which SME owner-managers believe that the external accountants will act in their best interests, by understanding and genuinely caring about their clients’ business and personal needs. The final element in the Mayer et al. (1995) model is the trustors’ *Propensity to trust*, which suggests people differ in their inherent propensity to trust and this is something akin to a personality trait that a person would carry from one situation to another. Gooderham et al. (2004) provides some support for this element of trust, finding that receptiveness to business advice was influential in small Norwegian businesses’ decisions to rely on their accountants as business advisers. Propensity to trust is characterised in the present study as an SME owner-manager’s willingness to trust their accountant.

Conceptual framework explaining SME demand for business advice

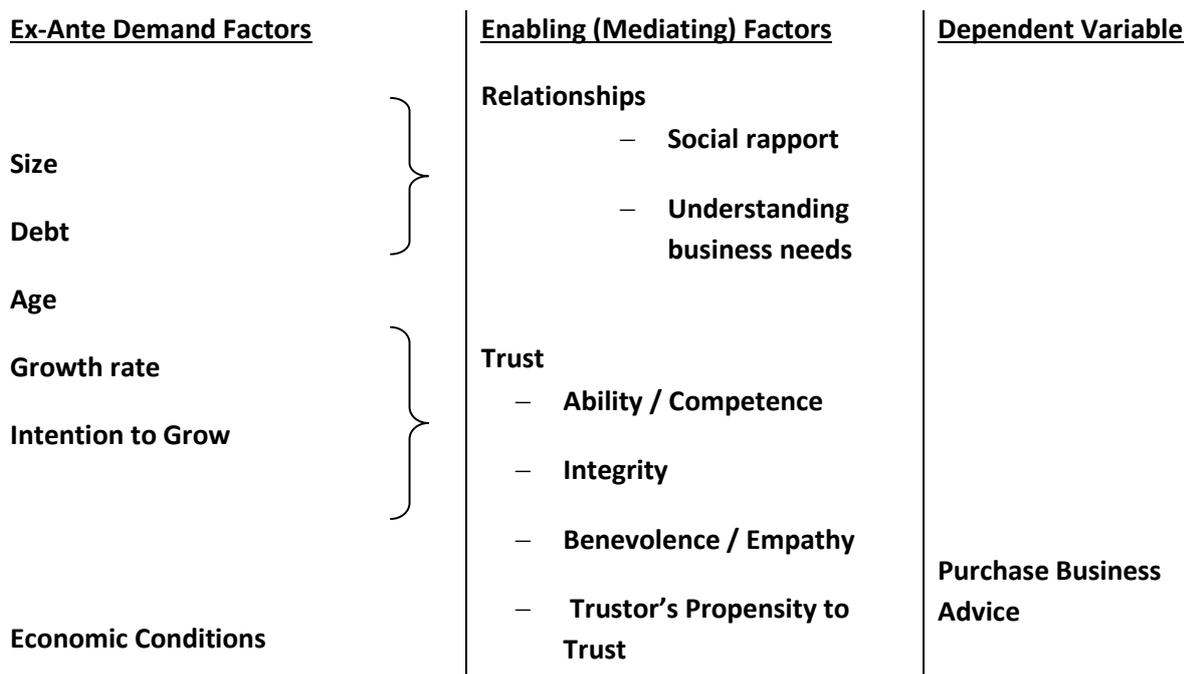
Prior empirical research highlights a number of factors that drive demand for business advice by SMEs, including firm size, age, institutional debt, growth rate and intention to grow (e.g. Kirby et al., 1998; Bennett and Robson, 1999; Gooderham et al. 2004; Carey et al, 2005; Berry and Sweeting, 2006). Research also suggests that a number of barriers exist to firms taking up business advice, including financial costs, concerns over the quality of external advice and a reluctance by SME owner-managers to display weakness to external parties (e.g., Curran and Blackburn, 1994; Huggins and Johnston, 2010). Although these demand factors proxy for the SMEs’ *ex ante* need for advice, a review of the literature on relationships and trust suggests a role in enabling the service exchange (Grönroos, 1990; Gounaris and Venetis, 2002; Denize and Young, 2007). While an on-going relationship can contribute to an SME becoming aware of their accountant’s *ability, integrity* and

⁴ Two of the antecedent characteristics of trust (competence, integrity) are also core principles in the code of ethics for professional accountants. The core ethical principles are competence, integrity, objectivity, independence and confidentiality (APES 110, 2008).

empathy, we postulate that such trust will not necessarily create demand for advice. Hence, relationships and trust are necessary conditions that enable or connect SME latent demand for business advice with the external accountant providing such services.

As extant research has not explained the process behind the role played by relationships and trust in the provision of business advice by accountants to their SME clients, a conceptual model is proposed to explain how business advice is actually realised. In particular, we distinguish the antecedent factors of demand for business advice – such as size, debt, age, growth rate and intention to grow (see *ex-ante* demand factors in Figure 1) – from the enabling roles of relationships and trust (see enabling [mediating] factors in Figure 1), which are necessary in facilitating latent demand for business advice (the dependent variable) by SMEs. Our conceptual model explains how the interplay of social rapport and understanding business needs (two elements identified in the relational marketing literature explaining business relationships between suppliers and clients), as well as integrity, empathy, competence and propensity to trust (the antecedent trust factors related to the trustor and trustee identified in Mayer et al., 1995) are the building blocks that assist in forming a quality relationship between accountant and client and how they influence whether business advice is actually taken up by the SME client. Figure 1 illustrates the *ex-ante* demand factors and the enabling (or mediating) role of relationships and trust on the purchasing decision of the SME client.

Figure 1: A Conceptual Framework for Business Advice



The above review assisted in the derivation of a conceptual framework for business advice depicted in Figure 1. The remainder of the paper is organised as follows. Section 3 provides an explanation of the qualitative research design used to corroborate the conceptual framework. Sections 4 and 5 provide an exposition of the results, and Section 6 details the paper’s conclusions, implications and recommendations.

