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THE SMALL BUSINESS EXPERT ADVICE GAP ⁸⁹₆₄₈₆

AND THE ROLE OF PUBLIC ACCOUNTANTS

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ABSTRACT

Small business allegedly has a shortfall in accounting and related business expertise. Public accountants have been criticised for not adequately meeting this need thus creating a small business expert advice gap. The implication of this criticism, if true, is that public accountants are not performing the role expected of them by society.

Commentators have referred to various barriers which prevent public accountants from meeting small business needs for their services. However, there has been little attempt to structure these factors into a consistent conceptual framework. This thesis develops and tests such a conceptual framework as a necessary prerequisite towards narrowing such a gap. A large-scale survey of small firms, public accountants and third parties was undertaken in New Zealand in 1991 to explore the role of public accountants in relation to small business and the factors inhibiting the discharge of that role. It was found that the main role expected of public accountants is to provide compliance services, give accounting-related advice, be concerned for clients' financial health and actively seek out client problems (which was not, however, generally perceived to be actually carried out in practice). An expectation gap was found between expected roles and actual roles except for the provision of compliance services.

Of the twenty-eight factors postulated as causing a small business expert advice gap, thirteen factors were perceived as causing a gap, ten factors were not perceived as causing a gap and opinion was divided on the remaining five factors. The main gap factor is the small business wish to use only the minimum of public accountants' compliance services. This is attributed mainly to cost-constraints on the part of small business rather than a perceived lack of public accountant competence to supply other services. The main gap factor attributable to public accountants is their lack of communication skills. On the question of fees, public accountants regard their fees as being reasonable, but small business and third parties regard them as being unreasonable. Further analysis revealed that whereas compliance services are regarded as cost-beneficial, opinion is divided as to the cost-effectiveness of business advisory services. Compliance services are perceived as being of high quality but many business advisory services as being of lower quality. This indicates a performance gap in the area of public accountants' business advisory services.

A perception gap is indicated by the fact that public accountants, small business and third parties have significantly different opinions concerning the role of public accountants, the quality of their services, and the factors causing an expert advice gap. Public accountants generally take a more favourable view of their own role and performance than do small business and third parties.

To narrow the small business expert advice gap, public accountants are recommended to adopt a more proactive approach, upgrade their communication skills, improve the quality and the cost-effectiveness of their business advisory services and reduce fees.

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CHAPTER 1

OVERVIEW OF THE RESEARCH PROJECT

1.1 Significance of the Study

Over the last twenty years there has been a resurgence of interest in small business in western industrialised nations as a result of a growing awareness that the small business sector has a significant economic role to play. In particular small business is seen as having a unique contribution to make in revitalising faltering economies (Bolton, 1982, p,x). The small business sector accounts for an important part of the New Zealand economy contributing up to 54 percent of private sector employment, up to 45 percent of Gross Domestic Product and an estimated 50 percent of manufactured exports (Devlin, 1984b, p.2; Cameron, Tweed & Hammersmith, 1990). A healthy small business sector is seen as a vital ingredient to a flourishing and enterprising New Zealand (Haines, 1991). However, as New Zealand has had one of the slowest rates of growth amongst the countries of the Organisation of Economic Cooperation and Development [OECD] in recent decades (OECD, 1989, p.15), it is important to identify areas where small business survival and growth may be improved. One area of possible improvement is in the quality and range of services small business receives from professional experts. The theoretical foundations on which professions rest is the provision of expert services in areas of importance to humankind in order to solve or ameliorate problems.

In many cases the professional advisors used most often by small business are accountants in public practice. A significant part of the work of the accounting profession in New Zealand is the provision by public accountants of expert advisory services to small enterprises (Kelly, 1989, p.11). In spite of being the main professional advisors to the small business sector, professional accountants have been criticised for allegedly not meeting the needs of small business clients (Back, 1979, p.15; King, 1980, p.233; McGuinness, 1987, p.10) and, even more seriously, for being confused as to what their role should be (Beck, 1972, pp.13,14). A question which vitally concerns the accounting profession is whether or not such criticism is justified, for, according to role theory, the role of the accounting profession in relation to small business is to satisfy small business needs for advice in accounting and related areas where accountants have expertise. The occurrence of a significant expert advice gap between small business needs and accountants' services may indicate that the accounting profession is not fulfilling the role expected of it and that remedial action may have to be taken to bring expectations into line with performance.

There is a general lack of research on the role of professional advisors in relation to small business and on the factors affecting that role (Robertson & Owens 1986, p.48). In the area of professional accountants and their small business clients, studies have been undertaken in the United States (Vance & Wiseman, 1961; Arnold, Cherry, Diamond & Walker, 1983), in Britain (Chittenden, McConnel & Risner, 1990) and in Australia (Holmes & Nichols, 1990, pp. 34-72). In contrast, no major research study has been undertaken in New Zealand on the nature of the relationship between public accountants and their small business clients.

Research undertaken overseas on the interface between professional accountants and small business has usually elicited the views only of accountants and small business. It is contended that, in order to obtain a

wider perspective, the views of third parties such as bankers, enterprise agencies and business consultants should also be sought.

In 1983 the New Zealand Society of Accountants [NZSA] undertook a major study, entitled 'Horizon 2000 and Beyond - Issues Facing the Accounting Profession', which examined the problems and challenges facing the accounting profession. The objectives of the study were "to establish the present profile of the profession, *its present role in the community, how adequately it is discharging that role, problem areas and means of overcoming them* [emphasis added]" (NZSA, 1983, p.2). Significantly, in spite of the importance of the small business sector to the New Zealand economy, no specific attention was given in Horizon 2000 to the role of the accounting profession in relation to small business, an omission which this study intends to redress.

1.2 Aim

The specific aim of this study is (1) to explore the role of public accountants in relation to small business, (2) to identify factors which inhibit the discharge of that role resulting in a small business expert advice gap and (3) to determine whether role-senders have different perceptions of the role of public accountants and of the factors inhibiting that role.

1.3 Objectives

The specific objectives of the study are, in relation to:

1. Role

- a. to explore, by means of a literature survey, the special needs of small business for external expert advice in general and for professional accountants' services in particular
- b. to explore, by means of a literature survey, the role of the accounting profession in relation to small business clients
- c. to identify empirically the actual and expected role of public accountants in relation to small business, by eliciting the opinions of public accountants, small business and associated third parties
- d. to identify empirically whether public accountants, small business and third parties have similar perceptions of the role of public accountants in relation to small business

2. Expert advice gap

- a. to identify, by means of a literature survey, whether a small business expert advice gap is perceived to exist in relation to public accountants
- b. should such an expert advice gap be indicated by (a) above, to develop a conceptual framework which helps to explain the small business expert advice gap in relation to public accountants
- c. to empirically test the conceptual framework of the small business expert advice gap by eliciting the opinions of

public accountants, small business and associated third parties

3. Different perceptions

to identify whether public accountants, small business and third parties have different perceptions of the role of public accountants in relation to small business and of factors inhibiting that role thus causing a small business expert advice gap

1.4 Scope and Definitions

This study examines overseas as well as New Zealand literature relating to the relationship between small business and public accountants. Small business and the accounting profession exhibit certain general features, problems and trends that transcend national boundaries. By reviewing the findings of commentators both in New Zealand and overseas a better understanding is provided of the general nature of the relationship between small firms and their professional accounting advisors. Additionally, it will allow identification of those areas where inferences must, by default, be drawn from overseas research because no relevant New Zealand research has yet been undertaken.

The empirical research study encompasses all regions in New Zealand and includes small businesses in all industrial sectors apart from the farming sector.

For the purposes of this research a public accountant is defined as an accountant who provides a service to the general public in return for a fee

rather than being employed by any one organisation and being paid a salary. Public accountants are sometimes called external accountants.

In general terms 'public accountant' denotes any professional accountant in public practice. However, in the specific context of New Zealand a public accountant means a chartered accountant (that is, a member of the New Zealand Society of Accountants) in public practice.

Compliance services are those services such as preparation of annual financial statements and tax returns which public accountants provide to help clients comply with company and tax law.

Business advisory services consist of a range of services such as budgeting, costing and business planning which public accountants provide to help small firms operate more effectively.

The term 'business advisory services' tends to be used in New Zealand and in Britain whereas the term 'management advisory services' is more commonly used in North America and Australia. Both terms have the same meaning. Wherever possible the term business advisory services is used in this research report.

Some quotations included in the study contain male gender specific terms. Such terms should be construed to cover both the male and female genders.

1.5 Limitations

This research relates to perceptions only. For example, where a respondent states that a particular service is of low quality, this is a perception or opinion only. Such a service, measured against some generally accepted standard, may actually be of low quality, or it may actually be of high quality but not

perceived as being so. It is beyond the scope of this study to prove whether perceptions on any particular issue are accurate interpretations of reality.

1.6 Summary

New Zealand's economic performance is declining relative to other OECD countries. The small business sector comprises a significant part of the New Zealand economy. Public accountants are often the principal professional advisors to small firms, nevertheless they have been criticised for providing a less than adequate service. To achieve the role expected by society of professional experts as efficient and effective providers of advisory services to the small business sector, the accounting profession must clearly understand the nature of its role. Both the accounting profession and the small business sector must be aware of any major areas of weakness in their relationship with each other so that remedial action can be taken. No significant research has, hitherto, been undertaken in New Zealand on the interface between the accounting profession and small business clients. The research undertaken in this study is intended to fill this hiatus.

More specifically, the purpose of this research is to review the relevant literature to determine the role of public accountants in relation to small business and to identify areas where there may be a mismatch between the needs of small business for public accountants' services and the adequate provision of those services by public accountants. In the event of a small business expert advice gap in relation to public accountants being indicated, a conceptual framework will be developed to explain the identity and interrelationships of the factors comprising such a gap. The role of public accountants in relation to small business and the conceptual framework of the small business expert advice gap will be tested empirically by eliciting the views of a representative sample of public accountants, small business owner-managers and associated third parties.

In chapters 2 and 3 the literature is surveyed to obtain an overview of the theory and research relating to needs of small business for public accountants' expertise and of instances where these needs may not be being met.

CHAPTER 2

SMALL BUSINESS AND ITS NEED FOR THE EXPERTISE OF EXTERNAL ACCOUNTANTS

2.1 Introduction

In New Zealand firms there are 140.000 enterprises with less than 50 employees. This comprises 98 percent of all enterprises and accounts for 44 percent of private sector employment excluding agriculture (New Zealand Business Patterns, 1990). Using the criterion of employment, small business is therefore of considerable national economic importance. To obtain a clear comprehension of the relationship between small business and the accounting profession, it is first necessary to establish what is generally understood by the term small business. Defining small business is difficult because in the market economy the unit organisation of activity is a continuum, running from the smallest of part-time ventures through to giant multinational companies with no clear break points which neatly divide businesses into small, medium or large categories. Neither is the legal form, whether it be sole trader, partnership, private or public company, of much relevance since that form offers no rational guide to market share, management structure or access to capital (Bannock, 1981, p.28). However, there is one major distinguishing feature that forms the core of any small business definition. When Bolton (1971) conducted a major inquiry into the British small firm sector it was found that:

The all-important characteristic which is shared by these highly disparate enterprises...is that they are managed by the people who own them. It is this which gives unity and meaning to the elusive concept of the 'small firm sector'. (p.15)

2.2 Defining Small Business

Small firms are not simply infantile versions of large ones, even though the two may have much in common (Cohn & Lindberg, 1974, p.v). Bolton (1971, p.1) decided that a definition of small business should emphasise those characteristics which make their performance and problems significantly different from those of larger firms. The three main distinguishing characteristics are:

1. Ownership is restricted. Management is by the owner(s) in a personalised way and not through the medium of a formalised, specialised management structure.
2. Being independent, in the sense that the firm does not form part of a larger enterprise and the owner-manager is free of outside control in making major decisions.
3. In economic terms, having a relatively small share of its market and industry, and serving a local or regional, rather than a national market.

A report on the South African small business sector (National Manpower Commission, 1984) defined small business in the following terms:

A small business firm can be regarded as an independent economic unit whose aim is to account profitably for the capital and risk

attached thereto and which manifests distinctive characteristics such as independent ownership, independent management, a simple organisational structure, and a relatively small influence on the market; and whose owners can be identified with (1) the entrepreneurs, (2) the part suppliers of capital, the management of the business, the decision makers and (3) those who share in the profits. (p.6)

The first part of the above definition is the same as that of Bolton but the second part elaborates on the differences between small and big business. The National Manpower Commission report (1984, p.7) explains the meaning of the terms used in the second part of the above definition as follows:

(1) Owners are the entrepreneurs: In a small business the owners are also those who take the initiative, make the decisions and run the risks. In a large enterprise these functions are often performed by professional managers.

(2) Part suppliers of capital: The owners, who are also the managers, often supply a large part of the capital required in the business and should loan capital be obtained, the owners are responsible for the external liabilities, an exposure to risk which often extends even to private companies due to financiers' requirements for personal guarantees from the principal shareholders.

(3) Profit-sharing: In small firms the profit-sharing parties, the managers, the suppliers of capital and the entrepreneurs are usually one and the same person or group of persons, in contrast to large enterprises where these parties are clearly separable.

Wiltshire (1971) adopted a definition which highlighted the small firm paradox; the small business owner-manager possesses *limited* functional skills,

but business survival demands *a wide range* of functional skills. In the view of this influential Australian report a small business is:

A business in which one or two persons are required to make all the critical management decisions: finance, accounting, personnel, purchasing, processing or servicing, marketing, selling, without the aid of internal specialists and with specific knowledge in only one or two functional areas. (Wiltshire, 1971, p.10)

The Small Business Committee of the American Institute of Certified Public Accountants [AICPA] identified a further attribute of small business that follows logically from Wiltshire's emphasis on the narrow range of management skills. "Small businesses require a broad range of services and consultation from outside advisors" (Collins, 1987, p.145).

Public accountants may define small business according to their own perspective. For example Weinstein (1982, p.57) believes that for accounting practitioners a small business is defined more by the services required than by such traditional measures as volume of business or number of employees. In a typical small business situation, the public accountant must play many roles ranging from bookkeeping supervisor and instructor to chief financial officer, systems expert and tax advisor. In the view of Norrie (1988, p.3), a small business is simply any firm in which use of a public accountant is more cost-effective than establishing an in-house accounting system.

2.3 The Significance of Owner-Management to Small Business

The small business sector is essentially the 'owner-managed' sector as opposed to the 'professionally managed' big business sector. "The word small is in a sense inappropriate for the aspect of 'size' is only a condition of the way management information is used" (Porter, 1988, p.26). The

personal involvement of the owner-manager is of crucial significance in understanding small business. Business size is therefore often a function of management structure rather than vice versa. Small firms are small because owner-managers generally cannot, or will not, change their structures and attitudes to facilitate and control expansion. A salient feature of small firms is therefore the simplicity of their management structure.

The typical small firm is directly managed by its owners, who themselves take nearly all important decisions and probably oversee their execution as well.... This direct dependence on the proprietor for every facet of the detailed running of the business is the source of most of the strengths, and many of the weaknesses, of small firms. (Bolton, 1971, p.112)

2.4 The Special Problems of Small Business

Because of limited management and financial resources merely staying afloat is far from easy for the vast majority of small firms (Cameron, 1988, p.17). This critical aspect of small business dynamics received specific attention from Bolton (1971): "A man running his own business, if it is of any size at all, is after all engaged in a very difficult operation, in which mere survival is something of an achievement" (p.114).

There are three major potential problems which stem from the almost total reliance on one or two key people in operating a small business: (a) the skill and experience of any one person are necessarily limited, (b) the majority of small business people have no formal education qualifications, especially qualifications in management, and (c) the business is operated on the basis of commonsense and experience rather than specialised training. This basis is only satisfactory so long as the firm remains small enough for one person to control it effectively or no serious crisis overwhelms the owner-manager's

pragmatic judgement. The occurrence of either significant growth or a major crisis is likely to reveal a need for certain specialist skills which are unlikely to be found within the average small firm (Bolton, 1971, p.112).

A president of the Australian Society of Accountants saw the problems that are special to small firms as follows:

- * A general lack of management training
- * Inadequate financial records and simple monitoring procedures
- * Insufficient funds to expand or embark on new technology
- * Difficulty in communicating problems
- * Limited capacity to retain profits in the business
- * Lack of skills to calculate cost of goods sold or establish the level of break-even sales
- * Ignorance of the "rainy day" concept
- * High cost of external funds compounded by collateral or security constraints

All of these difficulties are regarded as well within the capabilities of accountants to provide support and advice (Scott, 1980, p.587).

2.5 The Small Business Need for Advice from External Experts

Every large company as a matter of course employs specialists in management functional areas such as accounting, purchasing, production, marketing and personnel. The small firm is prevented by its scale of operations from similarly employing a specialist in every function. "Big companies can afford to have many of their experts on the inside. Little companies cannot do that" (Stevenson & Sahlman, 1988, p.29).

One of the most important differences between small firms and large ones, from the point of view of the accounting profession, is this fact that big business has functional specialists in each management area whereas the typical small firm owner-manager is skilled only in one or two functional areas. The logical consequence of this situation is a management skills gap which, if not filled, can be expected to lower the survival chances of the small firm. To fill such a management skills gap the owner can either develop the necessary skills internally or try to acquire them from external sources. It appears that the first option is not a popular one. In a survey of the education and training needs of Australian small business it was found that the majority of small business owner-managers did not attempt to rectify their skills deficiencies by undertaking more education and training to improve their own competencies (Bailey & Royston, 1980, p.3). The consequence of this situation is that essential expertise must usually be acquired from external sources. In the case of accounting and related needs, professional accountants in public practice are the source of external expertise most commonly used by small business.

According to Dixon (1985, p.2) a similar situation exists in New Zealand. One of the most important needs of small firms is ongoing, continuing advice from outside professionals to compensate for deficiencies in owner-managers' skills. This advice is necessary not just at start-up but at all stages of development of the firm. The Small Business Agency's publication (undated) 'You and Your Chartered Accountant' explains the need of small firms for public accountants in the following terms:

Many aspects of small business management require the same specialist services as a bigger business; accountancy is one. Most small business owner-managers lack the specialised knowledge to undertake the many complex operations required for adequate financial management systems. Because small businesses cannot often afford to employ a full-time accountant, it is wise to use the

services of a chartered accountant in public practice, who operates on behalf of many clients.

