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Small firm accountancy practices as business advisors:
A dynamic capabilities view of the scope of their services

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Abstract
We propose that differences in the scope of services accountancy practices provide can be accounted for by differences in their dynamic capabilities. In order to test this we analyze 254 Norwegian small firm accountancy practices’ possession of key dynamic capabilities including the heterogeneity of their human capital, their internal development routines and their alliances with complementary service providers. We also analyze the influence of strategic choice, in terms of the positioning of the practice and its underlying strategic intent. While we observe no clear effects for these two latter factors, we find that dynamic capabilities have a distinct impact on the scope of services.

Keywords: scope; dynamic capabilities; strategic choice; accountancy practices; business advisory services
INNHOLD

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1. INTRODUCTION

Small firm accountancy practices do not only provide standard accountancy services to their clients. They are also one of most important, if not the most important, source of business advice for small firms (Mole, 2002). Moreover, there is evidence that those practices that have broadened their scope beyond that of standard accountancy services enjoy substantially higher profits as well as higher revenue per partner than those whose scope is limited to accountancy services (Bagchi-Sen and Kuechler, 2000). However, despite this apparent incentive for small firm accountancy practices to seek a broadening of the scope of their service provision, previous research indicates substantial differences in terms of the scope of advisory services they provide (Gooderham and Nordhaug, 2000).

Primarily employing a dynamic capabilities view of the firm, the purpose of this paper is to account for differences in the scope of the business advisory services small firm accountancy practices supply, that is services over and above standard accountancy services. In the first part of this paper we present the most salient features of small firm accountancy practices as business advisors. We then delineate the context of our study, Norway. Thereafter we present and deploy a dynamic capabilities view in order to account for variations in the scope of accountancy practices as providers of business advisory services. This view is supplemented by taking into account the influence of strategic choice. On the basis of data obtained from 254 Norwegian authorized accountancy practices, hypotheses are tested and the results discussed. In a supplementary analysis we examine the degree to which advisory services supplement traditional accounting services as sources of revenue. Finally, we draw a number of conclusions regarding those capabilities that appear to be most pertinent for small firm accountancy practices in their development as business advisers. These conclusions are informed by Eisenhardt and Martin’s (2000) argument that dynamic capabilities have greater substitutability across firms than the traditional resource based view implies. In short they represent what can be termed ‘best practice’ meaning that small firm accountancy practices can learn from one another.
2. SMALL FIRM ACCOUNTANTS AS BUSINESS ADVISORS

The European business scene is dominated by the SME (small to medium-sized enterprises) sector, that is by firms with 250 employees or under. The sector represents 66 percent of all jobs and 65 percent of the total business turnover in the European Union (EFAA, 2004). One important characteristic of the smaller firms in the SME category is that they rarely have the resources to allow accounting duties to be conducted in-house. Consequently small firms often seek external assistance from accountants. For example in Norway about two thirds of firms with fewer than 100 employees use the services of an external authorized accountant in the production of financial accounts (Dagens Næringsliv, 2003).

It has been argued that because of the long-term, regular cooperation small firm accountancy practices have with their clients through the provision of basic accounting services, there is a potential for the development of the trust required to act as business advisors (Bennett and Robson, 1999; Gooderham and Nordhaug, 2000; Marriott and Marriott, 2000; Mole, 2002; Ram and Carter, 2004). Moreover, by purchasing multiple services from the same source clients are able to economize on information costs (Bennett and Smith, 2004; Bryson and Daniels, 1998; Nayyar, 1993; Nayyar and Kazanjian, 1993). For their part accountancy practices may achieve synergies (economies of scope) in the production of for instance a number of management accounting services in conjunction with producing statutory financial accounts (Marriott and Marriott, 2000). Accountancy practices are thus in a potentially favorable position in regard to offering related advisory services – services the small firm would otherwise be reluctant to seek out, let alone purchase. Moreover, there is a clear incentive for small firm accountancy practices to develop business advisory services because their clients are generally willing to pay more for these than standard accountancy services (Gooderham and Nordhaug, 2000).

Although it is important not to exaggerate the current size of this market for business advice – few of the large, established consultancies regard the small firm business advice market as attractive (Jevnaker, 1996) – it is clear that small firm accountancy practices are increasingly becoming a significant source of business advice. For
example in the UK Kirby and King (1997) and Deakins et al. (2001) found that accountants are among the most frequently used external sources of business advice. Indeed Bennett and Robson’s (1999) survey shows that accountants are in fact the dominant source of advice in the UK, ahead of both banks and solicitors. Moreover, Mole’s (2002) research suggests that it is unlikely that publicly funded small business advisors will ever achieve the same impact on SMEs as accountants, a finding borne out by Norwegian research (Kvitastein, 1997). Given this expanded role beyond standard accounting services, small firm accountancy practices have been depicted as ‘multidisciplinary practices, one-stop shops for an extensive array of services, including financial advisory, management consulting, and legal services’ (Greenwood et al., 2002: 58).