RESEARCH METHODS

Data were collected through face-to-face interviews with eight SME owners and twelve accountants in London, England, and in Melbourne, Australia. A qualitative approach was used to provide depth and richness to our understanding of the transactional exchanges between SME owners and their external accountants (Anderson-Gough et al., 2002). Indeed, face-to-face interviews with business owners and external accountants allowed us to explore: (a) how an ongoing relationship can contribute to an SME's decision to buy business advice from its accountant, and: (b) to understand how the development of trust enables the decision to purchase business advice from the external accountant. Accordingly, the interviews allowed us to probe the influence of the elements of our conceptual model of SMEs' decisions to purchase business advice from their external accountants.

We conducted interviews in two jurisdictions (Melbourne and London) to ensure external validity of our interview data. Although contracting environments vary across countries, La Porta et al. (2000) identify both Australia and the UK as having shared common Anglo-Saxon traditions, similar regulatory environments, shared compliance with international accounting standards and international codes of professional conduct, and comparable business approaches. Accordingly, we did not expect that focusing on two institutional (contracting) and cultural environments – in London and Melbourne – would have a significant influence on our findings. However, by conducting interviews in these two jurisdictions and among different (heterogeneous) accounting and SME firms, we ensured that our findings would be more robust and externally valid and, thus, more likely to be useful in understanding our conceptual model.

Because there is relatively little knowledge about the motivations, characteristics and population of SME firms purchasing business advice from their current external accountants, this study used a purposive sample, following the convention in qualitative research (Kuzel, 1992; Chua, 1996). In order to identify SME firms and accounting practices of potential interest, the research team in Australia used the assistance of a management consultant to gain access to SME firms, while key accounting informants were approached through their professional memberships of CPA Australia and The Institute of Chartered Accountants in Australia (ICAA). In the UK, researchers relied on gaining access to SME owners through networks and contacts that the Small Business Research Centre at Kingston University had established over many years, while accountants were approached through their membership of the ICAEW.

Initially, 38 SME owners and accounting partners were identified and contacted by the research team. Some were excluded from the study due to being insufficiently qualified, not interested or unable to participate due to scheduling conflicts. This initial screening process yielded a list of 20 active study participants, including 12 external accountants and eight SMEs. Of the accounting practices, six were 2nd-tier firms with international affiliation, two were medium-sized firms and two were small firms. Eight SME owner-managers – or partner/shareholders of the organisations – were selected on the dual criteria of having some autonomy over decision-making within the enterprises, and having experience dealing with the firms' external relations.

Thus, we set up 20 face-to-face interviews to allow us to identify major themes across the two groups and to assist in deepening our understanding of how relationships and trust evolve and which factors enable clients to take up business advice from their existing external accountants. The

20 participants generated qualitative data that was sufficient to provide reliable variability, to determine the themes related to the components of the conceptual model and to draw conclusions. Our approach in this respect is supported by the findings of Guest et al. (2006), who contended that major themes were usually present after six interviews, that qualitative data reached a point of saturation at around 12 interviews, and that subsequent interviews no longer provided thematic insight.

The interviews followed a protocol of 25 broad guiding questions (see Appendix A), reflecting the key elements in the conceptual model. Prior to use, the interview guide was extensively critiqued by several academics and accountants, and by the management consultant. The interview guide provided scope for exploration of issues that emerged in the interview and, at the same time, allowed for direct corroboration of our conceptual model. Thus, use of an interview protocol addressed the issue of reliability of the qualitative data, whereas replication and verification of similar patterns and themes across the different interviews ensured the external validity of the qualitative data. The interviews were of 60 to 90 minutes duration and took place in the interviewees' workplaces between July 2008 and March 2009. All the interviews were audio recorded and transcribed.

We conducted two additional interviews with a UK-based medium-sized enterprise in December 2010 (SME08) and a UK-based 2nd-tier international accounting firm in February 2011 (A12) because these organisation types appeared to be under-represented in the UK cohort. Two researchers independently reviewed the transcripts and agreed that responses were qualitatively similar to responses from similarly sized SMEs (accounting firms) during the earlier time period. This point is reinforced by reviewing comments attributed to SME8 and A12 in results presented in Section 5.⁵

The interviews provided us with deep insights into the perceptions of the owner-managers and external accountants regarding the influence of the components of the conceptual model. Each interview focused on the business owners' interactions with accountants on firm-related matters rather than individual, personal matters. However, this distinction between 'business-specific' and 'person-specific' advice becomes increasingly opaque when owner-managers require advice spanning individual and firm-related issues. This is often the case, for example, in family firms and micro-firms where the income of the firm is indeed that of the individual.

The main method of analysis involved theme-building around components of the conceptual model. This was initially achieved via the use of open coding – that is, a qualitative data coding process requiring the researchers to go through each transcript line-by-line, breaking down the data by examining, comparing and contrasting it, followed by categorising the interview transcripts (Miles and Huberman, 1994). Indeed, all members of the research team read through all the transcripts to build up a thematic analysis of the influence of the components of the conceptual model on SMEs' decisions to purchase business advice. Open coding was performed because it is an iterative process, allowing for the comparison of similarities and differences among the transcripts, as well as building up an understanding of the influence of the various elements of the conceptual model. More importantly, the iterative process undertaken during the review of the transcripts allowed us

⁵ It is noteworthy that while this period under investigation includes the global financial crisis, respondents' comments were broadly consistent across national jurisdictions and over time suggesting that the financial crisis did not influence our results and conclusions.

to gain insights by better understanding the interactions in the evolution of the relationships between accountants and clients, the conditions under which trust develops, and what factors enable decisions to purchase business advice from accountants. Open-coding was conducted over several weeks, and each manuscript's coding scheme was checked independently by at least two members of the research team.

DESCRIPTIVE RESULTS

The Market for Business Advisory Services Bought From External Accountants by SMEs

Purchases of business advisory services by SMEs from their external accountant are shown in column 4 of Table 1. Results suggest that while some firms relied on their external accountants as advisers (SME02, SME05, SME06 and SME07), others purchased a more limited range of advisory services (SME03, SME04), or no advice (SME01, SME08).

