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Small firms and business advisory services: variations in small firms' use of authorized accountants

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Abstract

The paper takes as its starting point the relatively high failure rate of small firms. It is argued that this might be lowered if small firms had improved access to external sources of business advice. It is further argued that authorized accountants are attempting to develop this role and that they are particularly well suited to fulfilling this role. The paper then analyses variations in the use small firms in Norway make of authorized accountants as business advisers. The analysis reveals that the quality, rather than the longevity, of the relationship is an important precondition for accountants being used as business advisers. However, the study also indicates that the firm has to have a competency orientation.

Key word: small firms, business advisory services, authorized accountants

Word count: 6564 words

Introduction

A considerable body of research has demonstrated that small firms differ significantly from large firms in a number of ways not least in terms of their failure rates. A significant part of the explanation for small firms' high failure rates is that they are lacking in regard to the broad range of competencies large firms have developed and can draw upon. Due to the economic importance of small firms, public authorities in many countries have been seeking to develop ways in which relevant competencies might be made available to small firms. One typical initiative has been to employ consultants to act as small business advisers whose task has been to disseminate best practices and to develop their clients' external networks. Research indicates though, that these initiatives have generally not been successful (Kvitastein, 1997, Wilks, 2000). It would appear that acting as a business adviser for small firms, in the sense of motivating them to adopt and integrate key competencies, is a complex process that requires a high degree of relational competence.

Independently of these public authority initiatives, accountants in a number of countries have been developing services over and above traditional accountancy services. They have increasingly "depicted themselves as multidisciplinary practices, one-stop shops for an extensive array of services, including financial advisory, management consulting, and legal services" (Greenwood, Suddaby and Hinings, 2002: 58). In the case of Norway, which constitutes the setting for this study, the professional association for authorized accountants, NARF, has for the past five years been actively encouraging its membership to regard itself as business advisers. The client-base for NARF's members is, primarily, that of small firms.
However, to date little is known about which factors are important for small firms' use of accountants as business advisers.

The main task of this paper is to conduct an analysis of variations in the use small businesses make of authorized accountants as business advisers, that is to say services over and above financial accounting services. In order to meet statutory requirements regulated by Norwegian law, firms are obliged to produce annual financial accounts. The majority of small firms in Norway employ an authorized accountant for this purpose instead of doing this itself.

By way of backdrop the first part of the paper is devoted to explicating the main characteristics of the small firm and in particular the difficulties they face in obtaining critical competencies for business development. Thereafter we delineate the conditions that have contributed to making the authorized accountant in Norway a significant source of business advisory services for small firms. It should be noted that in Norway all persons that offer accounting services to others have to be authorized in accordance with Norwegian law. A prerequisite for authorization is a minimum of two years of higher education within economics and business administration, as well as two years relevant practice. There are approximately 4000 authorized accountants in Norway serving in excess of 200,000, mostly small, firms. Authorized accountants generally work in practices of five or fewer employees.

Characteristics of small enterprises

Since the 1980s there has been a growing interest in both small and medium-seized firms. It is widely recognized that these enterprises are a vital force in developed economies (Mitchell and Reid, 2000). According to Marshall et al (1995) structural changes in the economy have favored smaller firms: technological changes, lower barriers to business operation in a range of sectors, and large firm specialization, contracting out and downsizing have created opportunities for smaller firms to fill market niches.

Wynarczyk et al. (1993) have built upon the observation of Penrose (1959) that small and large firms are as fundamentally different from each other as the caterpillar is to the butterfly. They argue that there are three central respects in which small firms are different to large firms.

i) The first is the greater *uncertainty* of the external environment in which the small firm operates. Even for subcontractors the small firm rightly perceives itself to be more vulnerable than the large firm and acts accordingly.

ii) A second key area of difference involves *innovation through chance* rather than research development. In the long run small firms are more likely to introduce fundamentally new innovations than larger firms. However, this is because they are less committed to existing practices and products and not because they generally undertake research and development. In other words innovation is generally a product of chance.

iii) There is a much greater likelihood of *evolution and change* in terms of structure and organization in the small firm.