3. THE NORWEGIAN CONTEXT

In order to meet statutory requirements regulated by Norwegian law, firms are obliged to produce annual financial accounts. Because of their complexity, rather than doing this in-house, as we noted above the majority of small firms in Norway employ the services of an external authorized accountant (authorisert regnskapsfører) for this purpose. In Norway all accountancy practices that offer these services must contain at least one partner who is authorized in accordance with Norwegian law. Since 1993 a prerequisite for authorization is the successful completion of a two year program of higher education within economics and business administration, as well as two years of relevant practice. In other words authorized accountants are not required to have a full three-year bachelor degree level of education.

The purpose of authorization is to ensure that the work of the accountant is executed in an adequate manner in accordance with prevailing laws and regulations. Thus, in regard to the production of annual financial accounts, Norwegian authorized accountancy practices operate within an explicit, regulatory framework that results in standardized services. However, it should be noted that these practices are free of statutory restrictions in regard to providing their clients with additional, advisory services. Obviously, however, client firms are under no obligation to purchase these additional services. On the contrary, advisory services, in contrast to standard accountancy
practices, must meet their client firms’ idiosyncratic and ever evolving needs. As such authorized accountants face two very different environments, the one is standardized and therefore relatively predictable, the other non-standardized and unstable.

In all there are some 2,000 authorized accountancy practices in Norway of which over 90 percent are members of Norges Autoriserte Regnskapsfoereres Forening (NARF), a professional association for accountants with a small firm focus. Typically a practice will contain five front-line staff as well as support staff. Authorized accountancy practices can vary substantially in terms of their competencies. Some practices have a front-line staff entirely composed of authorized accountants, whereas others may contain only one. Some may contain a high proportion of front-line staff with degree-level educations, whereas others may contain none.

4. A DYNAMIC CAPABILITIES VIEW OF SMALL FIRM ACCOUNTANCY PRACTICES AS BUSINESS ADVISORS

The resource-based view of the firm (RBV) views the ability of a firm to extend its scope of its products or services so that it can enter new markets as being dependent on its possession of superior resources (Miller, 2004). According to RBV, a firms’ possession of valuable, rare, inimitable, and difficult-to-imitate resources such as competencies or know-how is the fundamental determinant of a firm’s ability to pursue economies of scope (Barney, 1986; Penrose, 1959; Rumelt, 1984; Wernerfelt, 1984). Prahalad and Hamel (1990) extended this perspective by arguing that among these resources it is a firm’s core competencies that are the critical antecedents to those core products and services that give rise to competitively advantageous economies of scope.

However, RBV has been criticized as tautological in that the resources that generate competitive advantage are identified by first observing superior performance and thereafter ascribing it to whatever unique resources the firm appears to possess. Thus Williamson (1999: 1093) views RBV as overly reliant on ‘ex post rationalization’. RBV has also been criticized as lacking in an empirical grounding. For example core competencies are problematic to operationalize in any precise way. Eisenhardt and Martin (2000) have attempted to counter these criticisms by explicating the nature of
dynamic capabilities in a way that is both non-tautological and empirically testable. They view dynamic capabilities as consisting of specific strategic and organizational processes that manipulate resources into new competencies and that renew old ones. This includes not only internal processes but also collaboration with other organizations as a means to extending their competencies (McEvily et al., 2004). The value of dynamic capabilities lies in the resource configurations that they create or enhance, which in turn enable the firm to pursue opportunities in new, unpredictable markets. To be specific, Eisenhardt and Martin (2000: 1107) define dynamic capabilities as ‘the organizational and strategic routines by which firms achieve new resource configurations as markets emerge, collide, split, evolve and die.’

The dynamic capabilities view of the firm has three implications for authorized accountancy practices in terms of their ability to generate a broad scope of business advisory services. The first concerns the configuration of the practice’s human capital resources. For business advisory services these will be significantly more complex than the configurations required for the production and delivery of standard accountancy services. While the latter are principally defined by the regulatory environment and are therefore both relatively narrow and homogeneous, those configurations that are required for business advisory services entail the ability to respond to a variety of client needs and situations that call for novel responses. Such responses are dependent on the possession of heterogeneous human capital and the internal synergies they confer. In short, accountancy practices whose human resources are predominantly homogeneous and which are first and foremost configured for the delivery of standard accounting practices will be considerably less likely to produce the synergies that generate a wide range of business advisory services.