Table 1: SMEs Interviewed: Business Advice Purchased from External Accountant

| Company | Sector, Industry, Country | Size: Employees | Business Advisory Services Purchased from External Accountant | Business Advisory Services, Other Advisers |
|---------|----------------------------------------------------------------------------------------|-----------------|-----------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| SME01 | Wholesale/ Importer consumer products Australia | 30 | None | Financial Planning (Investments) Mentoring, coaching, strategic planning, benchmarking, Para-legal, human resource support. |
| SME02 | Manufacturing/Wholesale/Exporting Unique Australian Clothing Australia | 80 | Acquisition and New Business advice. Financial Modelling Assisting with Bank Finance | Textile Industry Consulting Group HR, Marketing |
| SME03 | Packaging Food and Drugs Australia | 50 | Business Structuring | Task Orientated Marketing, Production |
| SME04 | Retail and Wholesale Australia | 180 | Sale of Business | Mentoring/Coach HR |
| SME05 | Personal Service – Hairdressing UK | 20 | Property and Finance Advice Milestone Events, payroll, HR | None |
| SME06 | Retail and Wholesale, Manufacturing Service - Bespoke Clothing Sampling UK | 7 | Structuring, HR | Regional Business Centre - Various |
| SME07 | Service B-To-B –Design & Marketing UK | 5 | Financial Advice, General Business Advice | None |
| SME08 | Manufacturing, Wholesale, Retail – furniture and textiles UK | 86 | None | Payroll, Marketing |

The types of business advisory services provided by external accountants to SME clients are shown in column 4, Table 2. The advisory services span matters directly relevant to the SME businesses,

through to matters that require them to act as trusted confidantes and advisers on private and family matters.

Table 2: Accountants Interviewed: Provision of Services to SMEs

| Accountant Interviewed | Size of Accountancy Firm Country | Interviewees | Types of Business Advisory Services Provided by Firm | Proportion of Firm Revenue Contributed by Business Advisory Services |
|------------------------|----------------------------------|------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| A01 | 2 nd Tier Australia | Partner – SME Accounting Services | Financial Management, Planning, Forecasting, Succession planning, Superannuation, Asset Protection | 40% |
| A02 | 2 nd Tier Australia | Partner – SME Private Clients | Banking, Wealth Creation, Succession Planning | 40% |
| A03 | 2 nd Tier Australia | Partner – SME Audit | Financial Statements, Valuation, Business Sale and Purchase, Due Diligence | 20% |
| A04 | 2 nd Tier Australia | Partner – SME Private Clients | Corporate Advisory, Private Wealth Advisory, Investment Strategy, Succession planning, Business Sale and Purchase Forensic Accounting | 60% |
| A05 | 2 nd Tier Australia | Partner – SME Private Clients | Structuring, Superannuation, IT, HR, Finance Brokering, Providing Networking | 25% |
| A06 | 2 nd Tier Australia | Partner – SME Private Clients | Purchase And Sale of Business, Structuring, Financial Management, Wealth Management, Superannuation, Banking | 25% |
| A07 | Small Australia | Partner | Financial Planning, Mortgage Broking, Superannuation, Business Strategy, General Business Advice | 50% |
| A08 | 2 nd Tier UK | Partner – SME Clients | Business Purchase and Sale, HR, Financial Management, Company Secretarial | n/a |
| A09 | Medium UK | Partner – SME Client Services | Company Secretarial, HR, Business Purchase and Sale | 50% |
| A10 | Medium UK | Partner | Financial planning, retirement planning | 100% |
| A11 | Medium UK | Partner Financial Adviser (Part of Accountancy Firm) | Financial Planning, Retirement Planning, Pensions, Protection | 100% |
| A12 | 2 nd Tier UK | Partner | Succession planning, Tax audit assistance, Business planning, corporate finance, recruitment advice | 20% |

A review of the business advisory services bought by SMEs (Table 1) and the services offered by accountants to their SME clients (Table 2) suggest the following categories:

- *Financial services*, which can cover issues such as cash flow and banking, and advice on individual and family issues such as superannuation (retirement planning), asset structuring, income distribution and wealth accumulation strategies.

- *Business operational services* such as production efficiency, lease negotiation, payroll, 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.

The final column in Table 2 shows estimates of the proportion of total revenue contributed by business advisory services to the accountancy firms. Business advisory services contribute between 20% and 100% of accounting firms’ total revenue. This finding provides empirical support for the contention that accountants are widening their service portfolio (Doving and Gooderham 2008; Blackburn and Jarvis 2010; Kitching et al., 2011; Jarvis and Rigby, 2012) and suggests that business advisory services are emerging as an important source of revenue for accountants working in the SME environment. Most accountants interviewed acknowledged that the volume of ‘compliance’ work was either shrinking or likely to diminish in the future, and this was creating pressure to broaden their service offerings. One accountant said:

“Accountancy practices had to move into more areas and I must admit, with the threshold [in the UK] moved up to £1 million turnover, there was outcry and there was this feeling that basically accountants, how are they going to survive? All this work was disappearing and that didn’t happen. It was just redirected in different directions” (A10).

Another accountant stated:

“So, I can see a time ... when our compliance work is not going to be as good as it is now and we perhaps will be looking for ways of offering [other] services to our clients ... differentiating ourselves and that might be one of the ways we do it” (A06).

This future repositioning by accountants was also recognised by SMEs. One owner-manager explained:

“You know, most accountancy firms will not make much money on the audits. They make their money from the consultancy and everything that goes with it” (SME08).

All the SME owners interviewed indicated that they used a number of external advisers and, despite having existing relationships with their accountants for compliance services, not all SMEs used them as a source of business advice. The final column in Table 1 describes the advisory services SMEs sourced from other professionals. All the SME owners interviewed for this study indicated they used a number of advisers and, despite having existing relationships with their accountants for compliance services, not all SMEs used those accountants as a source of business advice. The market for business advice is highly competitive, as highlighted by the following comment from an SME:

“I mean ... I get approached. Probably once every two months some business coach or consultant will want to sell their services to me and things like that” (SME02).