At a fundamental level Shannon (1985, p.157) states that, in order to meet the needs of small business, public accountants must recognise five main areas where owner-managers have weaknesses caused by their general lack of management training:

1. Their inability to recognise business problems
2. Their inability to select data to solve problems
3. Their lack of awareness of data that are available to solve problems
4. Their inability to understand data that are available to solve problems
5. Their fear of the implications of using data that are available to solve problems

2.6 The Areas where Expert Advice is Needed

Various commentators have referred to the functional management needs of small firms. For example, Bolton (1971) states that "it is very widely believed that the general level of management in small firms is low, although all would agree that there are brilliant exceptions" (p.113). However, Bolton's research (1971, p.113) revealed a strikingly consistent picture of the need for small business operators to improve their performance in four areas, namely, production, personnel, finance and marketing.

Dixon (1985, p.3) identifies the specific needs relating to New Zealand small business as also lying in all four main functional areas. Particularly mentioned are general management, long-range planning, organisation,

personnel, marketing, finance, management sciences, production and systems. In Dixon's opinion these functional needs could be met by public accountants.

2.7 Causes of Small Business Failure

There is a high risk that fundamental management weaknesses, if not rectified, will lead to business failure. One way of identifying apparent owner-manager deficiencies has been to investigate the causes of the high rate of small business failure. A survey of almost 14,000 Australian firms by Williams (cited by Lander, 1988, p.43) showed that 30 percent of all new business collapsed within one year, 61 percent within three years, 73 percent within five years and 93 percent within ten years.

In a major survey of the literature relating to small business bankruptcy and failure, Berryman (1982, p.8) concluded that the apparent main causes are management incompetence, behavioural aspects of the owner-manager and exogenous factors (such as the economic environment). Williams (1982, p.23) maintains that up to 70 per cent of aspiring entrepreneurs do not have the requisite skills and experience to start a small business venture and operate it successfully.

A similar picture emerges from Canada where 66 percent of business failure was directly attributed to managerial incompetence, that is, the inability to plan, analyse, control and direct the operations of the business. It is precisely in these areas where chartered accountants can be invaluable (Landesberg & Edmunds, 1983, p.115).

In a New Zealand study of two manufacturing industries (chemicals/plastics and furniture/upholstery), it was found that approximately one third of the firms did not survive the four year period surveyed; furthermore, as these findings related to established firms, it is probable that the closure rate for

new firms is significantly higher (Lawrence, 1984). In a large study of New Zealand small business advice needs undertaken prior to the setting up of the Small Business Agency, Devlin and LeHeron (1977, p.7) discerned three main problems areas affecting small business; (1) financial management and control, (2) planning for change and management succession, and (3) marketing and selling. The New Zealand small business sector was found to exhibit many of the common needs and problems of small businesses throughout the world. Especially significant was the high percentage of New Zealand firms in the first, very vulnerable, year of business (Devlin & LeHeron, 1977, p.12).

2.8 The Crucial Importance of Financial Management to Small Firms

Small firms are often weak in a number of functional areas. However, there are indications that the most critical area is that of finance and accounting. Curran (1988, p.28) points out that four management functions are involved in running almost any enterprise, namely, production, financial control, marketing and personnel. In practice, the two key functions are financial control and marketing. Production and personnel have rather less importance, though for differing reasons. Financial control is often crucial to survival in a way that other managerial functions are not because there is usually more tolerance of poor performance in these other functions. However, slack financial control often spills over into poor performance of the marketing and production functions. Therefore the fulcrum of small business development is financial management. The conundrum is how to get this into firms which do not possess it (Milne & Thompson, 1986, p.89). Survival may thus be highly dependent on the extent to which outside financial management services are utilised and how effective these services are. For example, Potts (1977) found that successful companies used outside accountants' services much more extensively than unsuccessful ones.

2.9 Factors Determining Small Business Advice Needs

Small business needs for management advice are not homogeneous but are influenced by a number of variables of which the most important are:

1. The nature and goals of the owner-manager (Peacock, 1985, p.94; Perry, 1985)
2. The skills, education and experience of the owner-manager (Zevenbergen, 1986, p.377; Holmes, 1988a, p.204)
3. The industry sector in which the business operates (Holmes, 1988a, p.264; Peacock, 1985, p.93)
4. The stage of growth of the business (Peacock, 1985, p.94; Berryman, 1986, p.41)
5. The extent to which the business is family owned (Meredith, 1985, p.36)

2.10 Summary and Conclusions

Defining a small business is complicated by the fact that there is no single organisational or legal form which exclusively separates small firms from any other size of firm. The workable definitions that have been devised over a period of time are based on those characteristics which differentiate small firms from large firms. These differentiating attributes are:

- * management is by the owner(s)
- * management's skill base is narrow

- * the firm does not form part of a larger enterprise which can supply additional resources
- * market share is small
- * there is a greater need for external expert advisors.

Small firms have a very high failure rate, especially in the early stages of development. Skills that will allow them to survive must either be inherent in, or learned by, the small business owner-manager(s). Alternatively, essential functional survival skills can be acquired by employing skilled staff or by paying for external expertise as and when it is required. Many of the skills identified as being crucial to small business survival are often found to be lacking within the small firm. The literature indicates that small firms in western developed nations such as New Zealand, Australia, Britain and the USA could improve their performance in many functional management areas but particularly in financial management and thus enhance their chances of survival and growth.

As professional accountants, chartered accountants in public practice should have the expertise to service the accounting and associated business advice needs of the small business sector. In the next chapter the adequacy of the accounting profession in addressing this need is examined.

CHAPTER 3

THE ROLE OF PROFESSIONAL ACCOUNTANTS IN RELATION TO SMALL BUSINESS CLIENTS

3.1 Introduction

As indicated in Chapter 2 one common characteristic of small firms is the paucity of accounting and financial management skills within the organisation. Small business owner-managers have the option of either living with this deficiency and its associated risks or, if they can afford it, hiring the services of an external expert who has the requisite degree of accounting and associated business knowledge. In western countries the principal external experts generally used by small firms are public accountants who are variously referred to as preferred advisors, primary advisors or number one advisors (Bolton, 1971, p.118; Devlin & Leheron, 1977, p.13; Peters, 1982, p.5; White, 1981, p.62).

In spite of being the main advisors to small business, public accountants have been criticised for not fully meeting the needs of the small business community (Cockburn, 1981, p.1; Berryman, 1986, p.40; Back, 1987, p.37). Such criticisms may indicate that either:

1. Public accountants misunderstand their role in relation to small business clients and provide a service below the standard reasonably expected of them, or,

2. Public accountants provide a reasonable service to small business clients but the role expected of them is unreasonable.

In undertaking a seminal study on the role of auditors in society, Beck (1974b, p.458) found that social scientists had difficulty in developing a clear concept of role and that writers in academic and professional accounting literature did not appreciate this difficulty with the result that they often neglected to explain their meaning of the term (Beck, 1974, p.458). In this chapter the meaning of the terms 'role' and 'profession' will be established in order to provide a theoretical base from which the effectiveness of the role of professional accountants in relation to small business clients can be evaluated. In addition the services, duties and rewards stemming from public accountants' professional role are considered as are the changes affecting that role.

3.2 The Theory of Role

The word role has two meanings. The first is its common usage and the second is that derived from the social sciences. It is the second, sociologically derived, meaning that is of principal interest to this study.

The Oxford English Dictionary describes role as "the part or character which one has to play, undertake, or assume with reference to the part played by a person in society or life." The same source describes role from the standpoint of social psychology as "the behaviour that an individual feels it appropriate to assume in adapting to any form of social interaction; the behaviour considered appropriate to the interaction demanded by a particular kind of work or social position."

The Random House Dictionary of English Language Usage describes role in its sociological context as "the rights, obligations and expected behaviour

patterns associated with a particular social status"; and status is described as "the position of an individual in relation to others especially in regard to social or professional standing."

The Britannica Micropaedia (1985) describes role in sociology as a comprehensive pattern of behaviour that is socially recognised, providing a means of identifying and placing an individual in a society. The term, borrowed from theatrical usage, emphasises the distinction between the actor and the part. A role remains relatively stable even though different people occupy the position. For example, any individual assigned the role of accountant, like an actor playing the part of Hamlet, is expected to behave in a particular way. An individual accountant may have a unique style, but this is exhibited within the boundaries of the expected behaviour of all accountants.

Social scientists have had some difficulty in agreeing on a definition of the word role because human relationships can never be expressed in exact terms as is possible in the physical sciences. Social structures are essentially contrived and exist in terms of perceptions and expectations rather than concrete truths or immutable facts:

People invent the complex patterns of behaviour that we call social structure, and people create social structure by enacting those patterns of behaviour. Many properties of social systems derive from these essential facts. As human inventions, social systems are imperfect.... Social systems are anchored in the attitudes, perceptions, beliefs, motivations, habits, and expectations of human beings. (Katz & Kahn, 1978, p.37)

The definition of role as the set of attitudes, values and behaviour ascribed by society to persons occupying a particular status is one which has found acceptance among social scientists (Linton, 1936, p.114). Beck (1974b,

p.459) having undertaken an extensive study of the concept of role, found this definition to be appropriate for writers in accounting literature concerned with professional roles. This definition of role has therefore been adopted for the purposes of this study.

The sociological theory of role maintains that role is the acting out of a part expected by society. The part is determined largely by society, rather than by the actors performing the part. For the part to be acted perfectly, the actors must have a good understanding of the role expected of them by society. To maximise the role performance, society must match the part to the competencies of the actors who in turn must interpret accurately the part expected of them by society. A fundamental part of this study is therefore the identification of what influential role-senders consider the role of public accountants to be in relation to small business.

3.3 The Role of Professions

When individuals cannot do essential things for themselves they turn, where possible, to those who 'profess' to have the necessary skills. Some skills demand higher levels of intellectual skill and training than others. In general terms, the more complicated the skill, the longer the training required to master it. Training needs have traditionally been more onerous as one goes from the manual occupations, through the skilled trades to the professions. The fundamental rationale underlying the development of professions is that society has allowed professions to develop to ensure that certain fundamental needs are met in an efficient and orderly way. The professions represent a system whereby the laity has access to vital skills which would otherwise be impossible, or at least very difficult, for them to obtain. Professions act as conduits between higher knowledge and the laity (some of whom may be professionals in their own right). Where the public must trust the conduct of their affairs to an expert and where there is little chance of them assessing the

quality of the services provided, there has therefore often developed a professional rather than a business form of occupational relationship.

A report by the Organisation for Economic Cooperation and Development (1985, p.11) on professions stated that under the heading of professions is found a group of specialised occupations which share certain essential characteristics, but each of which also displays unique features. Accountants are specifically listed as being among those occupations commonly recognised as having the characteristics of professional status.

The professions are generally recognised as having the following attributes (Clapshaw, 1978, p.169; Benson, 1981, p.239):

- * Fulfilling a societal need by giving advice and service in a specialised area of learning which has an identifiable body of knowledge.
- * Being founded on public practice - the application of the acquired skill to the affairs of others for a fee.
- * Having a representative governing body which has power of entry, control, discipline and expulsion over its members.
- * Restricting entry to those who have proved their competence through successful completion of a rigorous educational and examination process.
- * Imposing on its members higher standards of conduct and performance than those required by general law through a code of ethical conduct designed to protect the interest of the public rather than that of its members.

- * Making certain that its members are independent, in fact and appearance, and prepared to voice their opinion on behalf of their clients without fear or favour should the circumstances demand it.
- * An undertaking by members to accept personal responsibility for their actions to those whom they serve and to their profession for maintaining public confidence.

To establish the fundamental basis of professional status, attention must be concentrated not merely on a catalogue of attributes but on the perceptions of the public in general and the client community in particular.

What defines a true profession is a developing recognition by the community at large of the special knowledge and the public significance of the profession and, in terms of that recognition, the granting to it of certain rights as a profession. Only when that unwritten recognition has been granted does society formally respond by giving the profession a degree of autonomy as to self-regulation, discipline, limitation of entry and, in many cases, monopoly in its field. The primary process is always public awareness, recognition and then approval. (Kimmitt, 1982, p.72)

Professions in contemporary society arise from the classification of occupations according to their specialisations (Elliott, 1972, p.56). The principal attribute to which professions lay claim is superior skill of an intellectual nature in areas which impinge radically upon the most basic concerns of humanity. Such a concept explains the status, privilege and power that have accrued to professions (Cogan 1953, p.33).

Some people know things and how to do things that others do not. If the knowledge that is not universally shared is at all useful or important for those who do not have it, then those who do possess

it have a relative advantage. These simple truisms provide one basis for social inequality in general and for the position of professionals in particular.... Some degree of specialisation based on differential knowledge or skills is virtually universal in human societies; it is an outstanding feature of post-industrial societies. (Moore 1970, p.233)

The question of what factors differentiate professions from other forms of occupation has long intrigued sociologists seeking to understand this particular aspect of society's organisation and functioning. As with the term 'role', the problem of definition arises due to the difficulty in the social sciences of resolving the extent to which general terms can describe empirical reality. No watertight definition of the term 'profession' exists, for whatever characteristics are chosen none can completely fit the bill (Elliott, 1972, p.4). However, a definition which is generally accepted is that of Moore (1970); "A profession is an occupation whose incumbents utilise systematically accumulated general principles and standardised knowledge in the solution of problems posed by a clientele, problems which arise from central needs and values of society" (p.53).

Thus the occupational niche of professions is defined around problems of widely experienced social concern. In each case they encompass specialised areas of knowledge which affect many individuals but where only a few can become expert due to the intellectual rigour involved in mastering the body of knowledge of the discipline necessary to solve the fundamental problems of humankind. In return for addressing these crucial areas of concern, society has generally rewarded professions with high remuneration and social position. But rewards are, at least in the long-term, based on achievement and society demands that professionals achieve the high standard of competence expected of them in the performance of their duties. However, because of the esoteric nature of professional knowledge, society often has difficulty in assessing the quality of professional services. Society has solved

this dilemma by making professions control their own standards with the threat of sanctions if they fail to do so properly. To prevent abuse of this autonomy, professionals in public practice are generally permitted to operate only as individuals or partnerships and not as limited liability companies thus forcing them to accept full legal responsibility for the services they provide.

The role therefore expected by society of professions is to solve or ameliorate complex problems in those areas where professions profess to have expertise.

3.4 The Role of the Accounting Profession

The role of professional accountants is the set of attitudes, values and behaviour that society ascribes to all individuals occupying the status of professional accountants. The ramifications of the acceptance of this definition of role is, argues Beck (1972, p.13), that accountants have a role ascribed to them by society. Accountants do not, and cannot, determine their own role and therefore are not able to influence the social consensus to any significant degree, at least in the short run. Furthermore, non-conformity with that role creates a risk of social action to enforce conformity or to penalise non-conformity, for example the public could cease to seek the services of accountants.

Beck (1972) states:

It is quite possible that the ascribed role is unrealistic, over-burdensome, inequitable or, for any one of a multitude of reasons, unacceptable to accountants. Under these circumstances it behoves the profession to take steps to educate outsiders in the hope that they can have the role amended; but it seems amendment can only be achieved in the long-run. Unfortunately, until accountants obtain a clear idea of the role that society ascribes to them, it is

not possible to take action aimed at changing that role.... Accountants do not seem to have a clear idea of the role ascribed to them; ... even more disconcerting is my conclusion that accountants are confused as to the role that they see for themselves. (pp.13,14)

Beck's view that professional accountants are relatively powerless to influence their own role tends to ignore the position of strength conferred by the possession of superior knowledge in their area of expertise in relation to the client. One of the main problems that affects the power of the laity as role-senders in relation to professionals is their very lack of knowledge of the area over which they are trying to exert influence. That society ascribes a role to occupational groups does not imply complete understanding of the occupational function, as pointed out by Moore (1970):

An occupational role denotes market-related work that has come to be sufficiently standardised so as to be recognisable by relevant lay members of a society. Though such members may be technically ignorant, they are aware of the functions performed by occupational role incumbents and thereby attach expectations to them. (pp. 52-53)

The fact that, for the professional in public practice, the client is the employer provides some interesting strains in role relationships (Moore, 1970, p.87). Professionals in strictly independent practice generally respond only to initiatives taken by clients, although relaxation by the accounting profession of rules relating to advertising have recently moderated this position. On the whole the initiative is supposed to rest with the client. This creates a paradox. "The reputation, the professional success or failure of the independent practitioner, rests precisely with potential clients, who are precisely those not technically competent to judge" (Friedson, 1960, p.374).

That professions may therefore have a significant influence in determining their own role is suggested by Elliott (1972):

Only occasionally is the client likely to be treated as a significant reference group. He can rarely exercise any influence on professional career prospects. The ideology of professionalism itself demands that he should not. Such methods for evaluating professional services as are in use have generally been designed specifically to avoid any suspicion that lay opinion might threaten professional authority. There are no direct links between professional service and client satisfaction, not even the market mechanism of the commercial system. (pp. 111-112)

Some commentators go so far as to say that society has become the passive clientele of the professions. For example, Illich (1977) claims that society's needs are now shaped by professional design:

Professionals tell you what you need and claim the power to prescribe. They not only recommend what is good, but actually ordain what is right. Neither income, long training, delicate tasks nor social standing is the mark of the professional. Rather, it is his authority to define a person as a client, to determine that person's need and to hand the person a prescription.... In any area where a human need can be imagined these new professions, dominant, authoritative, monopolistic, legalised have become exclusive experts of the public good. (pp.17,19)

It would therefore appear that the accounting profession may have a strong influence over its own role in society and is not quite as powerless as Beck (1972) suggests. The strength of the accounting profession is derived not least of all because it is organised as a single body whereas its clients are not.

Nevertheless, the accounting profession cannot afford to ignore the needs of society as its ultimate survival is dependent upon meeting these needs.

A brief review of the historical development of the accounting profession exhibits the way in which accountants have identified opportunities which are not solely confined to accounting, and acted on them, for the mutual benefit of themselves and society.

3.5 Professional Accountants in Public Practice

The accounting profession has developed as a result of a societal need for the expertise of accountants. In spite of their ancient antecedents the rise of the professions is a feature of modern industrial and post-industrial society. Changes in the second half of the nineteenth century in knowledge, economic and social organisation created opportunities for persons having particular expertise to meet new, specialised needs (Elliot, 1972, p.56). Accountants first became organised along professional lines in the 1850s in Scotland and in the 1880s in England, the United States and Canada. New Zealand established its professional accounting body, the New Zealand Society of Accountants, in 1909.