The second implication of the dynamic capabilities view of the firm for business advisory services is the criticality of possessing internal development routines that ensure that the practice’s human capital configuration is not static, but is subject to continuous development. Finally, the third implication of the dynamic capabilities view is that accountancy practices lacking in strong alliancing processes for accessing outside
knowledge will be more confined to standardized accountancy services than those practices which interact with an array of complementary service providers.

In summary a dynamic capabilities view of authorized accountancy practices emphasizes the possession of strategically derived organizational routines that enable practices to acquire, integrate, recombine and broker knowledge from heterogeneous internal and external sources. In the next section we will further develop the dynamic capabilities view applied to authorized accountancy practices in order to generate testable hypotheses.

5. THE DEVELOPMENT OF DYNAMIC CAPABILITIES
As we have indicated, authorized accountancy practices in Norway are faced by two environments. The one involves the delivery of standardized accountancy practices and is for the most part predictable in the sense that the services are defined by statutory regulations. The other environment involves responding to small firms’ needs for advisory services and is relatively unpredictable in that firms’ needs represent a response to changing environments. Only practices that are capable of generating timely responses will be able to adapt to this latter environment. One of the objections to RBV is that it fails to provide an adequate explanation of how and why certain firms exhibit timely responsiveness in unpredictable situations (Eisenhardt and Martin, 2000). In these markets differences in competitive ability are best explained by variations in dynamic capabilities not least in the sense of the ability to develop knowledge resources through skills acquisition and learning. In unpredictable markets the dynamic capabilities by which firms ‘integrate, build and reconcile internal and external competencies’ (Teece et al., 1997: 516) become the source of competitive advantage. Thus the development of the innovative ability to meet the requirements of a changing environment is a challenge involving the ability to exploit both internal and external competencies. These two sources of competencies are not to be regarded as substitutes for one another, but as complementary (Powell et al., 1996).
5.1 Internal competencies

Because of uniform statutory requirements for authorization across the Norwegian accountancy industry, variations in terms of the capabilities required for services beyond standard accountancy services must be primarily sought by examining the development and accumulation of those types of competencies that create a potential for dynamic service diversification. We argue that there are two main internal sources of the dynamic capabilities relevant for delivering business advisory services. The first of these involves the heterogeneity of the accountancy practice’s competencies assets base.

The issue of heterogeneity of internal competencies can be approached from two distinct angles, with the one concerning the professional training of front-line staff and the other the level of their formal education. In terms of professional training, at the one extreme there are authorized accountancy practices whose front-line staff is entirely comprised of authorized accountants. Such a homogeneity of human capital, with its focus on standard accountancy services, will narrow the scope of the practice to develop business advisory services. In terms of formal education, a bachelor degree may be regarded as a source of heterogeneity in that it is indicative of an ability to handle complex information, engage in boundary-spanning activities, and be more receptive to the adoption of innovations (Kimberly and Evanisko, 1981; Young, 2001). In other words front-line staff who possess a first degree will be more predisposed to engage in the development of a variety of business advisory services.

*Hypothesis 1: The scope of business advisory services delivered by an accountancy practice will be enhanced by the heterogeneity of its human capital.*

The second significant internal source of dynamic capabilities for the delivery of a broad scope of business advisory services is derived from specific routines that enable the practice to manage and thereby regularly reconfigure its competency base. Eisenhardt and Martin (2004: 1107) argue that: ‘Dynamic capabilities are the antecedent organizational and strategic routines by which managers alter their resource base – acquire and shed resources, integrate them together, and recombine them – to generate new value-creating strategies.’ Important features of these critical and readily
identifiable routines for the management of the reconfiguration of the competency asset structure of the practice will at the very least involve the practice having clearly defined personnel policies and skills development plans.

Hypothesis 2: The scope of business advisory services delivered by an accountancy practice will be enhanced by its having established specific, identifiable routines aimed at reconfiguring the competency base of the practice.