Although external accountants are already well placed to gain this work because of their ongoing contact while providing compliance services, they clearly need to convince clients to trust that they also have the necessary business expertise to solve the owner-manager's issues.

It is noteworthy that most SME owner-managers interviewed indicated that running a firm was not just about 'doing the business' or making a profit; it was also about fulfilling their personal ambitions and life motivations. This is why personal objectives and family activities often affect business strategies and operations. Such findings are by no means unusual and are especially poignant in the case of micro-enterprises (e.g. Parry, 2010). This point was emphasised by several accountants:

"When we talk about 'the SME market', we are talking family businesses and, to provide effective advice, you need to understand the family first. ... 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" (A02).

Another accountant stated:

"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" (A04).

Many of the services provided to SME clients by external accountants might therefore be described as *business and personal intrinsic services*. These services are essential to the well-being of the individual, the business and the family. They also underline the importance of trust in the SME-accountant relationship.

RESULTS — RELATIONSHIPS AND TRUST

We begin by reviewing in Section 5.1 the antecedents of demand for business advice (depicted in the left-hand column in Figure 1), followed by the main focus of the paper which is to investigate the 'enabling' role of relationships (Section 5.2) and trust (Section 5.3) in SMEs' decisions to buy business advice.

Sources of demand for business advice

Antecedent demand factors identified in the prior empirical literature as being associated with demand for business advice by SMEs were corroborated in interviews. These factors identified as influencing SME demand for business advice are firm size, institutional debt, firm age, and growth rate or intention to grow. However, the qualitative approach also enabled us to uncover a number of additional antecedent factors not identified in the extant literature, such as economic conditions, environmental turbulence and business life-cycle.

Most SME respondents alluded to 'environmental turbulence' – in the form of market and/or regulatory change – as an important stimulant for owner-managers to seek external advice. This gives rise to demand for business advice from firms' external accountants on matters such as structuring or restructuring a business, personal wealth holdings and distributions and purchasing or selling a business. These can be characterised as 'milestone' events that prompt SME owners to seek out the services of external accountants.

Similarly, economic circumstances were identified as important drivers of SME demand for business advice. One accountant said:

“Problematic economic times can drive demand, or one-off events such as divorce, a more competitive industry or a highly-g geared business” (A04). Another accountant identified two key drivers: “The main one ... I think would be a desire for growth ... The second one would be a financial squeeze” (A03).

All firms face succession or business transfer issues, and their external accountants are often their first port of call:

“They might just want to talk about the succession of the business for instance ... We’ve got an ageing population ... They need to get their firm fit totally to carry on after they retire ... 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?” (A08).

A firm’s stage in the businesses life cycle was identified as another important factor associated with demand for business advice, although the association appears to be bimodal. One accountant explained:

“... demand [for business advice] depends on the phase of the business, maybe a lot of advice early, then when buying or selling a business” (A06).

This observation was supported by an SME owner-manager, who said:

“Probably in my earlier years ... I definitely used them totally differently. When I first started in business I was using them 100% for advice and you know, I mean, totally different situation ... back in the early years if anything happened I’d be on the phone. Different relationship, totally different” (SME04).

However, not all accountants agreed. One accountant, highlighting the importance of longer-term relationships in the exchange of business advice, stated:

“So I think, generally, it’s the more experienced ones [SMEs] that learn how to use [their] advisers ... and the less experienced ones don’t” (A02).

Relationships

Most accountants and SMEs highlighted the importance of relationships to decisions to buy business advice from their external accountants. We asked all participating accountants: “What is the most important factor that causes your clients to stay with you, not only to buy compliance advice, but to go on and buy additional services?” In response, all highlighted the importance of relationships. One expressed it this way:

“Relationship, the relationship, there is no doubt. I think there is absolutely no doubt ... the good (accountants) are the ones who maintain the relationship the best” (A02). Highlighting the importance of relationships to SMEs’ decisions to rely on their accountants as business advisers, one owner-manager stated: “I’m fortunate [that] I know [the accountant], I’ve known him for 30 years. I’ve always been with [the accountant], and I’ve never been anywhere else really” (SME05).

The relationship marketing literature highlights the importance of social rapport to a successful business relationship (Berry, 1995; Ryals and Payne 2001; Hennig-Thurau 2000). The provision of compliance services involves on-going interactions between accountants and their SME clients, a critical element of which is social rapport. Most accountants and owner-managers indicate the importance of harmonious interpersonal relations — of ‘liking’ one another — in shaping the relationship.

“Likeability. I mean if a client goes to someone, they’ve got to like them” (A08). Another accountant said: “They feel they can talk to you and, if they feel comfortable with you, then they’re more likely to say yes, I can work with this person” (A10).

Confirming this sentiment, an SME owner-manager said this:

“[My accountant] is very nice, he’s decent, he makes you feel good. Is he the best? I don’t know. Maybe not, but he’s nice to work with. Other people who were supposed to be real hotshots, I couldn’t bear sitting with. [It] makes a difference. Much easier to take advice from someone you like than from someone you don’t” (SME03).

Social rapport is central to the development of an ongoing relationship, but these relationships are primarily business-based rather than personal. One owner-manager stated:

“Social rapport is important for building that partnership [and] being part of the team” (SME01). He added, however, that “it’s less [of] a personal relationship. The primary thing has always been the business side for both of us” (SME01).

Another succinctly put it:

“You can’t have a business relationship with a friend” (SME04).

Hence, the majority of owner-managers and accountants displayed a ‘managed’ social relationship and this tended not to spill over into socialising. This was epitomised by one owner-manager:

“If I bump into [the accountant] on the street, we shake hands and say ‘how have you been, how are things going for you, what’s happening’ ... that type of thing. But [socialise] no, I would say it’s 90% a professional relationship” (SME07).