These factors, uncertainty, the lack of resources with which to conduct research and development, and the constant evolution in terms of structure and organization, make for a high failure rate. In the UK, Gallagher and Stewart (1985) found that a firm employing less than twenty people was 78 per cent more likely to fail over the subsequent decade than one employing more than 1,000. Dunne, Roberts and Samuelson (1989) have reported similar findings for the US. UK findings indicate that for the first seven years the annual failure rate for small businesses is almost 20 per cent (Daly, 1987).

While uncertainty and evolution may be viewed as constants, it has been argued that failure rates might be lowered if resources were made available that would give a small firm access to the fruits of research and development in the broadest sense. The question is *how competence might be made available*. A particular challenge seems to be to get competence transferred in a synergetic way from business-to-business. In the literature it is argued that small firms often have a greater need than larger firms to get business advice from external suppliers (Birley and Westhead, 1992; Storey, 1994). At the same time, the smaller the firm the less likely it is that external advice will be sought (Bennett and Robson, 1999). UK research indicates that what is sought of advice by a small firm is of a specialized rather than a general nature (Wood et al., 1993). The generalist consultant satisfied no more than about one quarter of the market demand. Accordingly, this suggests that small companies tend to prefer professional specialists such as for example accountants (Bennett and Robson, 1999).

In this paper the focus is on small firms in Norway. This focus is particularly pertinent to Norway in that the overwhelming majority of its firms are small. In Norway small firms are defined as having 1-19 employees (Spilling, 2000). About 95% of Norwegian firms occupy this category, and among these, about 80% are micro-firms in that they have fewer than 5 employees. Small firm failure rates in Norway are high. For firms established in the first part of the 1990s the rate is about 55% over a five years period, a rate that represents an increase on that of the 1970s and 1980s (Spilling, 2000). Spilling’s (2000) research indicates little in the way of genuine innovations among Norwegian firms. They survive on the basis of imitating. In that sense they are fundamentally dependent on being able to efficiently source competencies from their environment.

Competence as a strategic resource

There is an increasing acceptance that the resources which traditionally have been decisive for competitive strength – such as technology, scale, capital, and protected markets – have decreased in value compared to factors such as innovation, tailoring of products and the effective use of technology (see, for example, Pfeffer, 1994). The focus has, therefore, been on identifying those resources and combinations of resources that provide firms with sustainable competitive advantage. One important distinction that has been made is between visible and invisible resources (Itami, 1987). Unlike visible tangible resources such as technology and capital, many of the critical invisible resources cannot be bought in a ready-made external market, but must be developed and maintained within the firm.

The significance of invisible resources was confirmed in an investigation among a large sample of mostly small Norwegian firms (Nordhaug and Gooderham, 1996). About eight out of ten firms in the sample ranked the competencies of their management and employees as crucial to the firm. In contrast the resources that traditionally have been most focused on, financial resources and technology, and machines and equipment, were generally regarded to be of relatively less importance for value creation. The study indicated that firms' emphasis on competence development stems from a need to improve and sustain intangible factors such as the quality focus of the firm and the quality of customer relations (Nordhaug and Gooderham, 1996).

Research in the UK indicates that a majority of small firm owner-managers have no professional, management or other formal qualifications (Stanworth and Gray, 1992). Given that the competence these qualifications represent is critical, this constitutes a problem for the growth and survival of the small firm. In addition, many of the owner-managers of small firms lack financial skills and knowledge of how financial control systems might be used to aid decision-making (Deakins, Logan and Steele, 2001). It is reasonable to suppose that the situation is similar for small firms in Norway. One possible way for a small firm to acquire competencies is to employ qualified persons. However, smaller firms often have difficulties in obtaining competent persons because they are unable to compete with larger firms in terms of salaries and benefits (Jennings and Beaver, 1997). Consequently, they are particularly dependent on being able to access their external networks for business advice.