5.2 External competencies

Although many core dynamic capabilities have their focus on the reconfiguration of resources within firms, other dynamic capabilities are related to routines for the acquisition of resources from external sources (Eisenhardt and Martin, 2000; Gulati, 1999; Lane and Lubatkin, 1998; Powell et al., 1996). Firms can augment their dynamic capabilities through inter-organizational ties by using these to pool knowledge and resources as well as to gather and screen relevant information (McEvily and Marcus, 2005). Indeed, ‘…a common feature across successful knowledge creation processes is explicit linkage between the focal firm and knowledge sources outside the firm’ (Eisenhardt and Martin, 2000: 1109). In regard to the provision of business advisory services alliancing or active communication with complementary business service providers will constitute an essential dynamic capability. Given the size of authorized accountancy practices, there is clearly a limit to the number of competencies they are able to develop internally. Like any small firm the quality of the practice’s external network will therefore be critical for obtaining those resources it lacks. This means that small firm accountancy practices that seek to develop services over and above standard accountancy services are highly dependent on being able to leverage off the competencies of third parties (Birley and Westhead, 1992; Storey, 1994). There are many potential sources of external partnerships or alliances for the development of business advisory services such as lawyers, external auditors, consultants, software suppliers, IT firms, banks and insurance companies. Small firm accountancy practices that develop extensive, long-term alliances for the purpose of developing business advisory services with a diversity of such external actors will have to acquire a competency base that enables them to offer a broader range of services than those
practices that lack such alliances (Bagchi-Sen and Kuechler, 2000). Thus we hypothesize that:

_Hypothesis 3: The scope of business advisory services delivered by an accountancy practice will enhanced by the diversity of its alliances with complementary service providers._

5.3 Strategic Choice
While dynamic capabilities create the necessary potential for evolving business advisory services this potential, these must be accompanied by some form of strategic decision-making that reflect an acknowledgement of the desirability of pursuing opportunities for the development of business advisory services (Grant, 1996). This may in part be conceived of as involving strategic positioning, in part as involving strategic intent.

The publication of Porter’s (1980) book, _Competitive Strategy_ placed the emphasis for competitive advantage on external, industry-based competitive issues. One important aspect of strategy according to Porter is that of positioning the firm. In short: ‘Some positions are more profitable than others...’ (Porter, 1990: 34). Applied to small firm accountancy practices one implication of Porter’s strategy frame would be that those practices that position themselves so that they provide standard accountancy practices to larger small firms have clients who, by virtue of their scale, are relatively more disposed to the purchasing of different types of specialized business services. In other words by achieving this positioning a small firm accountancy practice is able to diversify into business advisory services. The type of clients the authorized accountancy practice targets is likely to influence the range of services practice develops and offers (Løwendahl et al., 2001), client size is one crucial parameter for the positioning of an accountancy practice. Larger client firms tend to be more specialized internally and will therefore have a greater capacity to demand, purchase and utilize specialized business services (Cohen and Levinthal, 1990; Gooderham et al., 2004; Schwartz and Bar-El, 2004). Although it may be the case that the smaller the firm the greater the need for business advisory services (due to their limited internal competencies), the smallest firms are also the most reluctant to purchase these from a professional service firm.
(Bennett and Robson, 1999; Bennett et al., 2001; Greene et al., 1998; Marriott and Marriott, 2000). This may be because of the relatively high costs involved for a small firm. Given the propensity to procure business advisory services varies positively with size we will hypothesize that:

_Hypothesis 4: The scope of business advisory services delivered by an accountancy practice is enhanced by the proportion of relatively large client firms served by the practice._

With the diffusion of the resource-based view of the firm during the 1980s emphasis shifted to internal aspects of strategic decision-making. Hamel and Prahalad (1989, 1994) employ the concept of ‘strategic intent’, that is a consistent ambition to set targets that imply ‘a sizable stretch for an organization’ (Hamel and Prahalad, 1989: 67). Thus we will argue that the concomitant possession of some degree of strategic intent that involves the deliberate choice to seek out new markets or to develop new services will be a significant determinant in regard to business advisory services performance. Strategic intent is more than unfettered ambition: it is also associated with an active management process that provides a consistent impetus for the development of dynamic capabilities both in regard to internal development efforts on the one hand and learning from external alliances on the other. In the context of small firm accountancy practices as business advisors, strategic intent would imply an aspiration to search for opportunities and new markets through the development of the practices services (Bagchi-Sen and Kuechler, 2000). Conversely those practices lacking in strategic intent are practices that have no intention of seeking out new markets or developing new services unless they are compelled to do so. Thus:

_Hypothesis 5: Those accountancy practices which intend to seek out new markets or launch new services, will provide a broader scope of business advisory services than other practices._
6. **DATA**

Our data set is derived from a questionnaire that was mailed electronically to heads of the 1,380 authorized accountancy practices for which NARF has e-mail addresses in November 2003. In all it transpired that 130 of these addresses were defunct. Of the 1,250 practices who received the questionnaire, 254 replies were received. This constituted a response rate of 21 percent, a rate that is comparable to similar surveys (Mole, 2002). Using NARF’s overview of its member practices we were able to compare our sample with the population from which it was derived in terms of size of practice. We observed that while our sample is somewhat skewed towards larger practices this was to such a limited degree that representativeness is not impaired. Moreover, in our analysis we control for the effect of size.