An accountant expressed a similar sentiment:

“You don’t need to socialise outside of work” (A03).

Highlighting the importance of social rapport, one SME owner who buys business advice from an accountant stated:

“I can pick up the phone and ring [the accountant] and say, ‘mate, what’s the go with’ ... it’s very ... not casual, but relaxed” (SME03).

While social rapport is necessary for the maintenance of ongoing business relationships, there is no evidence it directly influences SMEs’ decisions to also source business advice from their external accountants.

The relationship marketing literature also highlights the importance of understanding clients' needs through ongoing relationships in order to promote service exchanges (Berry, 1995; Ryals and Payne 2001; Hennig-Thurau 2000). All respondents agreed that accountants were competent at providing compliance advice, but had to 'earn' their reputations for broader competency as business advisers. One technique used by accountants to understand their clients' businesses is to make regular visits. One accountant explained:

"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" (A05).

It's through this type of relationship that SME clients come to understand the potential for their accountants to add value to their businesses:

"They [SME clients] begin to understand [over time] that you form part of their success story" (A05).

A strong theme emerging from the accountants interviewed was that only after nurturing and developing the relationship over time might SMEs progress from buying compliance services to more broad-ranging advisory services. One accountant explained his approach to nurturing the relationship:

"... to build personal relationships takes years ... call it target if you will, I don't like using the term, but if I specifically say 'well that's a family I would like to do business with', then that might take me five years to build the relationship to the point where they have built enough trust and faith in me as a professional adviser" (A03).

Continuity of the relationship was identified as important. One accountant explained:

"It is about relationships ... many of my clients say to me: 'Because I know I can speak to you and I know you are overseeing my work and therefore I'm not having to tell someone new every year my circumstances, that is a very valuable thing for me and that's the reason why I keep coming to you'" (A06).

Our findings show that, while these relationships are built within the broader framework of institutional trust (Bennett and Robson, 1999), it is really the individual who is the focus of the relationship and who facilitates the broadening of the service base. Most accountants emphasise the fact that, although they are surrounded by the trappings of a firm — an institutional environment — it is the individual who builds the relationship and 'cements' that relationship for the firm, after which an SME might purchase additional advisory services. One accountant stated:

"The individual is building the relationship, not the firm" (A03).

Another noted:

"Our firm is trying to make it about the organisation, but the truth is it's about the individual relationships" (A02).

Even when a particular accountant is no longer the single source of advice in the accounting firm's relationship with an SME, the language used implies the retention of some control in the relationship:

“I provide one point of contact and then I use the broader skills of the firm” (A06).

In line with the prediction in our conceptual model, a consistent theme coming through from our interviews was that relationships were necessary to enable or connect SMEs’ latent demand for advice with the expertise of their external accountant. Results suggest social rapport and the accountants’ understanding their clients’ needs are important conditions that enable the exchange of business advice. A successful relationship allows the accountant to develop an understanding of the client’s business needs and for the SME to come to understand the accountant’s potential as a business adviser. Social rapport serves to facilitate this understanding. Thus it can be argued that relationships assist in reducing information asymmetry and provide greater opportunity for the exchange of business advice.

Trust

Background

The fieldwork explored the role of trust in the SME-accountant relationship explicitly. Although we heard a number of stories regarding the development of trust from both parties, a common pattern emerged: trust is developed over time through ongoing relationships between accountants and SMEs via the provision of compliance services. “I think trust is earned, trust is never given, so you know there has to be a relationship that aids and abets the development of trust before you can actually go down the track.” (A03). As another accountant emphasised: “Trust comes from developing the [existing] relationship” (A6). One SME owner-manager who buys a range of business advisory services stated:

“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. ... 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?” (SME05).

There is consensus among SMEs that external accountants are among their most trusted advisers. Accountants’ trusted adviser status comes from institutional trust (e.g. Bennett and Robson, 1999) and is constantly reinforced by their role in ensuring their clients comply with government regulations, such as taxation laws or the Corporations Act (compliance role). One SME owner stated:

“We need that advice to make sure we’re sticking with the rules and regulations” (SME02).

Another said:

“He’s your adviser, your compliance keeper and you certainly in business, [are] relying on somebody to make sure you’re doing what you’ve got to do ... That’s the whole reason why you’re prepared to pay those fees” (SME04). This was recognised by many accountants, who expressed the view that one of their primary roles was to keep their clients clear of regulatory trouble. “I keep their [SME clients] noses clean” (A03).

While trust appears to develop as the relationship evolves, the results suggest we need to be wary of the unequivocal *a priori* assumption that an already established relationship, developed while providing compliance services, will automatically lead an SME to buy business advice from an

external accountant. The next section examines the antecedent elements of trust in our conceptual model, which are based on the model developed in Mayer et al. (1995) — ability (competence), empathy (benevolence), integrity and propensity to trust — and their role in SMEs' decisions to purchase business advice from their external accountants.

Dimensions of trust: competence, empathy and integrity

Competence. Accountants and SME owner-managers agree that the core competence of external accountants involves compliance tasks. While all accountants believe they have the capacity to add value to their clients' firms as business advisers, not all SMEs believed that their accountants were competent in providing business advice. For some accountants, compliance work continues to represent the core business. For others, business advisory work has become an important and growing service (see Table 2).

Accountants demonstrate a variety of techniques for communicating their competence as business advisers. Some emphasise hard work and dedication around compliance services. "My hard work and competence [in compliance work] has created trust," said one (A03). One SME owner pointed to the sale of their business (a milestone event), which enabled the accountant to demonstrate business acumen:

"The accountant really stood up from the sale transaction viewpoint and showed me their worth" (SME04).

One accountant said competence was inferred from the initial referral:

"Referrals imply you are competent" (A05).

However, only one SME owner-manager (SME03) admitted that he selected his accountant as a business adviser on the basis of reputation for business acumen, not compliance work.