A major reason for the organisation of specialists along professional lines is the protection of the public from unscrupulous persons who could exploit the laity when unsolved problems leave them in a position of weakness or ignorance. In its evidence to the UK Monopolies Commission in 1968, the Law Society stated that "The learned professions have not suddenly come into existence but have developed over the centuries as a result of needs generated in all advancing societies. Before any profession can emerge, circumstances must exist in which the general public requires protection" (Clapshaw, 1978, p.169).

One claim for professions is that they provide clients with a guarantee of quality (Elliot 1972 p.145). The public must have confidence that those individuals to whom they go for help and advice have the ability to provide genuine assistance. The oldest and most persistent form of abuse of trust is that of charlatanism where "bogus knowledge is claimed, bogus remedies purveyed, bogus solutions to problems proffered" (Moore 1970, p.236). The public must also be protected against professionals themselves:

A profession involves a particular kind of relationship with clients...arising from the complexity of the subject matter which deprives the client of the ability to make informed judgements for himself and so renders him to a large extent dependent upon the professional man. A self imposed code of professional ethics is intended to correct the imbalance in the relationship between the professional man and his client and resolve the inevitable conflicts between the interests of the client and the professional man or of the community at large. (The Ormrod Committee, cited in Clapshaw, 1978, p.169)

The industrialisation of society has caused an increasing demand for professional accountants whose role is to deal with the accounting, tax and financial management problems which laypersons find difficult to deal with for themselves. As the laity must trust their financial advisors with matters of importance in areas where they have little knowledge, a professional rather than a business relationship has evolved. While it is possible to deal with the accountancy profession in terms of abstract principles, it is necessary for practical purposes to know what individuals constitute the membership of the accountancy profession. Under the 1958 New Zealand Act of Incorporation, while there is no exclusive right to the designation of accountant, the New Zealand Society of Accountants is the only body sanctioned to represent the profession of accountancy and to permit its members to use the designation 'chartered accountant'.

The term 'public accountant' was reserved for the exclusive use of members of the New Zealand Society of Accountants by the Act of Incorporation of 1909, a right which was vigorously upheld by the Society in its formative years (Graham, 1960, p.23). Although the term public accountant is still reserved, the term chartered accountant is now used by the New Zealand Society of Accountants to denote a member in public practice. For the purposes of this study, a chartered accountant in public practice will be referred to as a public accountant and applies to "any member who offers accounting work to the public" (NZSA, 1988, p.9). To practice as a public accountant, a member must hold a certificate of public practice. Such a certificate is awarded by the Society of Accountants providing the member (1) is a fit and proper person to offer accounting services to the public, (2) has been a member for at least two years, (3) has suitable experience with an approved chartered accountant in public practice, and (4) has attended an approved course for new practitioners (NZSA Rules, 1990, p.14).

Thus, while any individual can practice as an accountant in New Zealand, only members of the New Zealand Society of Accountants can practice as chartered accountants. The term chartered accountant therefore differentiates professional accountants from non-professional accountants. Auditing is the only accounting-related service over which chartered accountants in New Zealand have a monopoly. Small businesses are therefore under no statutory obligation to use the services of chartered accountants for any non-audit services and therefore have the choice of using either professional or non-professional public accountants to deal with their financial and business affairs.

3.6 Services Supplied by Public Accountants to Small Business

The expertise of the accounting profession lies in the preparation, validation, interpretation and communication of economic information to assist interested

parties in the accountability and decision-making processes. The services offered by the accounting profession are tending to move from traditional recording work with a historical orientation such as book-keeping, tax returns, financial accounting, auditing, secretarial and administrative services, towards action and future-oriented services such as management accounting, insolvency, financial services, general management, valuation and corporate planning (NZSA, 1983, p.37). Accounting is therefore rather a broad concept with no easily identifiable parameters except for the traditional core functions. The problems of definition occur at the outer limits of the accountant's sphere of knowledge as newer, non-traditional services have been added to the core topics (Lothian, 1990, p.21).

In order to try to provide a service of a uniformly high quality, the accounting profession regulates the standard of entrance and sets the standard of performance of members. Public accountants serving small business are often requested to supply not only accounting but also general business advice. Unless steps are taken to acquire the appropriate non-accounting skills, the further professional accountants go from their accounting base, the greater the risk of failure to perform to the standard expected of professional persons. On the other hand, by providing services in non-accounting areas, public accountants are attempting to satisfy a need in society that is apparently not being met by others and in so doing are responding to their wider societal role of business problem solving.

The accounting services customarily offered by chartered accountants in public practice include taxation, estate planning and management advisory services (NZSA, 1990, p.14). The Australian Society of Accountants (1987, p.12418) defines public accounting services as "accounting, auditing, reports for prospectuses or similar work, taxation, secretarial work, receivership/liquidation, official managership and other statutory functions". It is of interest to note that, although the term 'business services' is commonly used in practice to designate the work done by public accountants,

such a term is not used in the above definitions. The New Zealand Society of Accountants' definition of accounting services does, however, include the term 'management advisory services'.

3.7 Compliance Services and Business (or Management) Advisory Services

Two questions have attracted the attention of researchers where an element of choice is involved in the use of public accountants' services by small business. First, the nature and frequency of the services used. Second, the factors which inhibit the effective matching of public accountants' services with small business needs.

The services provided by public accountants to small business can be divided into compliance services and business advisory services. In their research into the interface between small business and public accountants, Bolton (1971), Ayoub (1971), Banks (1978), Shannon (1985), Robertson and Owens (1986) and Kent (1988) all concentrated solely on business advisory services. On the other hand Gibson (1988) and Holmes (1988a) studied the supply of both compliance and business advisory services by public accountants to small business clients. Although most research has been in the area of business advisory services, Holmes (1988a) has shown that, in Australia at least, compliance services are still the most common service obtained from public accountants. Gibson (1988) found that, while compliance work was the main service rendered, most public accountants were interested in supplying more business advisory services to small firm owner-managers, indicating that any failure to meet the needs of small firms did not appear to stem from a lack of will on the part of accountants to supply them.

The traditional services required by the small business sector have been in those areas where use of outside expertise has been necessary to comply with the law. These compliance services relate mainly to the preparation of annual

financial statements and tax returns to satisfy companies and taxation legislation. Small business owner-managers typically lack the skill or the time to do these tasks properly for themselves. A further deterrent is that incorrectly prepared financial statements or tax returns may result in financial penalties or even criminal charges.

The importance of public accountants in the accountability and taxation process should not be underestimated. Public accountants have been castigated for merely being 'tax factories' (Back, 1979; Gray, 1979; Lander, 1983) but nevertheless this role, although perhaps seen as mundane, is nevertheless highly important. For tax collection purposes, the tax population can be divided into two main categories, individuals and businesses. In New Zealand most individuals, as employees, have tax deducted at source through the pay-as-you-earn [PAYE] system hence there is little opportunity of evading tax. Businesses can be divided into two categories, non-companies and companies. In non-companies, the owners such as sole proprietors and partners are taxed as individuals based on the income they receive from their business. This income is based on the annual financial statements which are generally prepared by public accountants. Companies on the other hand pay company tax. A problem faced by governments is to ensure that business financial statements and tax computations are accurately prepared. One way of ensuring this is to have companies' financial results audited. In New Zealand only public companies must be audited by law. However, only a very small proportion of companies in New Zealand are public companies, the vast majority being private companies which can resolve not to have their financial statements audited, an option which most choose to exercise. As businesses are required to prepare their own financial statements and tax returns the question arises as to how governments can ensure that taxation is not evaded by sole traders, partnerships and private companies without an expensive inspection and checking system. The system that has developed involves the use of public accountants to prepare the annual financial statements and tax returns on behalf of non-audited businesses whose results

are accepted as fair by the taxation and regulatory authorities. Public accountants are therefore a highly important component of the taxation collection mechanism in New Zealand. Where such a mechanism is lacking, major problems can result. A case in point is the situation to be found in the nations of South America:

A crucial component of any democracy is a fair and efficient tax system - something Latin America desperately needs. In many countries formal taxes on income are high, but since few members of the middle or upper classes bother to pay them, and suffer no consequences when they do not, governments are forced into deficit financing or must rely on indirect taxes that overburden the poor. (Serrill, 1991, p.16)

However, to an increasing extent public accountants are expected to go beyond the provision of compliance services and view the client's business and its problems in their entirety. In examining the emergence and definition of the term chartered accountant, Percy (1987, p.12) found that from the 18th century accountants in Britain acted as business experts when the need arose for the courts to appoint arbiters and reporters on financial matters and from the early 19th century accountants emerged as advisors in situations where businesses got into financial difficulties.

Today many believe that auditing and tax is the bedrock of the profession and that other services emerged from this. I would suggest that the definition of a chartered accountant can only be an accountant with integrity, judgment, experience and business acumen. It is a pity that the professional bodies have failed to get this across to the public, whose perception is that a chartered accountant is an auditor and tax man whereas originally he was a business advisor. (Percy 1987, p.13)

In the last three decades there has, once again, been an increased demand for public accountants' business advisory services; "More and more the accountant is becoming the financial advisor to business and less and less its historian" (Graham, 1960, p.133). These services are generally known in New Zealand as 'business advisory services' and overseas as 'management advisory services' and are defined as those services rendered to management seeking expert assistance in solving business problems or improving efficiency (Ayoub, 1971, p.204; Bolton, 1971, p.112; Beck, 1974a, p.63). In smaller public accounting practices in New Zealand compliance and business advisory services are generally grouped together and called 'accounting services'.

Bolton (1971, p.113) makes a distinction between those virtually obligatory services which are provided by public accountants on a continuing basis such as compliance services, and those sporadic or one-off business advisory services where an element of choice is open to the small business person. Professional accountants in public practice are the most frequently sought source of advice not only on their professional specialisations but also on general management problems for the following reasons (Bolton, 1971, p.117):

1. There is frequent personal contact with the small business person.
2. Accountants have special respect commanded by their professional status.
3. They are familiar with the client's business and have something of a vested interest in its prosperity.
4. They are near at hand resulting in ease of consultation.

5. Generalised advice, as opposed to strictly professional services, will often be provided free of charge or more cheaply than a business consultant would charge, simply because it is cheaper to advise on a situation with which one is already familiar.

Bolton (1971, p.117) believed that the value of general business advice given in this way was incalculable in spite of being variable in quality as some accountants were neither willing nor qualified to give this type of advice. However, it should be noted that public accountants in Britain probably have more contact with small business clients because all companies regardless of spread of ownership have to be audited whereas in New Zealand private companies can resolve not to be audited.

Business advisory services can be divided into two categories, firstly, those which are strongly rooted in the accounting discipline, such as financial and management accounting, and secondly, those non-traditional services which fall outside the ambit of accounting, such as marketing, production and personnel. The accounting profession is well placed to supply accounting-related business advisory services (Bolton, 1971, p.118). As far as non-accounting business advisory services are concerned the larger public accounting firms are increasingly advertising the availability of these services. However, in the opinion of Percy (1987, p.15), public accountants are falling into the trap of believing that they can supply all business needs, including marketing, executive recruitment and investment advice, and cautions that offering of services outside the traditional core of accountants' expertise raises the issue of the ability of the accounting profession to regulate services of which it has little or no experience.

The increased supply of business advisory services by public accounting firms appears to be in response to three different factors. Firstly, the environment in which small business exists is becoming more complex and competitive and survival increasingly depends on up-to-date information on which rapid,

rational decisions can be made (Stevenson & Sahlman, 1988, p.28). Secondly, former high revenue services such as auditing and management consulting are not as lucrative as formerly and accountants are thus looking for new opportunities to utilise their expertise (Canadian Institute of Chartered Accountants, 1986, p.10; Zeff, 1987, p.24). Thirdly, to counteract the recessionary conditions being experienced in the early 1990s, public accountants are urged to provide more business advisory services to small business clients. Public accountants can help to ensure their own survival by increasing client retention rates and improving results for client companies. Lentini (1991) warns that:

For many small to mid-sized [accounting] firms, it is no longer enough to provide only traditional services. In today's competitive market, more is required. Individual practitioners, and small to mid-size firms that have not already done so, must develop new areas of business consulting while retaining their passion for numbers and financial statements. (p.69)

The recession has resulted in a greater supply of accounting services and lower demand for them which has helped eliminate inefficient providers. "This has created extreme price pressure on Type I services (compliance work) and as a result, many practices are working hard to develop a parallel stable of Type II services (consulting and planning)" (Istvan, 1991, pp. 42,43).

The accounting profession now regards it as important to be more actively involved in the provision of a wide range of business advisory services to the small business sector. The consequence is that its relationship to small business is changing. No longer does the accountant want to be seen as "rather like the score keeper at cricket, not actually involved in the game, but just pointing out the state of play from time to time" (Bennett, 1982, p.322). Public accounting firms are now portraying a much more active image. The public accounting practice Ernst and Whinney (now Ernst and Young) has

used the description "Accountants, Advisors, Consultants" on its promotional material while Coopers and Lybrand has advertised itself as 'partners in business'. Commentators use other similarly supportive terms. For example Clarke and Watson (1986, p.56) see public accountants as facilitators for small business, Wragg and Young (1983, p.71) regard them as "hand-holders", and Bolton (1971, p.113) considers public accountants in their capacity as trusted advisors. The norm of loyalty and service, especially the preservation of confidentiality, is crucial to the professional-client relationship. "For the cautionary admonition of the marketplace, *caveat emptor*, professional practice substitutes the encouraging injunction *credat emptor*, let the buyer trust" (Hughes, 1965). Above all, however, public accountants are perceived as problem solvers who can provide the answers that small business seeks (Wilson, 1986, p.132). This concept is directly acknowledged by a Coopers and Lybrand advertising statement that they provide "solutions for business".

One way of directly helping management is by being accepted as part of the management team (Benjamin, 1982, p.129). Small firms may often have a management gap which can be filled by incorporating consultants into the structure of everyday operations to form a management team. This team typically would comprise an accountant, banker, lawyer and possibly other consultants. An accountant is the key member in providing assistance with business planning which is the most important element in closing the management gap (Kilzer & Glausser, 1984, p.57).

Chartered accountants in public practice should become business advisors in the widest sense if they are going to survive, according to Kasper, partner in charge of Touche Ross, Auckland (cited in Watson, 1986, p.28). Public accountants may have to revert to their historical role as business advisors in the face of increased competition and the changes wrought by computer technology according to Percy (1987), a president of the Scottish Institute of Chartered Accountants:

Much of what we do today is compliance and processing work. Computer packages are now on the market to deal with these aspects. What is more, the banks and other players in the market will shortly be able to provide them to their clients, thus taking the work away from accountants and leaving us purely in the business advisory role. The firms who are not proactive in the advisory role and do not train the future generation to be will find their client income reducing fast. (Percy, 1987, p.15)

In looking at the role of public accountants as providers of management advisory services, Beck (1972, p.18) found that role-senders (in this case shareholders of large public companies) expected public accountants to assist management in problems relating to budgeting, profitability evaluations and information systems but did not expect them to render advisory services on non-accounting matters such as personnel, packaging and market research. Beck (1972, p.19) found that some of the non-accounting services into which public accountants have expanded were not regarded by role-senders as the province of public accountants. In relation to this study, the most significant aspect of Beck's (1972) research was his conclusion that:

In the area of management advisory services the expectations of the shareholders are out of phase with what some, and perhaps many, practitioners consider to be part of the role of accountants today.... If accountants want to assume a role in management services that includes personnel, packaging and marketing they should take cognisance of the fact that outsiders do not see these functions as appropriate services for accountants at present. (p.21)

Beck's view that public accountants, in supplying certain non-accounting management advisory services, are performing a role wider than that expected of them by role-senders is at variance with that of other commentators such as Cockburn (1981,p.1), Back (1987, p.37) and Berryman (1986, p.40) who

criticise public accountants for not supplying a sufficiently wide range of services. This divergence of views could be due to three factors. Firstly, the perceptions of role-senders may have changed in the years since Beck's research in 1972. Secondly, the perceptions of role-senders may vary between countries (Beck researched Australian role-senders). Thirdly, it is contended that the Beck's role-senders, namely shareholders of two large companies, did not have a sufficiently close relationship with either small business or public accountants to allow them to give a meaningful response, compared to small business owners or public accountants themselves, for "the role of a particular position...is determined by the interactions of the expectations of the various individuals and groups *having an identifiable relationship to the role position* [emphasis added]" (Davidson, 1975, p.1).

The services supplied by public accountants have therefore come full circle, starting with business advisory services, then developing compliance services as governments increased the regulation and taxation of business ventures, to the stage now where there is once more increasing demand for business advisory services, but supplementing rather than displacing compliance services. Public accountants therefore started as generalists, became specialists and are now being exhorted to become generalists again. A major influence on this trend has been the advent of computer technology in both small firms and public accounting practices.

3.8 Changes to Public Accountants' Services Caused by Computerisation

With the significant increase in the use of computers by small firms the nature of public accounting services to small business clients is changing. New information technology provides not only the means of speeding up the processing of the traditional write-up work of the smaller accounting practice but also provides the data necessary to provide other more specialised services. On the other hand computers now allow small firms to have the

processing power and systems previously only affordable by larger businesses or public accounting practices. As more small firms are able to process their own data, public accountants' services will increasingly be based on the output of that processing. Non-routine consultancy type work can be expected to grow at the expense of write-up work. The need for processed work to be used in decision making and in consultancy type work suggests that the public accountant will become more actively involved in an advisory capacity on the interpretation and implementation of the figures produced. This may lead to limits on the number of clients which can be handled at any one time. The level of expertise will by necessity be substantially higher and perhaps lead to fee increases (Williams, 1985, pp.2,3).

Public accountants will have to improve their productivity by utilising computer-technology to enable them to provide a better service to clients at a cost-beneficial price. However, the technology revolution presents public accountants with the opportunity to play a far more important role as business advisors to the small business community. Until recently, accountants have been generally unable to provide business advisory services to many clients because the basic accounting information was simply not available. Computer technology is now capable of changing this situation (Goodall 1985, p.5).