6.1 **Independent variables**

*Heterogeneity of human capital.* We have operationalized the heterogeneity of the human capital held by authorized accountancy practices in two distinct ways. The first of these is the degree to which front-line staff are authorized accountants. We have reasoned that the greater the degree to which a practice comprises authorized accountants the narrower the scope of business advisory services. Our second approach to operationalizing heterogeneity concerns the proportion of front-line staff who have a bachelor degree level of education. We have reasoned that the greater the degree to which a practice contains degree-level front-line members of staff, the broader the scope of business advisory services. Thus in order to represent the heterogeneity of the practice’s human capital we employ two separate variables: the percentage of front-line staff with an accounting qualification and the percentage of front-line staff with a first degree.

*Specific and identifiable routines aimed at reconfiguring the competency base of the practice.* We asked the respondents to indicate if the practice has devised a personnel policy and a skills development plan. Responses to each of these questions were coded as zero for ‘no’ and one for ‘yes’. We then added the two to form an index ranging from zero (no specific and identifiable routines) to two (both).
Diversity of alliances with external complementary knowledge sources. In order to capture the extent of strategic alliances, respondents were asked to indicate the degree to which their practices cooperate with external service providers on a five-point scale (where one corresponds to ‘not at all’ and five corresponds to ‘to a large degree’). External service providers were listed by us and comprised: lawyers, external auditors, consultancies, software providers, IT-firms, banks, and insurance companies. This list of providers closely corresponds to the one employed by Bagchi-Sen and Kuechler’s (2000), except that their list included advertising and financial planning consultancies. However, the results from their survey indicated that they were of marginal relevance. Responses to our seven-fold list of external service providers were added to form an index for the diversity of external alliances (Cronbach’s alpha=0.75).

Proportion of relatively large client firms served by the practice. From previous research it is known that the use of external advice tends to increase with size up to about 50 employees where it tends to level off (Bennett and Robson, 1999; Bennett et al., 2001). In the present sample 35 percent of the practices report that they serve clients with more than 20 employees, and for these practices the largest clients generally constitute about 10 percent of gross income. Only a fraction of the practices obtain substantial revenues from clients with more than 50 employees. In the context of small firm accountancy practices we accordingly define large clients as those having more than 20 employees. On average practices obtain 20 percent of gross income from clients with more than 20 employees, only 10 percent of the practices obtain more than half of gross income from relatively large clients.

Intention of seeking out new markets or launching new services. Because the absence of strategic intent in some respects is easier to specify than its presence (cf. Bagchi-Sen and Kuechler, 2000), we measured this factor in part using an item that maps this. In terms of a four-point scale practices were asked to respond to the following statement: ‘We will not seek out new markets or launch new services unless forced to do so’. In addition respondents were asked to respond to another four-point scale item that measured the presence, rather than the absence, of strategic intent: ‘We want to strengthen our market position and search for new market opportunities through the
continuous development of our services’. Scores for the first item were subtracted from the second to form an index (Cronbach’s alpha = 0.68).

*Number of staff in practice.* It may be assumed that practices with larger numbers of front-line staff have more latitude for specialization over and above standard accountancy services. That is the larger the practice, the greater the scope of business advisory services.

### 6.2 Dependent variable

Together with a group of seven experienced authorized accountants we developed a list of 15 business advisory services that Norwegian authorized accountants may offer. It was observed that the list that was evolved was broadly similar to the one developed by Bagchi-Sen and Kuechler (2000), except that it was somewhat more exhaustive. In Table 1 we list these services.
Table 1. Percentage of authorized accountancy practices that have billed for an advisory service on at least four occasions over the last two years, and percentage of practices which derived at least 10 percent of their gross revenue from these services