Industry knowledge was identified as critical to establishing the competence of accountants as business advisers. One accountant highlighted the importance of industry knowledge as a particular field of expertise. "Once you get known in the industry ... people walk in wanting to come to you" (A10). In contrast, one owner-manager who made limited use of his accountant as a business adviser argued accountants were 'out of touch' with his industry, and that he had not received value for money on past business advisory services provided by external accountants. (SME04). He stated:

"Most of the accounting firms ... they'll have their little specialist ... but I don't know! So many of them are out of touch. They've just got no handle on it. No handle on the real world ... and I got sick of up-skilling. Getting them up to speed for them to make comments, so I got sort of frustrated ... paying a couple of thousand dollars to have a chat and not getting anything from it" (SME04).

He highlighted the importance of detailed industry knowledge:

"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" (SME04).

Consistent with the assertion that external accountants have increasingly developed into multi-disciplinary service providers (see, for example, Blackburn and Jarvis 2010; Fogarty et al. 2006;

Greenwood et al. 2002; Jarvis and Rigby, 2012), a number of accountants expressed the view that they did not need to possess detailed industry or specialised knowledge, suggesting they simply needed to know where to source the required knowledge. One accountant used a supply-chain analogy, saying “accountants are a distribution network”, implying that if they do not possess the requisite expertise, they will find that knowledge for the client (A05). Another accountant indicated that accessing business expertise often meant referring SME clients to others within their businesses:

“New standards require more specialisation, so we give more work to other partners who specialise in a particular area” (A03). Another accountant said: “We have one single contact point, but then use the broad skills of the firm ... 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 even very specialist work that we don’t carry out we will go and find it” (A08).

One of the larger accounting firms in our sample (A06) had established a dedicated account manager who sought to direct SME clients to the broad range of business expertise within the firm. Another accounting practice (A08) had focused on increasing their business advice competency, while at the same time outsourcing their compliance work to India.

Overall, the competence or business acumen of an external accountant is critical before an SME will consider buying business advice. While all external accountants perceive themselves as having the necessary skills to provide useful business advice, owner-managers expressed mixed views on this issue. This is consistent with a number of prior studies, which suggested that external accountants do not always have the business expertise (competence) necessary if they are to add value as business advisers (Marriott et al. 2008; Burke and Jarratt 2004; Deakins et al. 2001). Many SMEs require their accountants to have detailed industry expertise before considering them as potentially useful business advisers. An expectation gap appears to exist between the needs of SME owners and the supply capabilities of many external accountants.

Empathy. Empathy involves the accountant understanding and genuinely caring about the client’s interests. As one accountant noted: “We have an obligation morally and ethically to represent their best interests” (A04). Another said:

“No matter how well I get on with someone, if it don’t do the right thing by them ... they wouldn’t hang around.” (A06).

Elaborating on how to develop empathy, one accountant explained:

“You show you care ... well to me it’s just common sense. I return calls. I speak to them and I give them my honest opinion about everything” (A07).

Another accountant said:

“Generally we’re not really competing on price. What you’re competing on is almost empathy” (A10). With direct reference to selling business advice, another accountant noted: “Unless you have that empathy ... then it’s never going to happen” (A11).

The interviews revealed a common view that empathy assists accountants to get closer to their clients and thus to develop a deeper understanding of their clients' business concerns. One accountant said:

"A lot of it is very personal to their business and that's why you need this relationship trust because it's that knowledge of their business and their life" (A01).

Another accountant stated:

"If they've got a problem we talk it through ... 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" (A08).

An SME owner-manager similarly stressed the importance of empathy to the choice of adviser:

"I need someone who understands small business and understands the pressures and workloads of the person [who] runs the company" (SME02).

The fieldwork shows that empathy is a critical ingredient in successful client relationships, but it does not assure that an SME will source business advice from their accountant. Accountants with empathy are perceived by SME owner-managers to genuinely care about their businesses and personal needs, making them more receptive to business advice when offered by accountants. Further insight regarding the role of empathy is that it allows accountants to get closer to their SME clients and thus come to understand their deeper business (and sometimes related personal) problems. In the absence of empathy, an SME is unlikely to rely on the advice of their accountant. Consistent with the prediction in our conceptual model, results suggest empathy is a necessary condition that plays an indirect role in enabling accountants to connect with SMEs' latent demand for business advice.

Integrity. All interviewees maintained that integrity was a critical dimension in the accountant-SME relationship. One accountant said:

"If the client does not believe we have integrity, we would not hold them" (A04). The importance of integrity was highlighted by many SMEs.

One stated:

"As a person I feel integrity is very important" (SME05).

Another pointed to the fundamental role of integrity to the ongoing accountant-SME relationship.

"Trust is vital to who we are and what we do. It underpins everything we do internally and externally, so I guess integrity would probably be number one if I had to rank them because without that, you start to question everything. It doesn't matter if they've got ability if they don't have integrity" (SME01). Another accountant supported this view: "I would put [integrity] higher than ability" (A06).

When discussing integrity, the discussion frequently turned to honesty, which is perceived to be closely related to integrity. Honesty is one of the most valued qualities in society. If someone is honest they are by implication trustworthy. The primary compliance role of external accountants

requires them to be honest. As previously discussed, one role of external accountants is to ensure that their clients are in compliance with the law. It is this very relationship of “required honesty” that gives prominence to trustworthiness in the accountant-client relationship.

However, as was the case with *empathy*, results suggest that *integrity* is a critical ingredient in successful client relationships, but it does not ensure that an SME will source business advice from their own accountant. Consistent with the prediction in our conceptual model, results suggest integrity does not directly influence SMEs’ decisions to buy business advice from their accountants. This is because *integrity* is fundamental to accountants’ ability to retain their clients, even for basic compliance work.

Owner-Manager’s Propensity to Trust. Mayer et al. (1995) pointed out that some parties were more likely to trust than others. Consistent with this observation, SME owner-managers who are more inclined to use external business advisers also tend to display a greater propensity to trust. One SME respondent said:

“I think to be trusting ... you’ve probably got to have ... a level of openness and a level of, what’s the word ... is equality the word? You’ve got to not let your ego get in the way and there’s no reason to have an ego ... I think one of the things that has actually helped us in this business has been our openness” (SME01).