Competences and Learning in Small Firms

The learning processes in small firms regarding the development of new competencies are a crucial part of the evolution of these companies (Deakins and Freel, 1998). Chaston, Badger, and Sadler-Smith (2001) argue that organizational learning is an effective and practical way by which to increase small firm survival rates. At the same time Langley and Traux (1994) argue that small firms are often constrained either by their limited ability to acquire adequate information from external sources and/or to utilize this information to evolve new operational practices. This means that while on the one hand there is a need for small firm owner-managers to learn and develop their portfolio of competencies, on the other hand they are constrained in doing so.

Normally, a manager-owner of a small firm learns through experience. This learning process is seldom planned but is a result of a series of reactions to events and opportunities (Deakins et. al, 2001). Jenning and Beaver (1997) maintain that small firm owner-managers require specific, transferable, managerial skills directly related to entrepreneurship and professional management within the operating environment of the business. According to Gibb (1997) a small firm's learning will be located in the context of external relationships of the firm; and in the context of sharing and developing the collective and individual knowledge in the company. If we consider the external context, there are many possible business relationships small firms may learn from; for example customers, suppliers, lawyers, associations, authorities, bankers and accountants (Curran et. al, 1993; Gibb, 1997; Bennett and Robson, 1999)[1].

UK research indicates that one factor which is associated with success is the degree to which small firms utilize information and advice services provided by the private sector. In

[1] Later in this paper we will discuss authorities and accountants more thoroughly.

particular Dunkelberg et al. (1987) show that growth-firms in the UK are much more likely to have sought and received information and assistance from accountants than was the case for firms in decline. It appears that advice on taxation, financial management, business strategy, personnel matters, public relations and advertising is particularly critical (Cambridge Small Business Research Centre, 1992). According to Stanworth and Grey (1992) small firm owners (or managers) who are attracted to management or enterprise training tend to have a higher regard for qualifications and enjoy higher survival and growth rates than most other small businesses.

However, owners of small firms often lack the time for contact with external sources for training and business development purposes (Chell and Baines, 2000). Furthermore, it is difficult both for managers and employees in small firms to find time to train and participate in various training programs external to the firm (Marshall et al., 1995). This may also have a connection with the fact that only a minority of owner-managers has growth aspirations (Low and Macmillan, 1988). Stanworth and Gray (1992) maintain that it is a mistake to assume that all small firms want to expand or are keen to improve their management skills. For many owners of a small firm, autonomy and independence are more important than profits or growth. Chell and Baines' study (2000) indicate that it is entrepreneurs in the sense of individuals who are driven by a need to create wealth and accumulate capital who are the most likely to use external sources of advice. But according to Chell and Baines these are a minority of owner-managers.

Which supplier of business advisory services an owner-manager relies on when it comes to advice is to a large extent dependent on the relationship of *trust* between the supplier of advice and the owner-manager (Bennett and Robson, 1999). This is especially due to the fact that advice is a specific kind of business service that involves a largely *intangible product*. The process of production of advice is often an exchange process involving learning on both sides (O'Farrell and Moffat, 1995). As a consequence, the quality of the *personal relationship* is critical in these exchanges (Bennett and Robson, 1999). As we will discuss later in this paper, this quality of the personal relationship between Norwegian authorized accountants and the owner-manager of small firms is potentially greater than that which can be achieved by consultants.

In Norway only a minority of small firms have pronounced growth ambitions and of these only a small proportion are actually realizing their ambitions (Spilling, 2000). Characteristic of this minority is that they have a systematic approach to innovation activities such as product development, marketing and competence development (Spilling, 2000). This may also be the case when it comes to the need for competence development. Research shows that small firms are significantly less likely than large firms to evaluate their future competence needs, even though most of them expect an increasing need for competence development (Nordhaug and Gooderham, 1996). They are also less likely to invest in training (Nordhaug and Gooderham, 1996). As such Norwegian small firms share the characteristics of small firms in general.