<table>
<thead>
<tr>
<th>Type of advisory service</th>
<th>Percentage of practices</th>
<th>Percentage of practices deriving at least 10 percent of gross revenues from advisory service</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxation/tax planning</td>
<td>76</td>
<td>21</td>
</tr>
<tr>
<td>Inheritance issues/generation transfer</td>
<td>27</td>
<td>3</td>
</tr>
<tr>
<td>Choice of type of company entity</td>
<td>77</td>
<td>3</td>
</tr>
<tr>
<td>Debt administration/closure of firms</td>
<td>41</td>
<td>3</td>
</tr>
<tr>
<td>Financial management/budgeting</td>
<td>88</td>
<td>21</td>
</tr>
<tr>
<td>Pension schemes</td>
<td>8</td>
<td>0</td>
</tr>
<tr>
<td>Transference of ownership</td>
<td>45</td>
<td>2</td>
</tr>
<tr>
<td>Marketing/sales/strategic planning</td>
<td>16</td>
<td>1</td>
</tr>
<tr>
<td>Secretary to company boards</td>
<td>58</td>
<td>9</td>
</tr>
<tr>
<td>Administrative routines/IT</td>
<td>50</td>
<td>7</td>
</tr>
<tr>
<td>Management/organisation/HRM</td>
<td>23</td>
<td>2</td>
</tr>
<tr>
<td>Training and skills development</td>
<td>23</td>
<td>3</td>
</tr>
<tr>
<td>Outsourcing of the financial officer function</td>
<td>41</td>
<td>15</td>
</tr>
<tr>
<td>Remuneration schemes/salary administration</td>
<td>90</td>
<td>37</td>
</tr>
<tr>
<td>Valuation of firms/mergers/demergers</td>
<td>26</td>
<td>1</td>
</tr>
</tbody>
</table>

N=254

In the left-hand column of the table we provide an overview of the percentage of accountancy practices that had billed for each of the advisory services on at least four occasions over the last two years. The table indicates for example that 90 percent of our sample had billed for the provision of Remuneration schemes/salary administration, but that only eight percent had billed for Pension schemes. In the right-hand column we display the degree to which each of these services accounted for at least 10 percent of
gross revenue. At the one extreme 37 percent of practices derived at least 10 percent of their gross revenue from Remuneration schemes/salary administration, whereas at the other extreme no practices reported this for the delivery of Pension schemes. All in all the table indicates that few single services make a significant contribution to the overall revenues of the practices. In addition to Remuneration schemes/salary administration, the main exceptions are Taxation/tax planning and Financial management/budgeting. Further analysis indicated, not reported here, that only a negligible proportion of the practices derives more than 25 percent of their gross revenues from any one of these services. For about half of the practices no single service exceeds 10 percent of gross revenues.

We obtained the dependent variable, Number of services, by counting the number of different services provided by each firm. As can be seen in Tables 1 and 2, this variable ranges from zero to 15. Table 2 shows that the range of advisory services provided varies considerably from practice to practice with most practices (55 percent) supplying 5-9 services, but with a substantial proportion (24 percent) supplying fewer than this.

Table 2. Percentage distribution of authorized accountancy practices according to the number of advisory services provided

<table>
<thead>
<tr>
<th>Number of services</th>
<th>Percentage of practices</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-4 services</td>
<td>24</td>
</tr>
<tr>
<td>5-9 services</td>
<td>55</td>
</tr>
<tr>
<td>10-15 services</td>
<td>21</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

N=254

A more detailed analysis we undertook indicated that only four practices did not provide any business advisory services at all and that only three practices provided all 15 services.
7. RESULTS

Table 3 shows means, standard deviations and correlations for all the variables featured in the hypotheses. In addition the matrix includes the variable *Proportion of gross revenue* which will be included in our supplementary analysis. For each type of service we asked the respondent to indicate the proportion of gross revenue derived from each service in terms of the following intervals: no revenue, less than 10 percent, 10-25 percent, 26-40 percent, 41-55 percent, 56-70 percent, 71-85 percent and 85-100 percent. In order to create an overall measure of the *proportion of gross revenue* from advisory services, we assigned values 0-7 to each of these intervals and created an index by summarizing values across all the indicated services. This index varies around a mean at 8.5 (median 8), with a minimum at zero (four practices) and maximum at 21. One outlier at 79 were omitted from the analysis.