This respondent went onto say:

“No, I don’t think I’ve ever had an issue in acknowledging that I need help. I’m not a great believer in reinventing the wheel. I tend to try to pick the best of things that I see around me and ignore the bits I don’t like” (SME01).

Another owner-manager said:

“I need competent advice I think most people are reasonably competent ... A few people [look] positive and make themselves look much better than they really are but generally people are people. I’m fairly trusting I suppose” (SME03).

Mayer et al. (1995) argued that a trusting nature was akin to a personality trait. Our results suggest that the personalities of owner-managers can influence the extent to which they seek and purchase external business advice. One accountant respondent stated:

“The driver of demand is ... the personality of the SME owners being either self-directed people or people who seek advice to assist them [to] make decisions” (A04).

Most owner-managers appeared to conform to one or the other of these characterisations. The group we classified as ‘self-directed individuals’ were more confident about relying on their own judgements and were therefore less likely to buy ongoing advice from their accountants, believing that they or their friends and associates possessed the necessary business expertise. This group would only seek advice, in addition to traditional compliance-type services, in response to an imposed change (e.g., regulatory) or significant event (e.g., sale of business) (SME02, SME04, SME08). The second group are individuals who like to validate decisions by seeking corroborating advice. This group takes longer to develop their confidence in a particular decision path. They tend

to make more considered decisions and are thus more likely to seek ongoing business advice as part of the process of seeking information to guide or corroborate their decisions (SME01, SME03, SME05, SME07)⁶.

These two SME types are illustrated by the following contrasting attitudes. SME04 stated:

“Accountants did offer other services but I didn’t want them”.

An accountant reinforced this assertion: “[Some] SME clients [are] 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” (A01). Another accountant observed that:

“those SME owners that are a bit unsure of themselves” were more likely to seek his advice (A07).

Consistent with the prediction in our conceptual model, results suggest SME owner-managers’ propensity to trust plays an indirect role in enabling accountants to connect with latent demand for business advice. SME owner-managers with a more trusting nature (i.e. a greater propensity to trust) are more open to buying business advice, though business advice need not be sourced from the external accountant. For those individuals with a less trusting nature, the accountant needs to very clearly demonstrate their competence and empathy before business advice is sought.

DISCUSSION AND CONCLUSIONS

This paper develops our current understanding of the accountant-SME relationship and the role of trust in the provision of business advice by accountants. Specifically, we develop and substantiate with fieldwork a conceptual framework explaining the role of relationships and trust in the SME’s decision to purchase business advice. Our fieldwork shows that relationships and trust, rather than being antecedents of demand for business advice (Bennett and Robson, 1999; Gooderham et al. 2004; Carey and Tanewski, 2010; Viljamaa, 2011), are necessary conditions for enabling (or mediating) latent demand. Although demand factors such as firm size, debt and age will determine an SME’s ex ante need for advice, we confirm that it is the enabling or mediating factors of relationships and trust that determine whether business advice is actually taken up. Corroborating recent studies (Viljamaa, 2011), SME owner-managers demonstrate a very discerning approach to the type of advice they require and to the sources from which they will purchase advice.

The relationship marketing literature highlights the importance of social rapport and understanding the client’s business through an ongoing relationship in order to promote service exchange (Berry, 1995; Ryals and Payne 2001; Hennig-Thurau 2000). The theme emerging from the interviews is that, consistent with the prediction in our conceptual model, relationships are necessary to enable SMEs’ latent demand for advice with the expertise of their external accountants. Successful relationships allow accountants to develop an understanding of their clients’ business needs and for SMEs to come to understand the potential of their accountants as business advisers. While social rapport is necessary for the maintenance of ongoing business relationships, there is no evidence that it directly influences SMEs’ decisions to source business advice from their external accountants. Relationships therefore appear to play a role in reducing information asymmetry concerning the accountants’

⁶ SME06 fell into neither category

competence and the SMEs' latent demand for advice, providing greater opportunity for the exchange of business advice.

Consistent with prior research that finds trust is built over time in client-supplier relationships (e.g. Gounaris and Venetis, 2002; Denize and Young, 2007; Welter, 2011), our fieldwork shows that the ongoing relationships between accountants and SMEs, developed over time while providing compliance services, contributes to the building of trust. There is consensus amongst SMEs that external accountants are among their most trusted advisers. However, the *a priori* assumption that already-established relationships between accountants and their SME clients developed while providing compliance services will lead SMEs to buy business advice is not confirmed. It is far from guaranteed that an SME owner-manager will buy business advice. In other words, trust is bounded within specific areas of competency and is not easily transferable to other advisory areas.

Consistent with prior research (e.g., Gooderham et al. 2004), the fieldwork highlighted the competence or business acumen of an external accountant as being critical before an SME will consider buying business advice. Consistent with the prediction in our conceptual model, an accountant's competence as a business adviser does not appear to create demand for business advice (an antecedent demand factor); rather it is a necessary condition that enables latent demand for business advice by SMEs.

While all external accountants perceive themselves as having the necessary skills to provide useful business advice, SME owner-managers expressed mixed views on this issue. This is consistent with a number of prior studies which suggest that external accountants do not always have the business expertise (competence) necessary to add value as business advisers (Marriott et al. 2008; Burke and Jarratt 2004; Deakins et al. 2001). The fieldwork also revealed the critical importance of industry-based knowledge to establishing the competence of accountants as business advisers. External accountants are well placed to offer business advisory services to their SME clients on the back of compliance services, and indeed are better placed than most public-sector offerings (Mole, 2002), but they need to convince clients that they have the necessary business expertise beyond their compliance capabilities. The fieldwork therefore highlights that an expectation gap exists between SME owners' perceptions and external accountants' ability to provide advice.