Public Policy and Small Firms

Due to the importance of small firms to the economy, public authorities in both Norway and other European countries have introduced a series of initiatives to improve their competence and business performance. Throughout the 1990s an aim of the Norwegian authorities has been to stimulate small firms to invest in competence resources. Core measures have involved ambitious business development programs under the management of the Regional Development Agency (SND) and The Institute for Applied Technology (TI). It has been shown, however, that these programs have had a negligible impact on the firms that have been involved (Kvitastein, 1997). In addition, it has been shown that public suppliers of business advice and training are among the least used by small firms in Norway for competence and technological development transfer (NHO, 1994; Nordhaug and Gooderham, 1996). These outcomes are not unique to Norway. In the UK a majority of small firms are dissatisfied with government support services (Wilks, 2000). A survey carried out by the University of Strathclyde concludes that government services intended to help businesses fail to do so. Bennett and Robson’s (1999) study indicates similar outcomes: government support agencies have significantly less impact on small firm clients than private-sector consultants and business associations.

There appears to be a number of reasons for these discouraging results. In the Norwegian case there is clear evidence that a substantial part of the problem is getting the advice from SND and TI consultants integrated into the businesses they are trying to serve. This is primarily due to a lack of insight into the idiosyncratic cultures of their clients. Owner-managers of small businesses typically adhere to a self-employed or micro firm culture of individualism (Gray 1995, referred in Chell and Baines, 2000), which contrasts to the culture of state funded consultants. A second problem is that the consultants employed by SND and TI offer services that often assume order, standardization, accountability, control, systems and planning rather than the skills needed to "thrive in the chaos" small firms have to cope with (Gibb, 1997). Accordingly, we will argue that other value creation agents must be identified for the small firm sector. Of the possible value creation business relationships external to small firms, we will focus on the role of the authorized accountant.

The Role of the Authorized Accountant

There are several reasons for why we view small accountancy practices as being in a favorable position in regard to acting as small firm business advisers. First, it is significant that authorized accountancy practices in Norway themselves occupy the small business sector and are therefore acquainted with the culture, problems and issues of small firms. Second, and of more significance is the potential they have to develop relational competence in respect to their clients (Gooderham and Nordhaug, 2000). In many instances, the accountancy firm is regarded as an integral part of the business. In addition, there is a high degree of permanence in the relationship between an accountancy firm and its client (Marriot and Marriot, 2000; Nordhaug, 2000), which contributes to the creation of intimacy and trust between the client company and the accountancy firm. Third, accountants have, together with banks and solicitors, the advantage of working within a strong self-regulatory framework that generates high institutional trust among clients (Bennett and Robson, 1999). As we have noted, in Norway accountants can only practice if they are in receipt of authorization from the state. The purpose behind this authorization is to ensure that the work of the accountant is executed in an adequate manner in accordance with prevailing laws and regulations.

In general research conducted in the UK confirms that accountants play an important role for small firms, although the findings are somewhat diffuse in regard to the precise nature of the role they play as business advisers. Kirby and King (1997) found that for small firms accountants are among the most frequently used external sources of advice. The factors that appeared to be most important for the use of the accountant for non-statutory work (non-auditing and taxation) were the relationship established through statutory work followed by "perceived value for money" and previous advisory work undertaken by the accountant. However, it is worth noting that than none of these factors was decisive for half of the firms in the sample.

Similarly Bennett and Robson (1999) found that although most small firms used several different sources of advice, specialist professionals are the most frequent source of external advice for small firms. Of these accountants are most used (compared to banks and solicitors). In addition, accountants are, together with customers, ranked as those external sources of advise which have greatest impact[2].