With the aid of computer techniques accountants can now increasingly base forecasts more on probability than management instinct. It follows that financial statements must relate towards the future as well as the past. Implicit in the accounting profession's role in future planning "is the need to develop eyes with acute vision at the front of the body corporate and hence remove the blindfold from management which has made it rely on intuition rather than probability" (Westerman, 1980, p.9).

Public accountants are moving towards assisting clients to do what they can for themselves and to spend more time on business planning. The aim of public accountants should be to make the compliance work merely a

by-product of the wider services provided to the client. For example, by producing regular financial reports the accountant can measure budgets that they have already helped the client prepare. The client then has a good guide as to where the business is going throughout the year. At the end of the year the annual financial statements and tax return should be merely incidentals that come out of the total system. (Kasper, cited in Watson, 1986, p.28).

Public accountants must be capable of responding to changing conditions or they risk having a declining client-base as those who provide business advisory services are perceived to be more responsive and versatile than those who provide only traditional accounting services (Leinicke, 1987). Above all, a considerable improvement in understanding business needs and communicating with business people is required of accountants. For this to happen accountants themselves must become more businesslike (NZSA, 1983, p.26). Public accountants must therefore reassess their role in society and the services required to satisfy this role, or they run the risk of becoming increasingly irrelevant and marginalised. However, an appropriate balance must be maintained between professionalism and commercialism.

3.9 Need for Re-evaluation of the Role of the Accounting Profession

In recent years professions in general have come under attack for a variety of reasons including greater consumer awareness and a better educated and more questioning society (Benson, 1981, p.239; Kirby, 1980, p.516). A major warning is given to the accounting profession by Zeff (1987) of the dangers of a more business orientation and of entering areas where it may lack appropriate expertise:

In recent years a perverse self-interest has come to dominate the traditional interest in the welfare of the profession and the competitive edge in professional practice has become sharper than

ever before. Leaders of the profession have begun to wonder out loud whether "profession" is still a meaningful term.... The diversified service draws firms increasingly into competition with other disciplines that have few or no professional or competitive constraints, and our traditional professional standards of conduct are a competitive handicap. (p.22)

With regard to the conflict between professional and business attitudes towards service Parsons (1939) is at pains to point out that it is the institutional setting of the professional person that differs from the business person, not necessarily the private motivation. Professions should regularly evaluate their functional effectiveness and societal role because ultimately "if a profession's work or actual performance comes to have little relationship with the knowledge and values of society, it may have difficulty surviving" (Larsen, 1977, p.xii).

Sometimes the rationale for a profession's existence tends to become overlooked. The New Zealand Society of Accountants (1983) warns:

Problems arise when a profession concentrates on self-preservation, instead of responding to the changing needs of the market place. These needs remain, and if the profession does not satisfy them, other parties will fill the gap, without necessarily having the full technical training or the commitment to ethical standards which characterise a profession at its best. (p.32)

Professions survive as long as the demand which has given rise to their function exists and as long as they continue to discharge that function to the satisfaction of society. The ultimate well-being of any profession therefore depends on its capacity to respond adequately to society's changing demands. The requirement for relevance applies, not least of all, to the accounting profession. The continuing existence of any profession cannot be taken for

granted. To survive a profession must offer quality, relevant and competitively priced services that meet customer needs. Customers themselves are holding a less absolute view of the relevance and value of professional expertise. A professional input that, while it may be right, cannot be quickly brought to bear the point of decision may be regarded as an irrelevant luxury (Coulson-Thomas, 1988, p.12). Above all, when small business owner-managers choose a professional accountant, they seek one who will be a competent expert in the handling of their accounting needs (Khalsa, 1987).

In 1986 the Canadian Institute of Chartered Accountants [CICA] looked at the issue of continuing relevance and the survival of the accounting profession in an ever more turbulent market place. The Canadian accounting profession came to the following conclusion which displays the conflict between professional and business attitudes among accountants:

If we are to remain a profession, and not be reduced to a trade or commercial activity, we must continue to behave like a profession and demonstrate that we possess the characteristics essential to a profession. Most chartered accountants have already made the transition from being strictly in the accounting business to being in the information business. Accounting will continue to be an essential core of the chartered accountant's work, but, in its traditional sense, will become a less significant part of his or her repertoire, particularly as more information functions become computerised. Indeed, the word "accounting" does not adequately describe what chartered accountants do even now, so that a wider meaning for the word will have to be developed for which public acceptance must be gained over time. (CICA, 1986, p.16)

The changing nature of the demands of the profession is also the cause of comment in Australia where Ruthven (1987) states that not since the turn of the century has the market needed the services of public accountants so much:

The term 'public accountant' is misleading. The market does not need yesterday's public accountants, honourable and professional as they have been. The market, especially small and medium sized business, needs more comprehensive and total back-up. The term commercial is probably more appropriate than professional in this regard. (p.49)

In order to fulfil their societal role, public accountants must continue to supply those traditional services for which demand remains while supplying newer services in response to changing needs. In the opinion of Percy (1990), a president of the Scottish Institute of Chartered Accountants, "...accountancy bodies should constantly reassess their roles and standards to meet the public's changing needs" (p.54). In particular, it is public accountants' expertise and quality of advice which is the most important attribute in the opinion of small business users (Arnold et al., 1983, p.3; Chittenden et al., 1990, p.101).

3.10 Small Business Ability to Pay for Public Accountants' Services

One of the most persistent issues confronting professions is how to make professional services accessible to the maximum number of people. Solving society's problems involves costs. Where professional services are involved, higher than average costs may be expected as the solution of complex problems demands higher than average training and rewards.

One of the main complaints levelled against professions, according to conventional wisdom, is their high price to clients. The ideology of

professions includes the concept of service before reward. However, this ideal does not always sit easily with that of obtaining a fair recompense for the high level of intellectual skill involved in practising the calling. Payment for a professional service is always a sensitive point (Elliot 1972, pp.104-105). Moore (1970) found the professional criteria of service before reward difficult to verify not least of all because professionals as an occupational category are among the most highly rewarded in modern societies:

In principle, these are rewards for meritorious conduct, including the service orientation, but the circumstances are suspicious. If, in fact, all or most professionals rendered regularly unpaid services for needy clients, one could give credence to the norm of service. Actually, such service is very rare, and may be unintended: a bill is rendered but goes unpaid. (p.15)

Setting fees at too high a level risks placing the service beyond the reach of many who require it. Carr-Saunders and Wilson (1964) reveal the ambivalence of professions on the matter of fees as follows:

The attitude of the professional man to his client...is characterized by an admirable sense of responsibility; it is one of pride in service given rather than of interest in opportunity for personal profit. The professional man who gave a lower standard of service in necessitous cases, where his remuneration was little or nothing, would be regarded as an unworthy colleague by his professional brethren.... The first consideration is the need of the client and the quality of the work.... [However,] professional men are not philanthropists. They ask for a decent living in return for the services which they perform.... But it is within the knowledge of all, and it should be especially apparent to the members of the professions, that a large part of the population is so situated that it cannot command professional services. (pp.471,472)

On the subject of remuneration the New Zealand Society of Accountants' Mission Statement (1987) recognises "the social responsibility of the profession whilst supporting strategies consistent with commercial reality, and the pursuit of adequate reward".

In considering the cost of public accountants' services Vance and Wiseman (1961) are of the opinion that:

When there is "enough money" almost any commodity or service can be had, but whether or not the same thing is available at a reasonable price is another matter. The question of reasonable price is of course a treacherous one; many people with very limited incomes facing a market stocked with attractive commodities and services seem convinced that most prices are unreasonably high. (p.15)

Where financial resource are limited or unevenly distributed, as in the small business sector of the economy, accounting services will not be available to all who may need them. Need cannot be equated with demand nor availability with usage. In this regard accounting can be said to bear some similarity to law where "the doors of the courts of justice, it has been remarked by an eminent judge, are open to rich and poor alike - as are the doors of the Ritz Hotel" (Carr-Saunders & Wilson, 1964, p.472). A study of the needs of private companies in the United States commissioned by KPMG Peat Marwick (Arnold et al., 1983, p.3) specifically recommended that business advisors should find means to lower fees to smaller private companies. Public accountants should be fee sensitive when dealing with small business clients because they are more concerned about value for money than are the typically larger clients of the medium and national accountancy practices (Chittenden et al., 1990, p.99). Because the lower turnover of small businesses generally means lower margins to cover overheads such as accountants' fees, the issue of fees can be expected to rank

as one of the main constraints affecting the use of public accountants' services by small firms. Conversely, larger accounting firms may decide that there is insufficient profit to be made in servicing small business clients if fees are to be charged at rates sufficiently high to recover their higher costs. The New Zealand Society of Accountants has acknowledged sensitivity of the fees issue by setting up a fees mediation service operated by senior members of the profession. However, this can only act as a reactive regulator.

3.11 Summary and Conclusions

According to sociological role theory, role is the set of attitudes, values and behaviour that society ascribes to all individuals occupying a particular social position. It is contended, however, that the professions (including accountancy) have a significant influence over their own role as they have the advantage of knowledge over the laity, their clients.

The role of professions is to solve problems of moment in society through the application of their professed expertise. In return for the responsibility of solving some of society's more complex problems, professionals are rewarded with higher than average income which in turn results in higher levels of prestige and status.

The role of public accountants in relation to small business clients is to render services whereby expert knowledge is applied systematically to the solution of problems which arise from needs of the small business community.

Professional accountants in public practice serve the needs of small business for accounting and related business services. In many cases a by-product of the provision of compliance services by public accountants has been the giving of general business advice. As a consequence public accountants have become the main professional providers of business advice to small firms.

The accounting profession is being challenged to shift the emphasis of its services from traditional compliance work to business advisory services. An increasingly competitive business environment is forcing small firms to demand better business advice from their public accountants in order to enhance their chances of survival. Profound changes in computer technology increasingly allows small firms to process their own data which in turn permits public accountants to play a more forward-looking and active role than was previously possible. The range of services offered by public accountants now extends well beyond the traditional core accounting skills to such an extent that the term 'accountant' is increasingly seen as somewhat of a misnomer. To some extent the wheel has come full circle as public accountants originally developed as generalist business advisors, then become specialists, especially in tax and auditing, and are once again adopting a more generalist approach to small business clients.

The accounting profession has developed and grown by being responsive to the changing needs of society. To fulfil their societal role, public accountants must constantly ensure that the compliance and business advisory service needs of small business are met in a cost-beneficial manner. The degree to which public accountants are successful in matching their services to the needs of small business is examined in the next chapter.

CHAPTER 4

EVIDENCE OF A GAP BETWEEN SMALL BUSINESS ADVICE NEEDS AND PUBLIC ACCOUNTANTS' EXPERT SERVICES

4.1 Introduction

The essence of the role of professions in society, as proposed in Chapter 3, is to solve problems the complexity of which demands expertise beyond the competence of the lay person. If society is to obtain the maximum benefit from professions and if professions are to adequately discharge their role to society, the following conditions should exist:

1. Professions must actually possess and implement competently the expertise which they profess to have.
2. The laity should be fully aware of the availability of professions' expert services.
3. Professions' expert services should be cost-beneficial to the maximum number of persons in need of these services.
4. New problems arising in society which are within a profession's sphere of expertise should be recognised by that profession and appropriate skills developed for their solution.

The extent to which a gap is perceived to exist between small business needs and public accountants' services is considered in this chapter.

4.2 The Concept of a Small Business Expert Advice Gap in Relation to Public Accountants

According to role theory examined in Chapter 3, accountants, as professional people, fulfil their societal role by acting out the part expected of them by role-senders. Accountants are expected to deal with those societal problems which they, through the application of their expertise, can solve or ameliorate. The core of accountants' knowledge is in accounting-related areas, but there are no legal restrictions, other than those expressly reserved by statute for other professions, as to the areas into which accountants may venture, providing they have the expertise. This proviso is important, for if sub-standard services are provided, public accountants risk legal liability (as well as professional censure), because, as professional people, they have a legal duty of care to those who use their services.

As discussed in Chapter 2, small business owner-managers are characterised by their relatively narrow functional skill-base. Small business owner-managers are often strong in technical or selling areas but weak in accounting, financial and general management areas. If a genuine need for professional accountants' services is not acknowledged by small business, or if the need is not matched by the supply of such services by public accountants, an expert advice gap will exist.

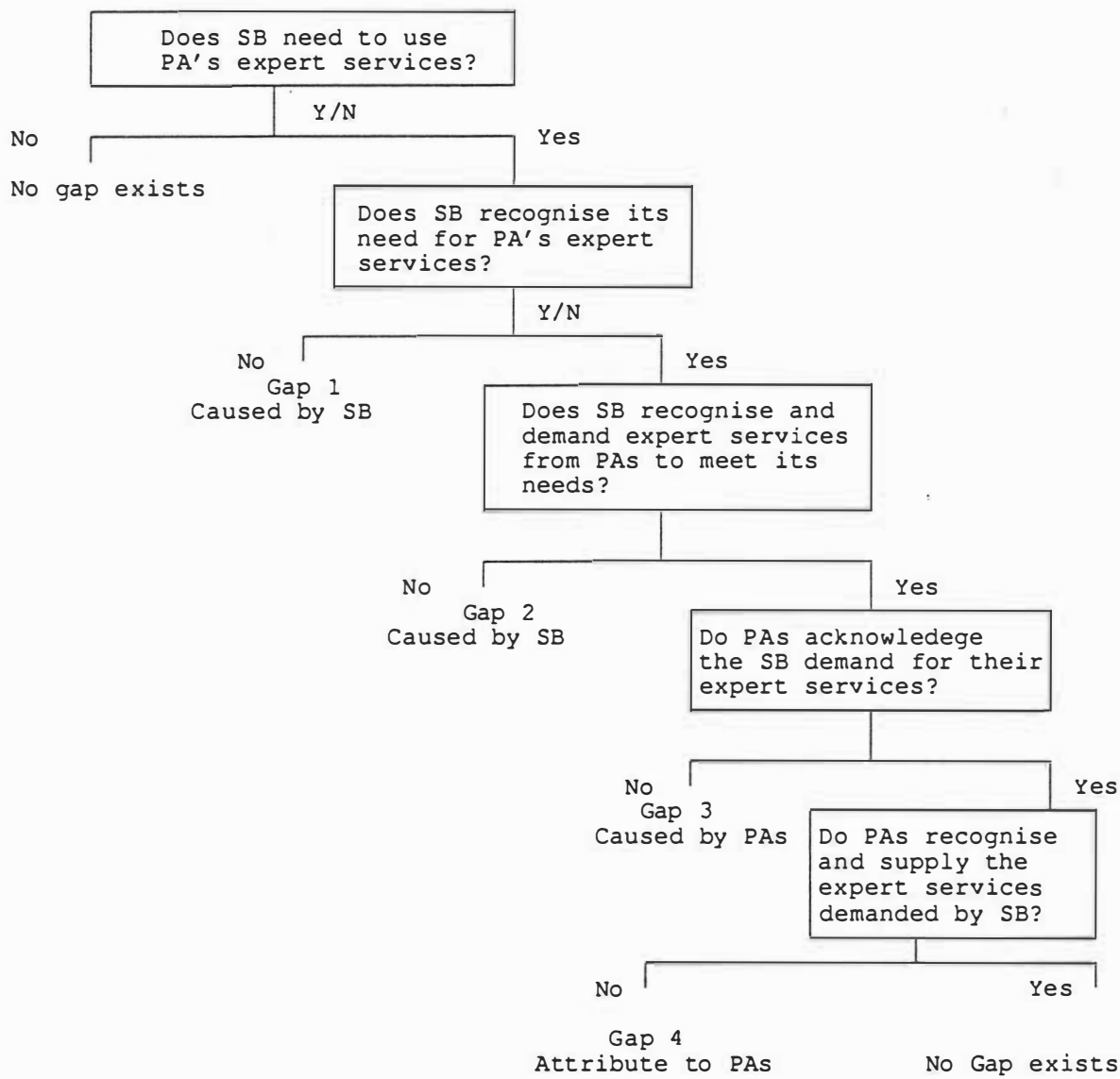
In broad terms, such an expert advice gap may be caused either by small business owner-managers or by public accountants or by both (see Figure 1 overleaf). For example, small business may under-utilise needed public accountants' services either through choice or ignorance, and/or the

accounting profession may fail to supply the correct quantity or quality of services needed by small business.

Figure 1

The Gap Between Small Business Needs and Public Accountants' Services

(SB = Small Business; PA = Public Accountant)



Allegations that public accountants are failing to respond adequately to the needs of small business come not only from the small business sector but also from the accounting profession, both within New Zealand and from overseas. One of the earliest indications of the existence of a gap between small business needs and public accountants' expert services is that contained in the British Bolton Report (Bolton, 1971):

In particular, the accountant's expertise is relevant in these vital areas of management in which small businessmen are weakest - costing, estimating, budgeting and financial control. No other source of advice is of equal importance. *It is the more unfortunate that the full potential of accountants' services have not been realised* [emphasis added]. (p.118)

Weyer (1975) indicated the existence of an expert advice gap in Britain in more explicit terms; "As good as small business is at engineering, production and marketing, it often falls down on financial skills...no one has really filled the expert gap" (p.76). Writing a decade later DeThomas and Fredenberger (1985) found that in the United States public accountants were not sufficiently familiar with their clients' business and its problems to provide sound advice and concluded that "there appears to be an unfulfilled need among very small businesses for a reliable source of expert financial advice" (p.20).

Concern by the Scottish accounting profession that accountants might not be facing up to their responsibilities when serving the small business sector came in 1971 with the warning that "The practising accountant...is in a unique position to assess when and what advice is needed.... At its worst, failure to give appropriate advice when in possession of the relevant information is surely bordering on negligence" (cited in Editorial, 1984, p.1).

A memorandum prepared for the Research and Publications Committee of the Institute of Chartered Accountants of Scotland (1971) indicated that the manifest needs of small firms were not being converted into demand for accountants' services:

There is so much that smaller businesses should be asking accountants to do for them, and there are so many services that accountants are capable of providing, that any suggestion that the profession has been prostituted to the Inland Revenue, with less and less time tending to be spent on anything but the preparation of accounts for the purpose of agreeing tax liability, should be laughable. (p.298)

A decade later the official publication of the New Zealand Society of Accountants, the Accountants' Journal, in an article entitled "Are chartered accountants leaving small business out in the rain?" concluded that public accountants were often providing a less than adequate service to small firms with the result that the profession's image was suffering (Cockburn, 1981).