Our final table, Table 4, is a hierarchical regression analysis that enables us to test our hypotheses. The results in Table 4 addresses variations in the number of services offered by accountancy practices. The first analysis includes the control variable, the *number of professional staff in practice* and the constant only. We may note that the size of the practice captures 16 percent of the variation in the scope of business advisory services. The larger practices do indeed tend to offer a greater scope of business advisory services. In the second analysis, variables related to strategic choice are included in the model (*Hypothesis 4 and 5*). The analysis indicates a small but significant increase in the proportion of variation accounted for, and coefficients for both variables are significant at the five-percent level. That is, the more strategic intention the practice displays in regard to developing products or markets, the more services the firm has actually billed for during the last years (*Hypothesis 5*). Equally, the second analysis indicates that the larger the percentage of relatively large clients, the greater the scope of advisory services (*Hypothesis 4*).
Table 3. Descriptives and correlations

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of services</td>
<td>6.9</td>
<td>3.2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Proportion of gross revenue</td>
<td>8.5</td>
<td>4.4</td>
<td>0.88***</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Will seek out new markets or launch new services</td>
<td>0.4</td>
<td>2.0</td>
<td>0.20**</td>
<td>0.13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Percentage of revenue from clients with 21+ employees</td>
<td>21.2</td>
<td>21.2</td>
<td>0.18**</td>
<td>0.14*</td>
<td>-0.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Percentage of staff with an accounting qualification</td>
<td>48.7</td>
<td>26.9</td>
<td>-0.29***</td>
<td>-0.22***</td>
<td>-0.16**</td>
<td>-0.20**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Percentage of staff with a first degree</td>
<td>48.1</td>
<td>32.6</td>
<td>-0.05</td>
<td>0.03</td>
<td>-0.13*</td>
<td>-0.09</td>
<td>0.45***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Internal development routines</td>
<td>0.9</td>
<td>0.9</td>
<td>0.42***</td>
<td>0.38***</td>
<td>0.13*</td>
<td>0.10</td>
<td>-0.14*</td>
<td>-0.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Alliances with complementary service providers</td>
<td>1.6</td>
<td>0.6</td>
<td>0.32***</td>
<td>0.29***</td>
<td>0.15*</td>
<td>0.08</td>
<td>-0.11</td>
<td>-0.02</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>9. Number of staff in practice</td>
<td>4.3</td>
<td>3.8</td>
<td>0.40***</td>
<td>0.37***</td>
<td>0.19**</td>
<td>0.15*</td>
<td>-0.36***</td>
<td>-0.25***</td>
<td>0.33***</td>
<td>0.26***</td>
</tr>
</tbody>
</table>

* p<0.05  ** p<0.01  *** p<0.001 (two-tailed)
N=235
### Table 4. Determinants of the number of services, linear regression\(^a\)

<table>
<thead>
<tr>
<th>Variable (hypothesis)</th>
<th>Control only</th>
<th>Control + Strategy</th>
<th>All variables</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>beta</td>
<td>b</td>
<td>beta</td>
</tr>
<tr>
<td>Heterogeneity of human capital (H 1):</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>percentage of staff with an accounting qualification</td>
<td>-0.20</td>
<td>-0.02**</td>
<td></td>
</tr>
<tr>
<td>percentage of staff with a first degree</td>
<td>0.15</td>
<td>0.01**</td>
<td></td>
</tr>
<tr>
<td>Internal development routines (H 2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.31</td>
<td>1.16***</td>
<td></td>
</tr>
<tr>
<td>Alliances with complementary service providers (H 3)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.20</td>
<td>1.03***</td>
<td></td>
</tr>
<tr>
<td>Percentage clients with more than 20 employees (H 4)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.13</td>
<td>0.02*</td>
<td>0.08</td>
</tr>
<tr>
<td>Will seek out new markets or launch new services (H 5)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.14</td>
<td>0.36*</td>
<td>0.09</td>
</tr>
<tr>
<td>Number of staff in practice (control)</td>
<td>0.40</td>
<td>0.33***</td>
<td>0.35</td>
</tr>
<tr>
<td>Intercept</td>
<td>5.45</td>
<td>4.20</td>
<td>3.03</td>
</tr>
<tr>
<td>(R^2)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.16***</td>
<td>0.19***</td>
<td>0.35***</td>
</tr>
<tr>
<td>(R^2) change</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.03**</td>
<td>0.16***</td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Ordinary least square estimates

b = unstandardized coefficients, beta = standardized coefficients

\(p<0.05\) \(\ast\) \(p<0.01\) \(\ast\ast\) \(p<0.001\) (one-tailed tests)

\(N=235\)
When variables derived from the dynamic capabilities view of the firm are included, explained variance increases substantially. The model as a whole explains 35 percent of the variation in the number of services, which is relatively high for this type of study. The highest variance inflation factor (VIF) observed in the regression analysis is 1.4, this indicates a low level of multicollinearity. This third analysis indicates that Hypothesis 1 is supported in terms of both operationalizations of heterogeneity in that there is both a significant positive effect of having a larger proportion of staff with a first degree on the scope of business advisory services, and a significant negative effect in having an increased proportion of staff qualified as authorized accountants. As can be seen from the coefficients for the index representing internal development routines, practices having these have a significantly greater propensity for offering a greater scope of services (Hypothesis 2). Our findings finally indicate that the greater the diversity of strategic alliances, the greater the scope of services offered (Hypothesis 3).