Marriot and Marriot (2000) conclude in their study that there appears to be significant potential for professional accountants to expand the management accounting services they provide to smaller companies. They conclude that accountants have a role to play in increasing the financial awareness of the owner-mangers and can provide a management accounting service to meet their needs and abilities. The current demand for the accountant's reporting services is driven by regulatory requirements, but it is possible to extend these services beyond these.

Deakins et al.'s study (2001) study of small businesses also indicates that an important task for accountants is to act as consultants to the manager (invariably the owner). The tasks involved supplying advice on internal planning, decision-making and control, that is, in areas where an owner-manager of a small firm often lacks competence, as discussed previously. Accountants were shown to be of significant help to the manager-owner in running the company particularly when it came to the introduction and implementation of changes. Such a role was also shown to be of critical importance in the early phase of the business. The contact between the accountant and the manager-owner was especially significant for the learning processes that occur in the business.

While the above findings are generally positive about the accountant as a small business adviser, Greene, Kirby and Najak's study (1998) from the north of England indicate that

[2] There are some constraints in this interpretation due to non-responses to this question.

small business owner-managers see little need for external support and advice. When they do seek advice this is because the advice is viewed as necessary in meeting requirements set by the law rather than because it adds value to the business. In these situations it is, however, generally the accountant who is the source of advice, once again suggesting that accountants are primary sources of business advice.

Propositions

The research we have reviewed suggest that the relational competence accountants are able to develop is an important factor in explaining their use as business advisers by small firms. In addressing variations in their use by small firms we propose therefore that:

Proposition 1
The stronger the relationship between the small firm and its accountant, the more likely it is that the accountant will be used as a business adviser.

It would seem reasonable to suppose that relationships are developed over time so that:

1a. Small firms with long-term relationships to their accountant are more likely to use their accountant as a business adviser.

We propose further that the use of accountants as business advisers will be affected the perceptions of the accountant’s competencies developed by the firm. In other words:

1b. The more competent the accountant is perceived to be in respect to statutory services the more likely it is that the small firm will use the accountant as business adviser, and

1c. The more competent the accountant is perceived to be in respect to non-statutory services the more likely it is that the small firm will use the accountant as business adviser.

The small firm research we have reviewed points to a number of dimensions that make small firms more vulnerable than larger firms. In large part this vulnerability is resource-based in the sense that small firms lack the necessary routines and competencies for survival.

Proposition 2

The more resources the firm disposes, the more likely it is that the accountant will be used as a business adviser.

One indication of a firm’s resources is reflected in its size so that:

2a. The larger the firm the more likely it is that the accountant will be used as a business adviser.

Another resource lies in a firm’s competency orientation or absorptive capacity, i.e. its willingness to absorb and to invest in new knowledge (Cohen and Levinthal, 1990). Thus:

2b. The greater the receptiveness of the firm in regard to non-statutory advisory services, the more likely it is that the accountant will be used as a business advise, and

2c. The more the firm is willing to pay for non-statutory advisory services, the more likely it is that the accountant will be used as a business adviser.

The uncertainty faced by small firms does not only derive from endogenous factors, but also from exogenous factors in the sense of competitive pressures. The more competition faced by a small firm the less likely it will able to survive because its narrow resource base does not permit it to adapt its product or service spectrum. I.e. small firms facing competitive pressures need to be able to source critical competencies for survival and development so that:

Proposition 3.

The stronger the competitive pressures faced by the firm, the more likely it is that the accountant will be used as a business adviser.

In the next section of the paper we will test these propositions while controlling for industry sector.

Empirical Analysis

Sample

Using a structured questionnaire in May1998 we conducted a survey of small firms in Norway by telephone. The sample was generated randomly using client lists from a random selection of authorized accountants. In all 305 firms cooperated of which 65% had fewer than five employees, 24% had between five and nine employees, with the others having between ten and twenty employees. Ninety per cent of the interviews were conducted with the manager of the firm. The remaining ten per cent were conducted with the deputy manager.