In a policy review of the Australian small business sector, a president of the Australian Institute of Chartered Accountants stated that small firms were poorly served by the profession (Cohen, 1987, p.6). This view is in accordance with that held by (Marsh, 1988a):

One of the most common complaints that clients make is that their accountants tell them by how much they have gone broke - to the last cent - two months after the event. If there is one thing clients are unanimous about, it is their requirement for innovative, up-to-the-minute financial and business advice. Their dream accountant is one who works alongside them as advisor, consultant and business helper, rather than history taker, recorder and

doom-sayer. Unfortunately, the popular perception of accountants is the latter. (p.27)

The possible existence of a gap between the needs of small business and the satisfaction of those needs by public accountants has been the subject of several major empirical studies over the last two decades. For example, Back in 1978 undertook a study in Britain which looked specifically at the relationship between public accountants and the advice needs of the small business clients. Notwithstanding the small size of the samples an important outcome was the finding that the number and range of "actual" small business needs greatly exceeded "perceived" needs (Back, 1978, p.93). This conclusion is significant because it reveals that small business clients may believe that they are receiving an adequate service from public accountants when this is not the case.

Shannon (1985) was one of the first Australian researchers to concentrate solely on the role of the public accountant as a provider of business advisory services (which Shannon refers to as 'management advisory services') to small firms. This study revealed that public accountants' expectations of their small business clients' needs for business advisory service were significantly less than clients' expectations of their own needs. It was concluded that public accountants tended to under-estimate small business clients' needs for business advisory services. A less than perfect matching of needs and services was also indicated by the existence of small business dissatisfaction with public accountants' services and dissatisfaction by public accountants with the use made of their services by small business clients (Shannon, 1985, p.158). Many accounting practices, particularly smaller practices, were found by Shannon (1986, p.53) to be under-serving the business advisory services needs of small business.

Holme's (1988a) comprehensive study of Australian public accountants and the accounting information needs of small business found that the principal

service demanded was the preparation of annual financial statements allied to the completion of annual tax returns. The role of public accountants, concluded Holmes (1988a, p.229), is to supply compliance services rather than to meet the general information requirements of the business and as a result business advice is not widely sought by small business clients.

It is generally assumed that most small business owner-managers need management assistance. Irons (1981, p.44) points out that not only is this assumption rarely questioned, but it is adduced as a main cause of business failure. The assumption, however, is usually made by the suppliers of business advisory services, small business people themselves being rarely quoted as needing such advice. Irons (1981, p.44) argues that it is inconsistent to maintain that small business owner-managers are rational, skilled and motivated enough to begin a small business, yet so irrational as not to seek specialist advice to avoid their own failure. Thus there is an apparent contradiction in the small business management advice debate. This incongruity is evidenced by the fact that "many forms of suppliers stand ready, and are even eager, to provide advice, yet they find rejection, or even outright hostility facing their product from those who need it" (Irons, 1981, p.44). The answer to this seeming illogicality is presented by Bolton (1971); "Most small business people do not believe that wider use of management advisory services would improve their efficiency" (p.115). In addition, people who start small business ventures are not necessarily skilled or rational.

With reference to the situation in New Zealand, Gray (1979, p.107) stated that no detailed national survey had been undertaken concerning the nature of public accountants' services but that a fairly accurate guess would place fees from compliance work at about 70 percent of the total fee income of practitioners. Even in the audit-oriented national firms, income from compliance services would provide probably 40 to 50 percent of their total fee income. It would appear from this that the work of the public accountant has largely ended as long as there is work to comply with tax legislation and the

Companies Office requirements. Public accountants are busy people always complaining that they do not have enough time to complete the number of tax returns they have but "I believe it is time we lifted our heads from the tax returns, looked at the real world and started to provide some basic management information for the smaller business" (Gray, 1979, p.107).

4.3 Public Accountants Criticised for Small Business Failure

How poorly small firms are served in the eyes of some commentators can be judged from the claims that, at worst, accountants must accept some responsibility for the high failure rate of small business. Lander (1983) states, "How can it not be construed that the accounting profession must shoulder some of the blame for their failure" (p.55).

Perhaps the most damning indication of the inadequacy of accountants' service is that contained in an editorial of *Accountancy*, the official publication of the Institute of Chartered Accountants in England and Wales, entitled "Helping the Small Business to Fail" which urges accountants to adopt a more positive and interactive role "not before time, as who knows how many failed and struggling businesses mutely testify" and implies the existence of an expert advice gap in the exhortation "to make sure that our product meets our customer's real needs" (Editorial, 1984, p.1).

This indicates an expectation that public accountants are no longer fulfilling their role merely by supplying compliance services and that they should adopt a more comprehensive approach to promoting the general financial well-being of small business clients.

4.4 Public Accountants Not Meeting Small Business Needs for Business Advisory Services

A feature of the small business sector over the last twenty years has been the development of enterprise agencies which often act as intermediaries between small business and public accountants. Such agencies are therefore extremely useful providers of a relatively neutral viewpoint on the relationship between small business and public accountants and on the merits or demerits of each of the parties. For this reason Robertson and Owens (1986) sought the views of such agencies when examining the adequacy of professional services to small business in Britain. It was found that "the general opinion, summarised by the Scottish Development Agency, is that ideally [public accountants] should be very good sources of advice and assistance but in practice they are not giving this service" (Robertson & Owens, 1986, p.64).

The reason for this gap was that the type of public accountants used by small businesses tend to offer only basic services, acting as bookkeepers rather than fulfilling their putative role as business advisors. This raises the issue of the extent to which public accountants are really equipped to provide a full range of services to small business clients. Gole (1980), writing from an Australian perspective, provides the following counsel on this matter:

It should not be assumed that the public accountant is necessarily equipped to render a wide variety of specialised services. Depth of knowledge, training, skills and specialisations vary greatly. It is a grave mistake to consider that the practitioner is a great "all-rounder" capable of being effective in many different disciplines. It is wise to recognise limitations, and not to venture into areas where skills are not well-developed and where the experience of the practitioner is lacking. Failure to recognise limitations may and probably will lead to pitfalls, penalties, liabilities, and loss of prestige. (p.590)

Wise (1988, p.1) maintains that, although the Australian accounting profession has become more aware in recent years that the role of the public accountant goes far beyond compilation of annual taxation returns, the small business expert advice gap is still far from being closed. Also questioned is the extent to which public accountants seek to assist in advising small business and the extent to which small business operators either seek or welcome such assistance: "We would be deluding ourselves if we believed that both parties were engaged in widespread, active cooperation" (Wise, 1988, p.1).

Small business clients assume their public accountant is looking after all financial problems but this is often not the case. A major complaint is that many public accountants are indifferent rather than incompetent; "It is common for qualified accountants to do a good job of keeping records up-to-date but fail in the management services area... In short, academic accounting is for the big guys - the small business owner needs a business accountant" (Cunningham, 1983b, p.100).

The challenge facing public accountants is therefore not only to improve the provision of business advisory services but to demonstrate to small business that they possess the competence to carry out such services and that they are cost-beneficial to the client.

4.5 Summary and Conclusions

One of the roles of professional accountants in public practice is to satisfy the accounting and related business advice needs of the small business community at a level where the benefit outweighs the cost. For public accountants to perfectly fulfil this role, (1) small business owner-managers should be fully aware of their needs and of the services available from public accountants to satisfy these needs, (2) public accountants should have the correct range and quality of services needed and demanded by small business and (3) small

business owner-managers' expectations of the quality and quantity of services they require should be matched by the quality and quantity of services they receive from public accountants.

However, evidence exists in the literature, from commentators both in New Zealand and overseas, that the perfect matching of small business expert advice needs with public accountants' services does not invariably occur. The possible existence of an unfilled need on the part of small business should be of concern to the accounting profession as it may indicate that it is failing to meet its societal obligations to the small business community. In the next chapter a conceptual framework is developed to identify and explain the relationship of the factors most likely to cause the small business expert advice gap in relation to public accountants indicated in this chapter.

CHAPTER 5

DEVELOPMENT OF A CONCEPTUAL FRAMEWORK TO EXPLAIN A SMALL BUSINESS EXPERT ADVICE GAP IN RELATION TO PUBLIC ACCOUNTANTS

5.1 Introduction

By definition few small business owner-managers are expert in all functional areas of business. An expertise gap therefore exists to some extent in most small firms especially as few owner-managers are skilled in those business functions demanding specific knowledge such as accounting or taxation. A shortfall in internal expertise may be supplemented by using the services of external experts. Public accountants provide certain of the specialised services often needed by small business. However, as discussed in Chapter 4, there is convincing evidence in the literature of a gap between small business expert advice needs and public accountants' services.

While caution must be exercised in drawing conclusions from different countries at various points of time, nevertheless there is sufficient evidence of an expert advice gap to give credence to the possibility that small business is not receiving an adequate service from public accountants. For the accounting profession to fulfil its role of meeting the needs of small business for services in its area of expertise, it must identify the main factors causing such a gap and then take remedial action to narrow the gap. It is highly unlikely that such a gap can ever be completely closed for no profession can

solve all client problems as "no body of knowledge is completely understood: there are no areas where some uncertainty does not remain" (Montagna, 1973, p.140).

Various factors have been suggested as causing an expert advice gap but no coherent pattern has emerged which explains how these factors relate to one another. Therefore a conceptual framework is required which will allow such factors to be identified and their relationships shown. Such a conceptual framework should permit the complex interaction between public accountants and small business clients to be better understood and explained.

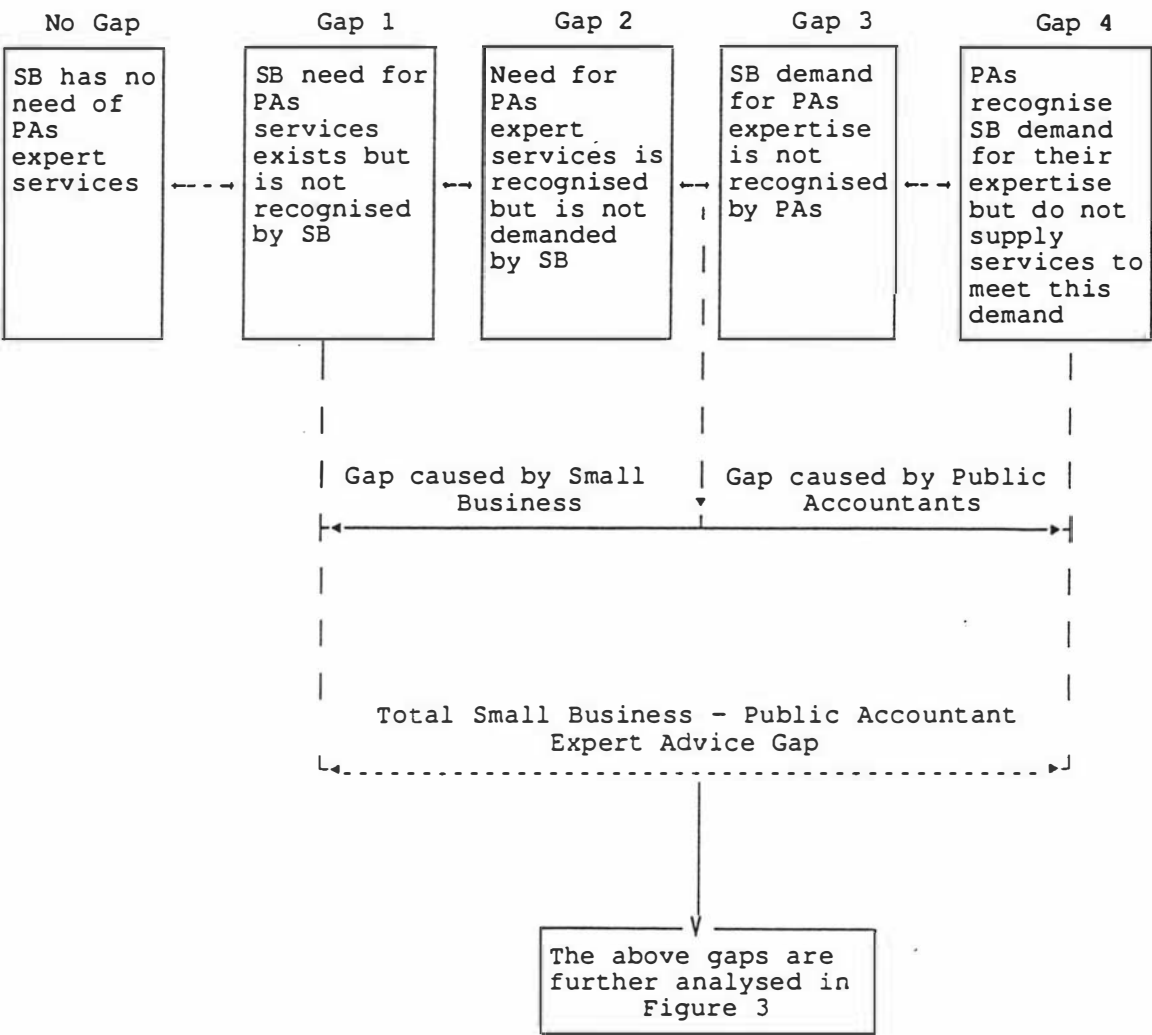
Based on the evidence of the literature review that there is a gap between small business needs and public accountants' services, the factors most likely to cause an expert advice gap can be determined by a process of deduction starting with the premise that a need has to be acknowledged before a service can be sought. If small business does need the services of public accountants (as postulated in this study), then the need has firstly to be acknowledged by small business and secondly the expertise needed must be demanded from public accountants. In turn, the small business demand for public accountants' expertise must firstly be acknowledged by public accountants and secondly the appropriate services must be supplied to satisfy that demand. As the relationship between public accountants and small business clients involves two parties, the factors potentially inhibiting this relationship can be divided into two broad categories (which are not mutually exclusive); firstly, those expert advice gap factors attributable to small business and secondly, those expert advice gap factors attributable to public accountants, as indicated in Figure 2 overleaf.

The development of a conceptual framework is predicated on the belief, presented in Chapter 2, that small business has need of the expert advisory services in response to which the accounting profession has developed certain skills, as explored in Chapter 3.

Figure 2

Main Potential Causes of the Small Business Expert Advice Gap in Relation to Public Accountants

(SB = Small Business; PA = Public Accountants)



5.2 Expert Advice Gap: Causal Factors Attributable to Small Business

1. Need for public accountants' expert advisory services not recognised by small business.
2. Need acknowledged, but small business unaware of public accountants' expert advisory services.
3. Need acknowledged, aware of public accountants' expert advisory services, but small business cannot afford public accountants' services.
4. Need acknowledged, aware of public accountants' expert advisory services, can afford services, but chooses not to use services.
5. Need acknowledged, aware of public accountants' expert advisory services, can afford services, uses services, but certain barriers prevent small business from maximising the use of these services:
 - * lack of interpersonal skills in dealing with public accountants
 - * difficulty communicating with public accountants
 - * public accountants mistakenly perceived as a threat to independence
 - * public accountants' services mistakenly perceived as not being cost beneficial

- * public accountants mistakenly perceived as not being able to supply (a) an adequate range of services, and (b) an adequate quality of services
 - * lack of time to organise greater use of public accountants' services
 - * lack of education and training to be able to utilise public accountants' expert services effectively
 - * advice sought too late to solve problem
6. Need acknowledged, aware of accountants' expert advisory services, service used, advice received, but advice not implemented.

The specific causes of the expert advice gap attributable to small business (underlined above) are summarised on the left side of Figure 3.

5.3 The Expert Advice Gap: Causal Factors Attributable to Public Accountants

1. Public accountants are unaware of small business needs for their expert advisory services.
2. Public accountants are aware of small business needs for advisory services, but are not adequately educated and trained to service these needs.
3. Public accountants are aware of small business needs for advisory services, are adequately educated and trained, but do not wish to provide expert advisory services to small business.

4. Public accountants are aware of small business needs, are adequately educated and trained, wish to supply expert services, but lack the time to do so.
5. Public accountants aware of small business needs, are adequately trained and willing to supply expert advisory services, but have not made small business aware of their services.
6. Public accountants aware of small business needs, are adequately trained and willing to supply expert advisory services, have made small business aware of services, but lack interpersonal skills in dealing with small business owner-managers.
7. Public accountants aware of small business needs, are adequately trained and willing to supply expert advisory services, have made small business aware of services, are proactive, but cannot communicate in language understandable to small business.
8. Public accountants aware of small business needs, are adequately trained and willing to supply expert advisory services, have made small business aware of services, are proactive, communicate adequately with small business, but do not provide a sufficiently wide range of services (i.e. service is quantitatively deficient).
9. Public accountants aware of small business needs, are adequately trained and willing to supply expert advisory services, have made small business aware of services, are proactive, communicate adequately with small business, but provide a service that is not of an adequate professional standard (i.e. service is qualitatively deficient).

10. Public accountants aware of small business needs, are adequately trained and willing to supply expert advisory services, have made small business aware of services, are proactive, communicate adequately with small business, provide a service that is of an adequate professional standard, but the standards and guidelines of the accounting profession relating to the provision of expert services to small business are inadequate.
11. Public accountants aware of small business needs, are adequately trained and willing to supply expert advisory services, have made small business aware of services, are proactive, communicate adequately with small business, provide a service that is of an adequate professional standard, but public accountants overcharge for their services.
12. Public accountants aware of small business needs, are adequately trained and willing to supply expert advisory services, have made small business aware of services, are proactive, communicate adequately with small business, provide a service that is of an adequate professional standard, do not overcharge for their services, but the service is still not cost-beneficial to small business.

The specific causes of the expert advice gap attributable to public accountants (underlined above) are summarised on the right side of Figure 3 overleaf.