In the third analysis in Table 4 we can also observe that the two coefficients related to strategic choice are no longer statistically significant. We conclude therefore that while the hierarchical regression results support hypotheses 1, 2 and 3, the support for hypotheses 4 and 5 is no more than marginal. Finally, we can also observe that our control variable, number of staff in practice, is significant at all stages of our analysis, indicating that larger practices are able to offer a broader scope of business advisory services. Although both strategic intent and client portfolio correlate with scope of services, the result reported in the third analysis in Table 4 indicate that the apparent effect of strategic choice is spurious and should in fact be attributed to capabilities.

**Supplementary analysis.** Although the focus of this paper is on the elucidation of variations in the degree to which small firm accountancy practices provide business advisory services, it is also of importance to substantiate one of the underlying premises of this paper, that is, that when these services are developed they constitute important sources of revenue for the individual accountancy practice. As we have noted previous research indicates that small firms are generally willing to pay more for business advisory services than standard accountancy services so that we should expect to observe that as advisory services are developed they will increasingly supplement or
displace traditional accounting services as sources of revenue and profit (Bagchi-Sen and Kuechler, 2000; Gooderham and Nordhaug, 2000). As Table 3 indicates, Proportion of gross revenue is indeed highly correlated with Number of services (0.88). Thus we can conclude that the range of services offered is strongly correlated with the proportion of turnover related to advisory services. This indicates that practices with a relatively large portfolio of services tend to derive a greater proportion of their revenue from advisory services. Equally it is not unreasonable to expect that as this occurs and the relative profitability of these services is experienced this will act as a stimulus for the practice to deliver yet more business advisory services.

8. CONCLUSIONS

Our findings confirm previous research that has indicated that advisory services are more remunerative than traditional accounting services in that we demonstrate a pronounced association between the range of services a small firm accountancy practice provides and the proportion of overall revenue derived from these services. However, our paper goes beyond previous research by attempting to account for differences in the propensity or ability of small firm accountancy practices to provide a broad scope of these services. We have done this by primarily drawing on a dynamic capabilities view of the firm, and our findings underscore the importance of the heterogeneity and continuous development of human capital and external alliances.

In sum, while our findings do not entirely dismiss the role of strategic choice in developing a broad scope of business advisory services, our findings emphasize the importance of small firm accountancy practices developing relevant dynamic capabilities. In purely pragmatic terms achieving heterogeneity of human capital involves recruiting front-line staff who have a degree level of education and avoiding an over-concentration of authorized accountants. The implication is that practices that are seeking to develop their scope of business advisory services should seek to recruit and incorporate staff with degree-levels of education and non-accounting qualifications. At the same time small firm accountancy practices must also have routines in place that ensure the regular development of their human capital. Finally, our analysis emphasizes the importance of developing alliances with other service providers. All of these
developments clearly involve investment not only in the financial sense, but also in terms of time. In other words the process involved in transforming a small firm accounting practice with a narrow scope of business advisory services into an extensive provider of business advisory services is a long-term process. Our analysis suggests that one possible short-cut to developing a capacity for providing a broad scope of business advisory services may be through the expansion of the practice in terms of numbers of front-line staff. However, while this may, if properly managed, further heterogeneity, it does not represent a response to the need for strategically anchored internal development routines, or the need to develop external alliances with complementary service providers.

Finally, we may observe that our findings also suggest the small firm accountancy industry is somewhat bifurcated in the sense that there is, as Table 2 indicates, a substantial minority of small firm accountancy practices which deliver only a limited range of services. On the other hand there are those practices which have succeeded in developing the resources that enable them to extensively focus on the more lucrative market business advisory services. Whether this will remain the case is difficult to ascertain on the basis of this study, but clearly the strong association we find between the range of services delivered and the proportion of overall revenue derived from these services suggests a ‘virtuous circle’. However, initial entry to this circle is dependent on a range of investments not least in terms of internal human capital that may be too daunting for the more traditional small firm accountancy practice.
9. REFERENCES