Operationalization of variables

In this section we present the operationalization of the variables

Dependent variable

The degree to which a small firm uses its authorized accountant as a business adviser

Scale from 1-6; 1 = to a very small degree and 6 = to a very large degree.

Independent variables

1a. *Long-term relationship with accountant*:

Dichotomous variable: 1=changed accountant in the last five years

2=have not changed accountant in the last five years

1b. *Perceived competence in statutory accountancy services*

The degree to which the firm perceives its authorized accountant as a competent source of statutory accountancy services. Scale from 1-6; 1 = very limited competence and 6 = very highly competent.

1c. *Perceived competence in business advisory services*

The degree to which the firm perceives its authorized accountant as a competent source of business advisory services. Scale from 1-6; 1 = very limited competence and 6 = very highly competent.

2a. *Firm size*

Number of employees:

1 employee = 1

2-4 employees = 3

5-9 employees = 7

10-20 employees = 15

2b. *Receptiveness for business advisory services*

The degree of interest small firms have in their authorized accountants' attempting to sell them advisory services on a scale from 1-6; 1 = very little interest and 6 = very large interest.

2c. *Maximum rate for business advisory services*

The upper hourly billing rate the firm is willing to pay for business advisory services

Do not know or under NKr 300 = 1

NKr300-450 = 2

NKr 451-650 = 3

NKr 651 or more = 4

3. *Degree of competition*

Scale from 1-6 with 1=negligible and 6=very hard

Industry sector

Retail sector, manufacturing industry and services sector with the retail sector as dummy.

Testing of propositions

Prior to testing our propositions let us examine our dependent variable, i.e. the extent small firms use their authorized accountant as a business adviser for issues beyond statutory services. Table 1 indicates that nearly 45 % use their accountant as a business consultant to a very large or large degree, while nearly 30% either do not use their accountant at all in this respect or do so only to a small degree. These findings indicate substantial variations.

Table 1. The degree to which small firms use authorized accountants as business advisers (n=305).

Degree	Percentage
Very large	18.4
Large	26.2
Some	26.2
Small	13.8
Very small	9.2
Not at all	6.2
Total	100

Table two features a correlation matrix containing the variables derived from our propositions. It indicates particular support for propositions 1b, 1c and 2b. In addition there is a significant correlation between degree of competition and the degree to which authorized accountants are used as business advisers. This supports proposition 3 in that it suggests that competitive pressures do stimulate small firms to use their accountants as business advisers. The table indicates that small firms' receptiveness for business advisory services and their perception of their accountants' competence in statutory accountancy and business advisory services are interrelated.

Table 2 Correlation matrix for variables featured in the propositions

	N	Mean	S.D.	Dep.	1a	1b	1c	2a	2b	2c	3
Dep. Degree to which authorized accountant is used a business adviser	305	4.12	1.43	1.00							
1a. Long-term relationship with accountant	301	1.76	0.43	.05	1.00						
1b. Competence in statutory accountancy services	295	5.29	0.83	.23**	.06	1.00					
1c. Competence in business advisory services	277	4.22	1.31	.30**	.05	.30**	1.00				
2a. Firm size	304	4.87	4.16	.05	-.01	-.05	-.05	1.00			
2b. Receptiveness for business advisory services	293	2.07	1.13	.25**	.08	.16**	.21**	.03	1.00		
2c. Maximum rate for business advisory services	305	2.07	1.13	-.02	-.02	-.06	-.11	.01	.03	1.00	
3. Degree of competition	299	4.24	1.25	.11*	.02	.01	.05	.13*	.11	.03	1.00

*p<.05 **p<.01

In table three we have employed standardized regression analysis to test our propositions.

Table 3. Determinants of the degree to which small firms currently use their authorized accountants as business advisers. (Standardized regression.) (N=260.)