Figure 3**Summary of Factors Causing an Expert Advice Gap**

FACTORS ATTRIBUTABLE TO SMALL BUSINESS		FACTORS ATTRIBUTABLE TO PUBLIC ACCOUNTANTS	
1	Small Business does not recognise its need of public accountants' services	1	Public accountants are unaware of the small business need for their services
2	Small business is unaware of the range of services available from public accountants	2	Public accountants do not make small business sufficiently aware of their available services
3	Small business is not adequately educated or trained to be able to make full use of public accountants' services	3	Public accountants are not adequately educated or trained to provide expert advisory services to small business
4	Small business chooses not to utilise the services of public accountants	4	Public accountants choose not to provide expert advisory services to small business
5	Small business lacks interpersonal skills in dealing with public accountants	5	Public accountants lack proactive interpersonal skills in dealing with small business clients
6	Small business cannot afford the fees to fully utilise the services available from public accountants	6	Public accountants overcharge small business for their services
7	Public accountant's services are mistakenly perceived as not being cost-beneficial to small businesses	7	Public accountants' services are not cost-beneficial to small business
8	Small business clients have difficulty communicating with their public accountants	8	Public accountants do not communicate in language understandable to their small business clients
9	Lack of time prevents small business making greater use of public accountants' services	9	Lack of time prevents public accountants from serving small business to a greater extent
10	Public accountants are mistakenly perceived as being not able to supply services of a satisfactory quality and/or quantity	10	Public accountants do not provide services of a satisfactory quality and/or quantity to small business
11	Use of public accountants is mistakenly felt to be a threat to the independence of the small business owner-manager	11	The standards of the accounting profession relating to the provision of expert advisory services are inadequate
12	Advice is sought from public accountants when it is already too late to solve the problem		
13	Advice given by public accountants is not implemented by small business		

5.4 Analysis of the Small Business Expert Advice Gap

Small firms in New Zealand are under no legal obligation to use the services of public accountants. Small firms can therefore exercise their choice not to use public accountants, however pressing their needs may be. Conversely, public accountants are at liberty to choose which clients they wish to serve and which services they wish to provide.

In broad terms, as discussed in Chapter 4, the degree to which public accountants' services are matched to small business needs depends on four factors;

1. the extent to which small business owner-managers realise their *need* for the expertise possessed by public accountants,
2. the extent to which small business owner-managers translate this need into *demand* for public accountants' services (that is, recognise what is, or should be, available from accountants and request it),
3. the extent to which services demanded by small business are *recognised* by public accountants.
4. the extent to which recognised demand is matched by services *provided* by public accountants

Where small business needs and demands for public accountants' services are not congruent, such a gap is largely attributable to small business (the 'gap caused by small business' in Figure 2). Where small business demand is not

met by public accountants' services, such a gap is mainly attributable to public accountants (the 'gap caused by public accountants' in Figure 2).

In more specific terms, the expert advice gap is determined in the first instance by the extent to which small business owner-managers (a) are aware of, and choose to use, public accountants' services and (b) are constrained from utilising such services due to lack of financial resources or managerial ability. Secondly where services have been requested from public accountants by small business a gap may still exist if (a) the request is refused, (b) the service is inadequate or (c) the standard against which the service is measured is deficient.

Small business owner-managers must therefore recognise their need of public accountants' services, know how to ask for them and how to use them. Public accountants must know what services to provide to small business, how to deliver them and be competent to perform them. Both the small business sector and the public accounting profession should know their weaknesses in relation to each other so that these can be rectified for their mutual benefit and for the benefit of society at large.

5.5 Summary and Conclusions

No professional group can completely satisfy, at all times and at all places, the needs of society for its expert services. An expert advice gap between the accounting profession and its small business clients will inevitably exist to some degree as resources are finite and human knowledge imperfect. The question the accounting profession faces is what size of small business expert advice gap is acceptable to society. In order to establish this, the accounting profession must identify the particular factors which comprise such a gap and the extent to which small business and/or public accountants are responsible for such a gap.

A conceptual framework of the expert advice gap, such as the one developed in this chapter, is needed to determine, on a rational basis, those areas of deficiency where the accounting profession needs to improve its performance to ensure that it is adequately meeting the needs of the small business sector for its expert services.

In the next two chapters an examination is made of the extent to which authoritative evidence exists in the literature to support or contradict each of the deduced factors contributing to an expert advice gap. Evidence relating to the factors attributable to small business is examined in Chapter 6 and to the factors attributable to public accountants in Chapter 7 respectively.

CHAPTER 6

LITERATURE-BASED SUPPORT FOR THE EXPERT ADVICE GAP: FACTORS ATTRIBUTABLE TO SMALL BUSINESS

6.1 Introduction

The probable existence of a gap between small business expert advice needs and public accountants' services was discussed in Chapter 4. It is postulated that both small business and public accountants are potentially responsible for such an expert advice gap. In this chapter the evidence relating to the expert advice gap factors specifically attributable to small business is reviewed.

A list of the factors causing an expert advice gap imputed to small business, as outlined in the conceptual framework presented in Chapter 5, is given below for the purpose of clarity. For each factor the literature is surveyed to determine the extent of supporting evidence.

- 1 Small business does not recognise its need for public accountants' services.
- 2 Small business is unaware of the range of services available from public accountants.
- 3 Small business is not adequately educated or trained to be able to make full use of public accountants' services.

- 4 Small business chooses not to make full use of public accountants' services.
- 5 Small business owner-managers lack interpersonal skills in dealing with public accountants.
- 6 Small business cannot afford the fees to fully utilise the services available from public accountants.
- 7 Small business mistakenly perceives public accountants' services to be non cost-beneficial.
- 8 Small business has difficulty communicating with public accountants.
- 9 Lack of time prevents small business from making greater use of public accountants' services.
- 10 Small business mistakenly perceives public accountants as not being able to supply services of a satisfactory quality and/or quantity to small business.
- 11 The use of public accountants is mistakenly perceived as a threat to the independence of the small business owner-manager.
- 12 Small business seeks advice from public accountants when it is too late to solve the problem.
- 13 Small business does not implement the advice given by public accountants.

6.2 Small business does not recognise its need for public accountants' services.

One of the main problems for public accountants dealing with small business is the frequent refusal of owner-managers to acknowledge that a need for external advice exists. This point was specifically emphasised by Bolton (1971): "So far as they are needed...and so far as the need is recognised, sophisticated management skills and specialist knowledge must usually be brought in from outside. (*It is very often the case that the need is not recognised*) [emphasis added]" (p.112).

Many small firm owner-managers do not perceive that they have a problem. When Bolton (1971, p.115) questioned small business owner-managers on their attitudes towards the need for external advisory services, it was found that, while they readily conceded that most small firm management was weak, they felt that this did not apply to themselves and that most owner-managers

1. rejected the idea that wider use of advisory and management services would much improve matters, and
2. were weary of receiving unsolicited advice from well-meaning outsiders on how their businesses could be run, especially government agencies, as evidenced by the massive refusal of the small business sector to use even free services.

Bolton (1971, p.118) discovered that public accountants had extreme difficulty in trying to persuade many small business people to change their attitudes and habits or think seriously about their problems and were generally too busy to waste time arguing with clients who refused to see sense. No recommendation was made by Bolton as to how small business clients' receptiveness to the (presumably) good advice provided by their accountants could be improved.

Almost a decade later Wilson (1979) found that matters in Britain had changed

little and concluded that "many small business people are reluctant to accept that more comprehensive advice may be needed" (p.35). According to Back (1978, p.93) one of the reasons for the difference between "perceived" advice needs and "actual" advice needs arose due to failings on the part of small business owner-managers to realise that they had a need for advice in the first place.

It appears that Australian small business owner-managers share the unwillingness of their British counterparts to face up to the real cause of their problems. Based on a study of Tasmanian small business, Back (cited in Flahvin, 1985) found that most small business owner-managers attributed their problems to external factors such as unions, taxes or remote location. "Yet when experts in small business management were asked what they considered to be the most important problems facing small businesses, without exception, they indicated a problem within the firm normally related to the quality of management" (p.18).

One reason put forward by Cunningham (1983a) for the reluctance of Canadian small business owner-managers to seek help is that the problem is simply not acknowledged in the first place:

Small business entrepreneurs put everything at stake and invest all their available energy. If they fail, they lose everything. Why don't they implement the necessary operating controls and get current, accurate monthly information? Unfortunately, many of them feel that they do have control of the operations. (p.74)

6.3 Small business is unaware of the range of services offered by public accountants

Advisory services will not be used if small business owner-managers are unaware of their existence. There appears to be little indication in the literature that owner-managers are ignorant of the compliance services offered by public

accountants. This is probably because the law requires production of financial statements and the completion of tax returns. As most small firms lack the expertise to fulfil this statutory obligation, they are obliged to hire the services of experts such as public accountants if they are to avoid the problems and penalties of non-compliance.

However, when business advisory services are considered, a different picture emerges. Bolton (1971, p.115) found that in Britain most small firm owner-managers were ignorant of the range of business advisory services available from public accountants. To compound the problem the general lack of awareness of external services tended to result in negative rather than neutral attitudes towards the providers of business advisory services. Possibly because small business appeared to have had very little experience of using the facilities available, attitudes towards them tended to be critical.

In a survey (Question of Image, 1980) conducted by the Canadian Institute of Chartered Accountants in British Columbia it was found that 60 per cent of those surveyed had only a fair or poor understanding of the kinds of specialised services offered by chartered accountants in public practice. This survey revealed that persons using the services of public accountants are primarily interested in their tax expertise, personality, availability and promptness. The corollary of this finding is that the special business services that public accountants offer are not the primary reason why their clients have sought them out. This would suggest that current and potential clients are unaware of the services available, do not need to use them, or cannot afford them.

Studies undertaken by researchers in Australia reinforce the view that most small business owner-managers are largely unaware of the business advisory services available from public accountants. Shannon (1985, p.158) found that in the opinion of public accountants, business advisory services are under-utilised because small business owner-managers are simply unaware of the services available.

Similarly Holmes (1988b, p.41) discovered that small firm owner-managers appear to lack awareness of the range of services offered by public accountants. Furthermore a perception gap exists between the level of awareness of small firm owner-managers of the range of accounting services available to them and the perceptions of the level of owner-manager awareness by public accountants. In other words, public accountants think that small business clients are more knowledgeable about their services than in fact they are. Holmes (1988a, p.264) concluded that, as the main service demanded by small firms was financial statement and tax return preparation, public accountants are mainly regarded as existing to specifically supply a legally demanded service rather than to meet the general information requirements of the business.

6.4 Small business not adequately educated or trained to make full use of public accountants' services.

Holmes (1988a, p.227) found that, in relation to small business, there was a significant relationship between the amount of accounting information required and the level of education of the owner-manager. Holmes' work reinforces Bank's (1978) conclusion that a certain level of managerial sophistication is required before the owners of a business can identify the need for consultancy and advice. Banks (1978, p.244) found that in the case of British printing firms this level of managerial supervision is reached when the small firm moves from the small category into the medium sized category.

6.5 Small business chooses not to make full use of public accountants' services.

Small business clients are often unwilling to pay for more than the obligatory annual accounts and tax services, even although they may need more and can afford more (Murphy, 1978, p.416; Wilson, 1979, p.35). As a result "clients only want to know how much tax to pay this year" (Cockburn, 1981, p.1).

Robertson (1988, p.12) maintains that the reason small business owner-managers do not use the expertise of professionals to a greater extent is because:

- * They only seek help in areas where they feel that they desperately lack any ability and not in areas where it could supplement or support some internal expertise. Consequently the broad thrust of the firm's activities are never comprehensively examined.
- * They are selective in the resources they use from professionals, selecting only those they feel they cannot survive without.
- * Having fulfilled their specific tasks, the professionals are quickly removed from the business.
- * Help is rarely sought at the planning stages.
- * The advice which is sought is purely functional.

6.6 Small business owner-managers lack interpersonal skills in dealing with public accountants.

Public accountants are among the professional experts to whom small business owner-managers go when they have a problem which they cannot resolve. This professional-client relationship means that the public accountant speaks from a position of knowledge and authority which may make the small business client feel inferior, overawed or even intimidated. Some small business people may dislike using the services of public accountants as they see them as part of a professional 'mafia' the members of which feed each other business (Robertson, 1988, p.13).

Small business owner-managers tend to be reactive rather than proactive in dealing with their public accountants and often do not take steps to know what questions to ask to try to resolve their advice needs (Bolton, 1971, p.118). Public accountants interviewed by Back (1978, p.101) complained that "clients just sit there" and "they rarely ask questions".

6.7 Small business cannot afford public accountants' fees

New Zealand commentator Braddell (1986, p.25) states that small business requires a range of accounting as well as non-accounting information on such matters as marketing, legal affairs, company structure and insurance which are often prohibitively expensive to small firms.

Somewhat paradoxically Bolton (1971, p.115) stated that, as the time of accountants is expensive, it would be difficult for many small firms to be able to afford the wider range of services recommended by the Bolton Report, the implication being that it is beyond the financial resources of many small firms to pay for anything other than obligatory compliance services. Robertson (1987) found that accountants' fees are perceived as too expensive: "Cash flow is of paramount importance for small and medium sized firms. Their accountants should help, but are expensive and hence are mainly used on the annual audit and tax savings" (p. 15).

Not all commentators agree, however, that the level of public accountants' fees need be a barrier to obtaining advice. Back (1978, p.122) argues that Bolton's reasons for the expert advice gap are over-simplifications, especially the charge that small firms cannot afford the fees of public accountants. In Back's opinion the cost-benefit of using a public accountant is favourable and in the majority of cases the claim of fee sensitivity is an invalid excuse used by both small business and public accountants to hide their reluctance to receive and give advice.

However, the fact that many free financial advisory services are poorly utilised by small business in Britain (Bolton, 1971, p.115; Robertson & Owens, 1986, p.99) would seem to indicate that avoidance of external advisory services is not caused solely by the level of fees. Paying for services may actually help rather than hinder small firms. Robertson and Owens (1986) cite research undertaken

by the Scottish Development Agency which found that small firms "pay more attention to assistance for which they pay than they do to free help; in addition, the more they pay, the higher the level of satisfaction, provided that value for money ground rules are not broken" (p.58). Nevertheless Robertson and Owens add the caution that reluctance to pay fees does exist which means that professionals have to demonstrate the need for their services and show that the benefits of their assistance outweigh the costs.

In the USA, de Fatta (1983, p.48) found that 60 percent of small business respondents felt that fees were reasonable in relation to the service rendered. When small firms were asked by de Fatta what single item would cause them to change their accountant, 66 percent indicated that this event would be triggered by a substantial decrease in the service being offered. By comparison only 15 per cent said that they would change their public accountant due to a substantial increase in the billing rate.

6.8 Small business mistakenly perceives public accountants' services to be not cost-beneficial.

It is claimed (Cockburn, 1981, p.2) that small business willingness to pay for advisory services is directly related to the benefits which can be seen from the extra expenditure. However, Findlay (1981, p.5) counter-argues that in practice it is difficult to assess the value of accounting information with any precision, and as a result many small business owner-managers strongly resist any extras which may increase the level of the fee. For example, many small business owner-managers regard business advisory services, such as monthly accounts, not as essentials but as expensive luxuries. (Woolf & Richards, 1985, p.92)

6.9 Small business has difficulty communicating with public accountants.

It is difficult for public accountants to resolve small business problems when owner-managers have difficulty in expressing their problems and ideas. Bolton (1971, p.118) found that small business owner-managers look for guidance from public accountants in solving their problems but frequently lacked skill in articulating these needs. Small business operators have been criticised for not making sufficient steps to learn the fundamental elements of business which would allow them to identify and communicate problems. Zevenbergen (1986, p.379), writing from a South African perspective, asserts that many small business owner-managers are financial illiterates who refuse to learn the language of business. According to Cockburn (1981) a similar situation exists in New Zealand where "clients frequently show a total lack of understanding of the contents of annual accounts" (p.1).

6.10 Lack of time prevents small business from making greater use of public accountants' services.

Bolton (1971, p.116) found that chronic shortage of time on the part of the small firm owner-manager was seen to be perhaps even more significant than mistrust in preventing greater usage of business advisory services. The problem arises from the fact that the owner-manager is almost invariably the lynch-pin of the organisation. To effect improvement in the firm usually means changing the attitudes and habits of the owner-manager who unfortunately is normally the busiest person in the firm. Therefore any potential benefits of external advisory services will be judged by the owner-manager not only against its financial cost, but also against the time that he or she must devote to it at the expense of their daily work.

6.11 Small business mistakenly perceives that public accountants are not competent to supply services of a satisfactory quality and/or quantity

Back (1978, p.93) found that the need for advice is sometimes recognised by small business owner-managers but they incorrectly consider that the topic is beyond the competence of public accountants, the result of which is that the service is unlikely to be requested. In other words small business owner-managers under-estimate the ability of public accountants in general.

6.12 Small business mistakenly perceives public accountants to be a threat to their independence

In looking at the reasons why British small businesses did not make more use of external advisory services Bolton (1971, p.115) found that there was hostility to outside 'interference' because it was seen as a threat to the owner-manager's self-reliance. Back (1978, p.93) similarly concluded that, despite awareness of a problem, small business owner-managers often felt that seeking advice from external experts would endanger their independence or status. The wish to remain independent and a dislike of formal and bureaucratic professional attitudes were found by Robertson and Owens (1986, p.78) to be factors which prevent small business owner-managers from seeking assistance.

Australian public accountants believed, according to Shannon (1985, p.158), that their services were under-utilised by small business owner-managers who feared the implications of using management advisory services.

6.13 Small business seeks advice from public accountants when it is too late to solve the problem.

Many people start a business without consulting an accountant or advisor of any

sort. They do not know what the cost of production will be or what price they will have to sell at to make a profit. Advice is frequently sought only after the owner has become aware that the business is in difficulty by which time it is usually too late to do anything more than arrange the winding up. People either think the cost is too great, or they are ignorant of the options available (Flahvin, 1985, p.20).

6.14 Advice given by public accountants is not implemented by small business

The problems giving rise to the small business need for expert advice will remain unresolved if the advice is not implemented by the owner-manager. Cockburn (1981) suggests that this situation exists in New Zealand when he states that, "In very few cases are clients familiar with the layout and content [of financial statements], nor do they show signs of being frequently used as aids to running their business" (p.2). A possible alternative reason for the non-use of financial statements by small business owner-managers is the length of time taken for their production by public accountants. This time-lag often makes financial statements too out-of-date for any useful management purposes.