Empathy (benevolence) is critical to a successful client relationship, but it does not ensure that an SME will source business advice from their accountant. An accountant who has empathy is perceived by the SME owner-manager to genuinely care about their business and personal needs, making them more receptive to business advice when offered by the accountant. Consistent with the prediction in our conceptual model, results suggest empathy is a necessary condition that plays an indirect role in enabling accountants to connect with SMEs' latent demand for business advice.

Empathy allows accountants to get closer to their SME clients and thus come to understand their deeper business (and sometimes related personal) problems. In the absence of empathy, an owner-manager is unlikely to rely on the advice of their accountant. These results demonstrate that SME owners exhibit both calculative and affective trust behaviours (e.g. Tyler and Stanley, 2007); that is, the relationship with their accountants is based on diminishing information asymmetries and uncertainties, as well as emotional inputs derived from repeated interactions and information acquired over time.

Both accountants and SME owner-managers agreed that integrity was a critical dimension of trust and that, without integrity, the accountant would not retain the SME client. As was with empathy, integrity does not ensure that an SME will source business advice from their accountant. Consistent with the prediction in our conceptual model, results therefore demonstrate that integrity does not directly influence SMEs' decisions to buy business advice from their accountants. This is because integrity is fundamental to accountants' ability to retain their clients, even for basic compliance work.

Consistent with the prediction in our conceptual model, the results suggest an SME owner-managers' propensity to trust is a necessary condition that plays an indirect role in enabling accountants to connect with SMEs' latent demand for business advice. SME owner-managers with more trusting natures (i.e., a greater propensity to trust) are more open to buying business advice, although business advice need not be sourced from the external accountant. For those individuals with less trusting natures, the accountants need to very clearly demonstrate their competence and empathy before business advice is sought.

SME owner-managers demonstrate a very discerning approach to the type of advice they require and to the sources from whom they will buy, and thus they display flexibility in their purchasing decisions (Viljamaa, 2011). Alongside the demand factors previously identified (firm size, debt, age, growth rate and intention to grow), we have identified a number of additional antecedent demand factors. Economic conditions, such as a financial squeeze and 'environmental turbulence' in the form of market and/or regulatory change, were identified as important stimulants for an owner-manager to seek business advice. The latter item might be characterised as a 'milestone' event prompting the SME owner to seek out the services of an external accountant.

A firm's stage in the businesses life cycle was identified as another important factor associated with demand for business advice, although the association appears to be bimodal. Some owner-managers were inclined to seek out advice during the early years of their businesses as they navigated the unfamiliar challenges. More experienced owner-managers were still likely to source business advice after learning how to best use their advisers. During mature or later stages of a business lifecycle, owner-managers face succession or business transfer issues. Thus in response to the need for advice concerning succession planning during the latter years of a business, the trusted adviser status of external accountants often made them advisers of first choice.

In developing their relations with SMEs, it is critical for external accountants to be perceived to be competent. Our fieldwork identified a number of approaches accountants are using to communicate their competence as business advisers. First, some accountants indicated they had created forums and information meetings to keep their clients up to date with changes. In turn, these forums allowed accountants to display their competence, and this had the potential to lead to further work. Second, because of the difficulty of accountants developing detailed industry knowledge across multiple industries, Small and Medium Sized Accounting Practices (SMPs) might restructure their organisations to increase access to detailed industry knowledge. This may involve nurturing a multi-disciplinary network of suppliers, organised around industry expertise, with the accounting practice itself becoming more of a referral hub. Future research might investigate alternative approaches for external accountants to promote their expertise as business advisers.

A limitation of the fieldwork results is that it is based on a non-random and limited sample of accountants and SMEs. Future research should consider a larger-scale study to explore the contention that relationships and trust are necessary conditions for enabling (or mediating) latent demand for business advice. These results call into question some of the previously held assumptions regarding the development of accountant-SME relations. These findings need verification.

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APPENDIX A – INTERVIEW PROTOCOL

ROLE OF RELATIONSHIPS AND TRUST IN SUPPLY OF EXTERNAL BUSINESS ADVICE TO SMEs

INTERVIEW PROTOCOL IS DESIGNED FOR:

1. SME Owner-Managers
2. External Accountants

All interviews to be recorded and confidentiality assured to the interviewee

INTRODUCTION

- We provide a brief overview of the study, that is, we're attempting to understand the role the external accountant plays in the SME's business, the type of business advice the external accountant provides and the key factors that may influence the decision to purchase business advice (e.g., with a focus on relationships and trust).

THE SERVICES PROVIDED BY EXTERNAL ACCOUNTANT

- Outline the types of services the external accountant (adviser) provides?
- Validate our categorization of services, that is, the distinction between traditional compliance services designed to satisfy regulatory, taxation, banking or other requirements (i.e., tax, accounting, audit) and services purchased voluntarily (business advice, e.g., 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 advisor (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 (i.e., 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 (i.e., there is underlying demand).

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, 709)

- Explain how important is trust in the decision by the SME to purchase business advice

1. ABILITY (COMPETENCE)

Explain how important is your ability in the decision by the SME to purchase business advice?

2. BENEVOLENCE (EMPATHY)

Explain how important is 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. INTEGRITY

Explain how important is your integrity in the decision by the SME to purchase business advice?

4. PROPENSITY TO TRUST

How willing are you to trust your accountant?

5. OTHER FACTORS DRAWN FROM THE ACCOUNTING CODE OF PROFESSIONAL CONDUCT

- Objectivity - Explain how important is your objectivity in the decision by the SME to purchase business advice? i.e., make careful analysis of available information before making a decision.
- Confidentiality - Explain how important is your confidentiality in the decision by the SME to purchase business advice?

THE ROLE OF BUILDING UP A RELATIONSHIP WITH CLIENT/ADVISER

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’re a good salesperson?

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

PERCEIVED VALUE OF SERVICE

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

To sum up our interview:

What is the most important factor that causes your clients to stay with you and not only buy compliance but to go on and buy additional services?

Given what we've discussed, are there any other factors that might influence your decision to purchase (offer) business advice?