	BETA
1a. Long-term relationship with accountant	.024
1b. Perceived competence in statutory accountancy services	.147*
1c. Perceived competence in business advisory services	.213**
2a. Firm size	.052
2b. Receptiveness for business advisory services	.151*
2c. Maximum rate for business advisory services	.017
3. Degree of competition	.075
Manufacturing	.028
Services	-.030

The analysis indicates that the relationship between the small firm and its accountant is important in that both propositions 1b and 1c are supported. However, it appears that the actual longevity of the relationship (proposition 1a) is not important.

In terms of the resources the firm disposes only one aspect of this, the receptiveness of the firm in regard to advisory services (proposition 2b), is significant.

With regard to the effect of competition (proposition 3) there is no significant effect. Tests were conducted for a possible “inverse-U” effect, but none was found. In regard to the control variable, the table indicates no sector differences.

Finally, it is important to note that with explained variance (R^2) at .147 there clearly remains a considerable research effort to acquire a more comprehensive understanding of the determinants of small firms' use of authorized accountants as business advisers.

Conclusions and Future Research Directions

It is argued that long-term relationships often result in a high degree of trust between the parties (Ring and Van de Ven, 1992). It might therefore be supposed that because trust is an important factor in the purchase of advisory services (Bennett and Robson, 1999) that the longevity of the relationship between the small firm and the accountant would be important in determining their use as business advisers. However, in terms of our study this is not the case. This means that a small firm's satisfaction with its accountant is actually independent of the duration of the relationship. Trust therefore seems to be more a result of the quality of the services delivered rather than the duration of the relationship. That is, in line with previous research (Marriot and Marriot, 2000), our results indicate that small firms are reluctant to change accountant even when they are dissatisfied. This may be due to the asymmetry of the information that normally exists between an accountant and a small firm. This asymmetry makes it difficult for an owner-manager to assess whether a new accountant will do a better job, so that the small firm chooses to stay with its existing accountant. Besides, even though an owner-manger is not satisfied with her accountant, she may consider that the regulatory responsibilities are being sufficiently attended to.

Unsurprisingly our study indicates that the small firm must perceive its accountant as a credible deliverer of business advisory services if they are to be used in an advisory capacity. However, for a small firm to purchase business advice from its accountant the results of our study indicate that there are at least two conditions that must be fulfilled. First, the statutory services the authorized accountancy firm delivers must be perceived as being of high quality. Second, the small firm itself must have an ambition to grow or to develop in the sense that they are receptive to the advisory services being offered to them. If these two conditions are met, there is a significant increased tendency that a small company will use non-statutory services from authorized accountancy firms. Of these two conditions, it is the latter that we regard as representing an important challenge for future research.

It would appear that an owner-manager of a small firm must have some critical degree of *strategic intent* concerning growth ambitions (Gooderham, 1995; Hamel and Prahalad, 1989). Strategic intent is the willingness to set out goals and aspirations that create a motivating gap between ambition and existing resources (Hamel, 1995). The concept encompasses an active management process and provides consistency to short-term action while at the same time leaving room for reinterpretation as well as the emergence of new opportunities (Hamel and Prahalad, 1989). A firm with a strategic intent will probably be more interested in developing its own competence (Rumelt, 1984), and as such, be more interested in business advice beyond statutory accountancy services because it may result in competence development in the firm.

However, we suggest that strategic intent alone will not lead to competence development and the use of business advisory services. The firm must also have a certain degree of absorptive capacity (Cohen and Levinthal, 1990; Gooderham, 1995). Absorptive capacity is a dynamic capability that is embedded in a firm's routines and processes making it possible "to recognize the value of new information, assimilate it, and apply it to commercial ends" (Cohen and Levinthal, 1990:128). Our future research will seek to examine these two factors, i.e. strategic intent and absorptive capacity, and to explore their amenability to external influence.

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