Some concern has been expressed in Australia regarding the implications of advice from public accountants not being implemented by their small business clients. Flavel (1989) warns of the danger of legal liability associated with the giving of advice by experts:

Potential legal liability arises from the problem of giving 'right' advice to the 'wrong' person. Since many owner-managers are managerially incompetent, it follows that they may not be able to effectively implement the advice given. If, as a result, they suffer loss, who do they blame?". (p.72)

Leslie, Magdulski and Champion (1985, p.23) reach the heart of the matter when

they point out that there is much in the literature about small business problems and failures in spite of the fact that most owner-managers have used professional advisors. This suggests that the advice given was either:

1. inadequate (given the current self-perceived needs of the owner-manager)
2. not properly understood by the owner-manager
3. not acted upon quickly enough or at all.

Empirical proof that adequate information or advice may not be acted upon is fairly limited. Shannon (1985, p.158) found that public accountants were dissatisfied with the use made of business advisory services due to the lack of understanding by owner-managers of the data available. Research conducted by Holmes (1988a, p.223) showed that most owner-managers consider financial statements to be useful in making business decisions; however, when it came to actually making such decisions, the relationship between the information used by small business owner-managers and that recommended by public accountants was limited. Holmes (1987) also found that:

Most accountants perceive their role as extending to that of a management educator and member of the management team. In practice, their role appears to be more limited. The management educator role of accountants is especially significant given that the majority of owner-managers are not educated in the preparation and interpretation of accounting information. Even if small business owner-managers are given more information by their external accountant they may not be sufficiently skilled to utilise it. (p.40)

6.15 Summary and Conclusions

A survey of the literature was undertaken to obtain evidence supporting or

opposing the thirteen factors proposed in the conceptual framework which potentially cause an expert advice gap attributable to small business.

There is sufficient authoritative evidence in the literature to indicate that, in general, small business owner-managers must bear some of the responsibility for not fully utilising the services they require from public accountants. In the next chapter the responsibility of public accountants for the existence of a small business expert advice gap will be examined.

CHAPTER 7

LITERATURE-BASED SUPPORT FOR AN EXPERT ADVICE GAP: FACTORS ATTRIBUTABLE TO PUBLIC ACCOUNTANTS

7.1 Introduction

The probable existence of a small business expert advice gap in relation to public accountants was established in Chapter 4 and a conceptual framework to explain such an expert advice gap was presented in Chapter 5. The extent to which small business is thought to contribute to the existence of this gap was examined in Chapter 6. The degree of responsibility believed to attach to public accountants for the small business expert advice gap is explored in this chapter.

A list of those factors, imputed to public accountants as causing a small business expert advice gap is presented below to aid comprehension. The literature is then surveyed to determine the extent of support for each of the factors.

- 1 Public accountants are unaware of the small business need for their services.
- 2 Public accountants do not make small business sufficiently aware of their services.
- 3 Public accountants are not adequately educated or trained to provide expert advisory services to small business.

- 4 Public accountants choose not to provide their expert advisory services to small business.
- 5 Public accountants lack proactive interpersonal skills in dealing with small business clients.
- 6 Public accountants overcharge small business for their services.
- 7 Public accountants' services are not cost-beneficial to small business.
- 8 Public accountants do not communicate in language understandable to small business clients.
- 9 Lack of time prevents public accountants from serving small business to a greater extent.
- 10 Public accountants do not provide the range of services needed by small business.
- 11 Public accountants do not provide the quality of services needed by small business.
- 12 The standards of the accounting profession relating to the provision of expert advisory services are inadequate.

7.2 Public accountants are unaware of the small business need for their services.

Although as a professional group accountants are probably very aware of the problems and challenges faced by small business in New Zealand (Ferguson, 1985, p.1), there is evidence that some misperceptions do exist. Cockburn, (1981, p.1), speaks of a gap between what public accountants believe small

business needs and how small business views its own needs. One of the main areas of concern identified by the New Zealand Society of Accountants in 'Horizon 2000' (NZSA, 1983, p.19) is the lack of responsiveness of the accounting profession as a whole to the needs and concerns of the business community.

Empirical research into this area by Back (1978, p.2) in Britain suggests that public accountants may underestimate the advice needs of their clients, particularly the finding that whereas a narrow expert advice gap was perceived to exist, the actual expert advice gap was much wider.

Shannon's (1986, p.54) study in Australia reveals that public accountants had lower expectations of their small business clients' management advisory services needs than the latter's expectations of their own needs. This suggests that accountants are perhaps not accurately assessing their clients' needs. Alternatively small business owner-managers may be over-estimating their own needs.

These findings are somewhat contradicted by research undertaken in England by Clarke and Watson (1986, p.56) who concluded that public accountants were aware of small business needs for services in addition to compliance ones. This opinion is corroborated by Lewis and Toon (1987, p.11) who found that 86 percent of surveyed accountants saw the need to accept professional responsibility for providing on-going financial and general business counselling.

The results of overseas research indicates that there are at least some signs that public accountants may not completely appreciate small business needs. No New Zealand research in this area appears to have been undertaken.

7.3 Public accountants do not make small business sufficiently aware of their services

A fundamental reason identified by Holmes (1987, p.40) for the limited use of public accountants' services was the small business lack of awareness of the range of services available from external accountants.

Some commentators maintain that small business owner-managers are ignorant of the full range of accountants' services because these are not effectively marketed. A president of the Australian Institute of Chartered Accountants Institute (Cohen, 1987) states that:

Some accountants are unaware that small business requires additional services and advice. Our profession often misses an opportunity because, incorrectly, we believe that the client is aware of the full range of services we provide. There is mutual ignorance and misunderstanding. Hopefully, if we respond to the need, we will increase the life expectancy of small business. (p.6)

To counteract this lack of awareness Marsh (1988b, p.26) exhorts public accountants to market their services more effectively to the small business community. Increased marketing efforts, however, may not achieve rapid results because of the nature of the small business owner-manager. Bolton (1971) draws attention to the fact that, because of the small business person's general ignorance of, and hostility to, external business advisory services, suppliers of these services inevitably have to employ greater marketing efforts to persuade small firms to make use of them, even when these services are free or heavily subsidised. The basic problem arising from this situation is that the 'missionary' advisor has not only to persuade the small firm owner-manager that a given course of action will result eventually in higher profits, but also that the risk is low enough to make the project worthwhile. Invariably the small business person's assessment of the risk will be more cautious than the advisor's, since

it is the small business person, and not the advisor who will have to bear the consequences of misjudgment. "In part this explains the suspicion, amounting to prejudice, against outside advice which is shown by many small businessmen" (Bolton 1971, p.115).

A survey of small business in Louisiana undertaken by de Fatta (1983) showed that, whereas 86 percent of respondents used their certified public accountants [CPA] to prepare income tax reports, only a small percentage used their CPA's skills for services such as profit planning and cash flow forecasting. This discrepancy caused de Fatta (1983, p.48) to question the extent to which small business clients are aware of potential CPA services.

Clarke and Watson (1986, p.56) found that public accountants in England have difficulty in convincing clients of the importance of using additional services. It was found that whereas owner-managers begrudged paying for compliance services because these were felt to be unnecessary, they were happier about paying for additional services where they could see the benefits in terms of improved profitability. Clarke and Watson concluded that public accountants will have to promote their services to a greater extent if small business is to be convinced of their need.

A somewhat disturbing feature for the accounting profession is the finding by Holmes (1987, p.40) that public accountants mistakenly thought that small business had a much higher level of awareness of their advisory services than they actually had. Approximately two-thirds the public accountants surveyed by Holmes believed that the majority of their small business clients were aware of their practice's full range of services. The public accountants surveyed appear to be aware of the limited preparation of accounting information by small firms and of the tendency for owner-managers to contact them as business problems arose, rather than for planned decision making. However, public accountants did not associate the low utilisation of their services with a lack of awareness of their availability on the part of small business owner-managers.

7.4 Public accountants not adequately educated or trained to provide business advisory services to small business.

Research in Britain by Bolton (1971, p.118), and Clarke and Watson (1986, p.55) found that many accountants were reluctant to go beyond routine compliance work. Back (1978, p.104) found that public accountants advised small firms on a wide range of subjects but there was considerable variation between accounting practices in the level of advice provided and the range of topics discussed. Many accountants who took a limited view of the role of accountants as advisors had been trained in practices offering only a limited range of services and had studied only accounting and law subjects to qualify as accountants. As a result some public accountants lacked confidence in their own ability to give advice over a wider range of topics.

A possible reason for offering only a narrow range of services to small firms is the lack of specific training for public accountants in business advisory services. The lack of education of public accountants in small business issues has been a point of concern to commentators for a number of years in a number of different countries. For example, in Australia Wiltshire (1971) found that "professional bodies in the main do not educate their members, either by formal courses or seminar activities, in the task of advising small business clients on their management problems" (p.21). More than a decade later Meredith (1982) drew attention to the fact that:

The importance of small business management (and financial management in particular) has developed in the 1970's and will be continued in the 1980's. The Ralph Committee on Management Education has recently recommended to government that training for professional accountants include exposure to concepts of small business management and counselling/consulting techniques for advice to small business clients. (p.489)

The situation had changed little when Lander (1986) drew attention to a basic inconsistency in relationship between public accountants and small business clients; "On average only three percent of accountants have done any formal training in small business yet when small business is asked to whom they go for major advice some 83 percent reply that they go to their accountant for advice" (p.48).

Public accountants are therefore placed in the position of deciding whether or not they have the requisite degree of skill to properly serve small business clients. In the view of Cohen (1987, p.6), a former president of the Australian Institute of Chartered Accountants, if public accountants are not competent to provide the required advice, because of their background and training, they should attend the appropriate courses or refer the client to a person who has the relevant skills.

Writing from a Canadian perspective, Wragg and Young (1983, p.69) state that if public accountants are to properly advise small business clients, they must first receive adequate training in the various areas of expertise, and maintain that although all Canadian chartered accountants undergo a rigorous professional education programme, this education is not refined enough to provide the expertise required to advise small business clients. Cunningham (1983a, p.74) is in agreement with Wragg and Young, that neither pre- or post-qualification education in Canada is adequately geared to meeting the needs of small business, consequently public accountants' knowledge of small business is often necessarily learned in the "firing line", a situation which frequently results in the accounting profession letting down the small business person.

In Britain Wilson (1978, p.35) recommended that the accountancy profession should take steps to ensure that its members were both equipped and encouraged to take a more active role in providing adequate advice to their small business clients. Research undertaken by Robertson and Owens (1986, p.96) indicated that there existed a need for professional advisors (including public accountants) to be educated in more general aspects of business in order to identify those

problems which lie outside their specialist area. For example, a public accountant should be able to recognise a marketing or production problem and help the client identify a source of assistance to solve the problem.

In New Zealand public accountants are the main advisors to small business, yet very little attention is given in commerce courses to small business (Braddell, 1986, p.24).

7.5 Public accountants choose not to make their expertise available to small business.

Public accounting firms are under no obligation to serve any and every small business which seeks to use their services. No evidence was found in the literature of a refusal of the accounting profession in general to serve small business. However, it appears that in New Zealand at least, some of the larger accounting practices are deliberately targeting the bigger and more prosperous clients who are better able to afford their fees, leaving the smaller clients to smaller practising firms with lower overheads and smaller fees.

7.6 Public accountants lack proactive interpersonal skills in dealing with small business

Some public accountants are poor at eliciting the concerns of small business clients because "there still survives in some accountants a traditional diffidence about venturing outside the strict limits of their professional function - a fear that to offer advice on general management would be an unwelcome intrusion" (Bolton, 1971, p.118). The accounting profession in their evidence to Bolton (1971) reported that "the attitude of most of the small companies is, 'Tell us what we ought to be doing'" (p.118). Public accountants are reasonably good at answering questions raised by small business clients but appear to give no

advice unless specifically asked a question; all too often, however, the small business person does not know the question to ask. (Bolton 1971, p.118). As a result one of the main recommendations made by Bolton (1971, p.118) is that public accountants must be prepared to play an active role when dealing with small firms.

Similarly, Back (1978, p.8) notes that perhaps the most important information emerging from his survey of small firms was that many of the firms needing advice stated that they depended upon their public accountant to take the initiative in identifying areas where they could assist, rather than merely providing advice in reply to a request from the client.

Back (1979, p.15) found that public accountants were not giving advice on topics which clearly came within their range of expertise . This shortfall was also identified by Bolton (1971, p.118) who suggested that it was due to the public accountant's professional, as opposed to business, approach. Some public accountants feel that to push clients into retaining more of their services may be considered unprofessional and more in accountants' interest than that of their clients (Woolf & Richards, 1985, p.92).

In Britain, Robson Rhodes (Loan Guarantee Scheme Report, 1984, p.10) stated that public accountants usually only respond, they do not initiate nor get involved with their clients. This criticism was rejected by a president of the Institute of Chartered Accountants in England and Wales [ICEAW] but this did not prevent the editor of the ICEAW journal 'Accountant' implying that many public accountants did not really understand the needs and behaviour of their small business clients:

People starting and running small businesses generally know nothing about finance, and precious little about management. The accountant who waits for those people to come and ask for monthly accounts, or financial control, for budgets, cash flows and an indication of what basic

ratios can tell him, might just as well wait for his premium bond to come up. (Editorial, 1984, p.1)

A similar view is held by Cockburn (1981), a former director of the Wellington Small Business Agency who states that "Accountants should become more creative, outgoing and involved with clients. Promoting management advisory services to clients is providing 'service'. This is not 'touting for business', neither should it be seen as unethical" (p.4).

Developing a good rapport with clients by public accountants is essential if feelings of client uncertainty as to the service they will receive are to be minimised. Clients of professional services, including accountancy, buy an expectation of a result. They cannot know in advance what they will receive. Reputation, track record, or a long association with a particular firm, does not guarantee that the quality, efficiency and speed of a service will replicate itself. Professional services are people-based and people are unpredictable, even when operating within practice procedures and quality controls. If expectations move out of line with reality, the accounting firm will not be perceived as satisfying clients' needs. The inability to know positively just what will be received is a major source of uncertainty for small business owner-managers:

While certainty cannot be guaranteed, the firm that is sensitive to the existence and sources of client uncertainties and mitigates them will always be the one to win if only because the client sees them simplistically as 'nice people to do business with'. (Wilson, 1986, p.132)

7.7 Public accountants overcharge small business for their services.

There is little authoritative evidence in the literature of public accountants overcharging small business clients for their services. This paucity of informed information is somewhat surprising given the large amount of hearsay evidence

of excessive charging by accountants of small business clients.

Robertson and Owens (1986, p.98) found that information on professional fees and fee structures was not widely available and suggested that more public information of this nature would highlight those professional practices which were overcharging and enable small businesses to shop around more easily for the best deal. This would also serve to increase price competition between professional advisors which would benefit the small business community.

Gray (1985) warns the New Zealand accounting profession that:

The exclusivity of our services will remain only as long as the public, the consumer of our services, remains satisfied with the quality and the cost of the services being provided. There have been suggestions that we are pricing ourselves out of that privileged position, and that Government and the consumer agencies will not let that position continue for much longer.
(p.7)

Indications of different attitudes to small business clients are evident in the remarks made by a small public practitioner in Australia: "The new clients we get from larger firms complain of two basic things - being charged a lot, and not being well looked after. There is a general feeling that the large firms give priority to the large clients and will not do a simple tax return unless the client gives them a large fee up front" (Thomas, 1988, p.31).

7.8 Public accountants' services are not cost-beneficial to small business.

While public accountants may charge a reasonable fee for their services this amount may still not be cost-beneficial to their small business clients. As with the excessive fees issue, there is surprisingly little authoritative evidence on the cost-benefit of public accountants' services to small business clients. This is in

spite of Back (1978, p.147) having emphasised the need for research into the cost-benefit relationship in providing advice, both from the viewpoint of the small firm and the public accountant. Lewis and Toon (1987) indicate that the issue of the cost-effectiveness of fees is often perceived to be somewhat less than satisfactory:

The real cost of using the accountant's services is a constant source of irritation and possibly worry to clients. There is uncertainty about the eventual cost of the service which, taken together with time spent in interviews, both constructive and abortive, detracts from the real benefits to be gained by the business. (p. 32)

7.9 Public accountants do not communicate in language understandable to small business clients

One of the main concerns of the accounting profession in New Zealand is the poor performance in communication and people-handling skills shown by accountants in general (NZSA, 1983, p.19). The existence of a communication gap between public accountants and their small business clients is one of the most commonly alleged causes of the expert advice gap. The implication is that public accountants, being the professional experts, should actively strive to overcome communication problems in the interests of identifying and meeting clients' needs more successfully.

A communication gap between public accountants and their small business clients exists in New Zealand according to Gilks and Higham (1981) who state:

It is often said that accountants are not good communicators. Typical of the statements which support these claims are 'My accountant did not offer to do it for me and I didn't know enough to ask for help', and 'My accountant did go over these figures with me, but I didn't understand

what he was saying'. While there is no doubt that there are two sides to these claims, accountants should take care to ensure that accounting information is comprehensible and useful to the receiver. (p.61)

In Britain, Wilson (1979, p.35) indicated the existence of a communication gap between small firms and their main financial advisors, public accountants. Another British study, that of Back (1978, p.104), found that there was considerable variation in the attitudes of public accountants to the giving of advice to small business clients. Part of the reason for this difference was that (a) contact between public accountants and clients was infrequent, and (b) some public accountants misunderstood the advice needs of their clients. Small business people feel, according to Robertson and Owens (1986, p.96), that professional advisors tend to talk over their heads and that they needed to come down to the layperson's level. This indicates that public accountants sometimes do not have a sufficient understanding of small business behavioural limitations, which in turn is manifested in a communication gap.

In Australia Shannon (1985, p.158) found that part of the reason why small firm owner-managers were dissatisfied with their public accountants was because of the latter's lack of communication skills.

A lack of understanding of the terminology being used is one reason given in New Zealand for the reticence of small business clients when dealing with their public accountants. For example, Cockburn (1981) remarks "Little wonder that when you start talking in a language he can't understand, he is reluctant to ask for explanations" (p.4). Findlay, (1981) a Whangarei public accountant, admits that there is a communications problem, but questions whether owner-managers should not make greater efforts to become familiar with basic business terminology:

Those practitioners who have taken the trouble to try to provide more than just an annual accounting or tax service to interested clients will be

well aware of the communication gap which can exist between the profession and its clients and the difficulties which this can create. Problems arise from a technical language barrier, which raises the question of whether the fault lies entirely at the door of the accountant or whether there is not a greater responsibility on the small business owner-manager to learn the appropriate management skills, one of which is the language of accounting. (p.5)

Part of the role expected of public accountants in Canada is to help clients help themselves, where possible, in the areas of accounting and financial management (Cunningham, 1983a, p.74). This view is echoed in New Zealand by Gilks and Higham (1981):

Accountants should train businessmen to know and understand the information they present to them. The benefit to the business will only come from a proper understanding of it by both accountant and owner, and when each can communicate in a manner readily understandable to the other.... Obviously the small businessman is not expected to be a skilled financial analyst. His prime function is to know his product intimately. But surely we have some responsibility to see that he understands the information which we present, so that he can make the best possible use of it. (p.61)

Of crucial importance, according to the Small Business Committee of the American Institute of Certified Public Accountants (Collins, 1987) is the difficulty that some public accountants in the United States have in communicating with small business clients:

In general the greatest concern practitioners have is being able to translate a technical answer into business terms that entrepreneurs can readily understand and use to solve their business problems. This requires the ability to fully understand the business as well as the

technical issues and to effectively communicate with the owner-manager.
(pp.148, 149)

It is unrealistic, according to an Australian communications consultant, (1988c), to expect small business operators to be competent in accounting matters. Accountants are advised to keep discussions to simple non-accounting terms which anybody can understand:

Complicated language and jargon is called 'fog' and most professionals are very talented at generating fog. They like to highlight how well their services work for everybody and do so in terms that the layman doesn't understand. Understand this: If prospects are familiar with most of the terms you use they probably do not need an accountant. (Marsh, 1988b, p.22)

Clients don't want to know how public accountants' services work but rather how these services will be of benefit to them. Public accountants' emphasis on the types of services they provide rather than on the benefits to be gained from their use is one of the salient issues of the communications debate. Wilson (1986) notes that in Britain there has been little improvement in the approach of public accountants to small business clients in this respect:

Communications with customers across the whole of business activity have not notably improved.... Accounting practices...for the most part have continued to offer the features of the services they provide rather than the benefits the client will receive. (p.132)

Similarly Chaston (1987, p.195) found that public accountants are perceived as performing poorly in comparison to bankers in the key areas of interpersonal skills and in the provision information packs for guidance on financial matters. Chaston warns that unless public accountants improve their interpersonal skills and increase their promotional efforts they risk losing clients to the banks which

in Britain are placing increased emphasis on serving small business clients.

7.10 Lack of time prevents public accountants from serving small business to a greater extent.

Both Bolton (1971, p.118) in Britain and Shannon (1985, p.158) in Australia found that public accountants lacked the time to provide proper management advisory services to small business clients. This circumstance was mainly attributed to the effort involved by public accountants in keeping abreast of rapidly changing tax legislation.

7.11 Public accountants do not provide the range of services needed by small business

A common complaint levelled at public accountants is that they offer only 'traditional fare', namely the preparation of annual financial statements and tax returns for legal compliance purposes (Wilson, 1979, p.35; Braddell, 1986, p.24). In the opinion of Back (1979, p.15) and Lander (1983, p.55) many Australian accounting practices are only 'tax factories'. Some public accountants have an imbalance in the services they offer as a result of an over-concentration on tax. A large number of clients per principal can lead to 'tax servitude' (Glen, 1977, p.77). According to Rappaport (1986, p.91) accountants are not meeting a legitimate service requirement if there is failure to approach small business management advisory services in a comprehensive way. What little value the final financial statements have may be eroded by the length of time taken to produce them. "It is surprising the number of businesses which do not know if they have made a profit or loss till six months after the balance date" (Braddell, 1986, p.24).

Public accountants should educate small business clients to prepare their own

financial statements in order to allow accountants to spend more time on business advisory services in more relevant areas (Lander, 1983, p.55). In particular, public accountants are accused of looking backwards rather than forwards; "last year's accounts should take a back seat to current and future events" (Ladeveze, 1986, p.113). Especially important in this regard has been the development of spreadsheets which allow budgets, forecasts and sensitivity analysis to be done cheaply and quickly.

It is maintained by McGuiness (1982), a former business services partner with Arthur Anderson in Melbourne, that public accountants have a professional responsibility to provide a complete range of financial services to their clients. Clients should expect this degree of assistance as a matter of course in the same way as they expect their doctor to provide a full range of medical services. It is one of the major responsibilities of accountants to "improve the personal financial well-being of clients, not simply to account for past business activities and to produce a taxation return which minimises taxation within legal limits" (McGuiness, 1982, p.494). Public accountants should therefore aim at changing the ratio of business within the practice from 100 percent compliance to a ratio of not more than 60 percent compliance and 40 percent other professional services. (McGuiness, 1987, p.10)

The accusation that public accountants are not fulfilling their professional obligations to meet all small business needs for their expertise is echoed in New Zealand by King (1980):

As long as the profession regards its duty as solely to produce a legalistic set of annual accounts and to ensure its clients all the benefits of legal tax diminishment, I suggest it is not doing its best for its clients (and hence for itself) in the long-run. (p.233)

A warning is given that some public accountants pay only lip-service to being management advisors to small business clients. "While there are accountants

who practice what they preach and provide monthly and quarterly reports and advice to a business, there are too many accountants who do the annual tax return and then just have a chat with the client" (Thomas, 1987, p.29).

Some small business owners know that not all public accountants may be of help to them. For example, Back (1978, p.93) found that the need for advice was appreciated by small business owner-managers but they correctly considered that certain areas of advice would be beyond the competence of some public accountants. Shannon (1985, p.158) found that Australian small business owner-managers were dissatisfied with their accountants because the latter lacked skills in a wide range of business matters.

7.12 Public accountants do not provide the quality of services needed by small business

There is little evidence in the literature which indicates that, having undertaken to supply a particular service to small business, the service is not discharged to an adequate professional standard. In New Zealand no significant criticisms have been made of the preparation of financial statements and tax returns since 1978 when the Inland Revenue Department complained of the poor standard of work produced by public accountants for tax clients (Gray, 1978, pp.22-25). As for the provision of business advisory services it would appear that public accountants may be more inclined not to offer services where they feel they lack competence rather than supply substandard services which may result in legal repercussions.

As even successful small firms can have numerous crises, it is important that their professional advisors should have a business orientation in addition to their technical expertise (Berryman, 1986, p.40). In the view of the Canadian commentator Cunningham (1983a):

Small business people consider their accountants to be business people themselves, as well as financial managers, systems experts and tax specialists, no doubt because the profession has done a good public relations job in the past. Unfortunately many [practising] firms still fall short of these high expectations. (p.74)

In examining the situation in New Zealand, Braddell (1986) states that "the impression to be gleaned is that this august advisor [the public accountant] is wise in all things business - our commentators dispelled this notion" (p.24). A similar criticism comes from Derek Moller, a former Small Business Agency manager who maintains that when dealing with small business clients an advisor's credibility comes from having good experience of the working world; "My own experience of accountants is that they are not all that practical. They are prisoners of their profession and that is the danger of any profession that concentrates on numbers" (cited in Braddell, 1986, p.25).

It is professionally unethical for accountants to provide services in which they lack competence (International Federation of Accountants, 1980). Public accounting practices which lack the appropriate expertise to serve small business clients are therefore faced with the options of declining the work, improving the education and training of their staff, hiring experienced staff, or referring the work to those who possess the relevant skills.

7.13 Professional standards and guidelines relating to public accountants' expert advisory services are inadequate.

When supplying services to clients of any size chartered accountants in public practice must meet the professional accounting standards and guidelines currently in force. In the area of accounting-related services the main arbiter of standards is the New Zealand Society of Accountants which has developed a comprehensive list of standards and guidelines to aid the preparation and auditing

of financial statements according to generally accepted principles. All members of the New Zealand Society of Accountants must adhere to standards currently in force at any time.

Under Section 354(3) of the 1955 Companies Act, private companies, the vast majority of which are small, can resolve not to be audited if members pass a unanimous resolution to this effect. The great majority of private companies opt not to be audited. As neither sole traders nor partnerships are required to be audited, the vast bulk of small firms in New Zealand are therefore unaudited. The following standards, issued by the New Zealand Society of Accountants, relate to financial statements prepared and/or reviewed by chartered accountants but not audited by them.

- * Statement of Compilation Engagement Standards, CS-1, August 1989.
- * Guideline on Performance of a Compilation Engagement - Financial Statements, CG-1, August 1989.
- * Statement of Review Engagement Standards, RS-1, August 1989.
- * Guideline on Performance of a Review Engagement - Financial Statements, RG-1, August 1989.

Despite adherence to professional statements and guidelines, public accountants may not supply the requisite degree of expertise demanded by small business clients if the professional standards themselves do not reflect the standards expected by society. In addition to supplying accounting-related services the promotional literature published by some accounting firms indicates that they make available non-accounting services such as personnel selection, marketing and computer systems. These are areas over which the accounting profession has no obvious authority to issue standards yet public accountants are involved in supplying these services. This raises the issue as to whether public accountants may be encroaching on areas where they may not have the appropriate expertise and where no generally accepted professional standards exist.

Accountants are well accepted as experts in accounting, tax and auditing and have laid down standards to ensure that members perform these functions to an acceptable level. In New Zealand no similar standards have been laid down for business/management advisory services. By contrast, in the United States the American Institute of Certified Public Accountants has issued statements on standards for management advisory services [SSMAS], for example, SSMA No 1 'Definitions and Standards for MAS Practice', SSMA No 2 'MAS Engagements' and SSMA No 3 'MAS Consultations' (Grollman, 1986, pp.9-15). As New Zealand public accountants increasingly offer business/management advisory services, there will be a greater need to have generally accepted professional standards against which performance can be measured and monitored.

7.14 Lack of Empirical Research in New Zealand on the Interface between Public Accountants and Small Business

In a report to the Economic Summit Conference held in Parliament Buildings, Wellington in 1984 Devlin (1984a, p.29; 1984c, p.4), the research director of the Small Business Agency, stated that the most important lack in regard to the New Zealand small business sector was that of research. The extensive review of the literature reveals that the dearth of research discovered by Devlin still exists in large measure. In the western world in general there has been a lack of empirical research evaluating the performance of professional advisors in supporting small businesses (Robertson & Owens, 1986, p.48). There also appears to be a lack of studies which have surveyed opinions of members of society as to their expectations of the role of the practising accountant in providing business advisory, as opposed to compliance, services (Shannon, 1985, p.51).

In particular, no empirical research has previously been undertaken in New Zealand to ascertain the role of the public accountants in relation to small

business and factors inhibiting the discharge of that role. More specifically no empirical research has been undertaken in New Zealand to test the validity of the claims of some commentators that there is an expert advice gap, that is, that public accountants are not adequately responding to the needs of small business for services which fall within their sphere of expertise. The aim of this study is to contribute to the literature by conducting empirical research to examine the role of the public accountants and by investigating the extent and composition of the small business expert advice gap in New Zealand.

7.15 Summary and Conclusions

A comprehensive literature survey was undertaken to establish the extent of support for the eleven deduced expert advice gap factors attributable to public accountants which were presented in Figure 3 (p.71).

Sufficient authoritative evidence was found to indicate that public accountants appear to be partly responsible for the existence of a small business expert advice gap.

The literature review of this and the previous five chapters reveals that there is a lack of empirical research in New Zealand on the role of the public accountant in relation to small business and factors inhibiting the discharge of this role resulting in a small business expert advice gap. It is therefore proposed to undertake empirical research to help rectify this situation. The means by which this empirical research will be achieved is presented in Chapter 8.

CHAPTER 8

EMPIRICAL RESEARCH METHODOLOGY

8.1 Introduction

In Chapters 2 and 3 the literature relating to the relationship between professional accountants and their small business clients was explored. In Chapter 4 evidence of the existence of an expert advice gap between small business needs and public accountants' services was examined, indicating that public accountants may not be fully achieving the role expected of them. A conceptual framework was developed in Chapter 5 to explain the most probable factors causing such an expert advice gap. In Chapters 6 and 7 evidence in the literature was presented to support the conceptual framework of the expert advice gap.

The extensive literature review undertaken in Chapters 2 to 7 revealed that no major empirical research has hitherto been undertaken in New Zealand to determine the nature of the role of public accountants in relation to small business and to examine the factors which may inhibit this role from being fulfilled thus creating a small business expert advice gap.

An empirical survey was therefore carried out to gain relevant information on the role of public accountants in relation to small business in New Zealand and factors constraining that role. An innovation in this research is the inclusion of parties such as bankers, enterprise agencies and business consultants in order to gain a third perspective of the relationship between

small business and public accountants.

8.2 Principal Objectives of the Empirical Research

In Chapter 1 it was established that the principal objectives of the empirical part of the research are:

1. to examine the actual and expected role of public accountants in relation to small business, by eliciting the opinions of public accountants, small business and third parties.
2. to test the tentative conceptual framework of the small business expert advice gap by eliciting the opinions of public accountants, small business and third parties.
3. to establish whether public accountants, small business and third parties have similar perceptions of (a) the role of public accountants in relation to small business and (b) the nature of the small business expert advice gap (should one be found to exist).

To achieve the above aims twenty-two specific research objectives were established and are summarised in Appendix A. The methodology used to fulfil the twenty-two research objectives is now discussed.

8.3 Selection of the Population to be Sampled

According to the precepts of sociological role theory discussed in Chapter 3, the role of public accountants is determined by the expectations of role-senders. It is postulated that those role-senders who most influence the role of public accountants in relation to small business are small business owner-

managers, parties closely associated with small business (such as bankers, business consultants and enterprise agencies) and public accountants themselves. The method of selecting samples from each of these three populations is addressed below.

8.4 Sample of Small Business Owner-Managers

As discussed in Chapter 2, definitions of small business are generally couched in qualitative terms. Because small firms are so heterogeneous in nature, it is not generally possible to adequately define them in terms of employment, assets, turnover, output or any other single quantity, nor would the same definition be appropriate throughout any nation's economy (Bolton, 1971, p.2). However, when empirical research is being undertaken a statistical definition, such as number of employees, sales turnover or asset value has to be devised as a basis for sample selection (Bannock, 1981, p.28). For example, the New Zealand Society of Accountants (1992, p.19) defines size for financial reporting purposes in the following terms:

An entity is deemed to be large if it exceeds any two of the following criteria:

- * total revenues of \$1.5 million
- * total assets of \$1 million
- * 10 employees

These criteria were established on the basis of information derived from various sources including the Department of Statistics, accounting practitioners and research reports. These indicate that more than 80 percent of businesses in New Zealand will qualify as small under the criteria outlined above.

It should be noted that the New Zealand Department of Statistics classifies employee numbers in enterprises according to the following five categories: 0-5, 6-9, 10-49, 50-99, and 100 or more (New Zealand Business Patterns, 1990, p.13). For the purpose of this research it was considered that the two categories involving less than ten employees were too low as these would exclude many growing as well as established businesses. Conversely, the category of 10 to 49 employees was regarded as too high as many enterprises at the upper end of this category would be sizeable enough to support their own in-house accountant. The main criterion therefore chosen for the definition of small business for the purposes of this research was 20 or less employees. This criterion of 20 or less employees is the quantitative measure generally used in Britain and Australia to delimit a small business (Thorpe 1992, p. 24).

In New Zealand approximately 130,000 businesses have less than 10 employees, about 10,000 firms employ between 10 and 50 people, and about 2000 firms have more than 50 employees (Cameron et al., 1990, p.73). Using the Department of Statistics' Business Profile service, a sample of 1400 firms was selected on the following basis:

1. each enterprise to have 20 or less employees
2. each enterprise to have at least one working proprietor
3. the sample to cover all industrial sectors other than farming
4. only sole proprietors, partnerships and companies to be included in the sample
5. each enterprise to be actively trading

6. the sample to be selected on a random basis covering all regions of New Zealand

8.5 Sample of Chartered Accountants in Public Practice

In 1990 the New Zealand Society of Accountants had on its register a total of 1316 public accounting practices. From this register a random sample of 221 practices of all sizes and in all parts of New Zealand was selected. As each branch of every national and international practice was included separately in the New Zealand Society of Accountants' register, no stratification of the sample was deemed to be necessary.

8.6 Sample of Third Parties

A number of individuals and groups, such as business consultants and bank managers, are involved in providing advice and services to small business. This often results in these third parties assessing work done by public accountants such as financial statements, business plans and loan proposals. This link provides a valuable third perspective of the relationship between public accountants and their small business clients. This view may be from a comparatively neutral viewpoint as in the case of business agencies and development boards. In the case of business consultants who provide some services in competition with public accountants, the opinions may be biased but are nevertheless considered to be worthy of notice. The composition of the third parties sample group is presented in Figure 4 overleaf.

Figure 4
Composition of Third Parties Sample Group

Bankers	114
Business Development Centres	21
Enterprise Boards	8
Business Consultants	55
Small Business Agencies	11
Total	209

The method of selection of each of the groups shown in Figure 4 will be discussed in turn.

(a) Bankers

The main trading banks dealing with small business were identified as the Bank of New Zealand, the Australia and New Zealand Bank, the National Australia Bank, the National Bank of New Zealand, Westpac Bank, Trust Bank and Countrywide Bank. A sample of banks from the above seven banking groups was selected at random from the Yellow Pages Directories of the largest urban centres in New Zealand. Multiple selections of banks were made from the large metropolitan centres such as Auckland, Wellington and Christchurch to reflect their greater population bases. By targeting banks in the main urban centres the survey effectively covered the whole of New Zealand as small business loan requests from smaller towns are forwarded to the nearest main urban centre for processing.

(b) Business Development Centres

A national network of twenty-one Business Development Centres, many based on pre-existing Regional Development Councils, was established in 1990. The function of the Business Development Centres is to advise small business people of the range of assistance measures available under the government's Business Development Programme and to refer them to appropriate professionals or consultants where further advice is required. The executive directors of all twenty-one Business Development Centres were included in the survey.

(c) Enterprise Boards

Some city councils in New Zealand have set up enterprise boards to facilitate business development in their areas. These boards, funded partly by city councils and partly by central government, are staffed by local business and professional people to ensure that local knowledge is used as extensively as possible. Eight such enterprise boards were identified and included in the survey.

(d) Business Consultants

In 1990 a scheme in the government's Business Development Programme aimed principally at small firms was the Expert Assistance Programme. Under this scheme subsidised help could be obtained for a business appraiser to determine what specialist advice was needed to promote growth in the business. Consultants interested in acting as business appraisers under this scheme were invited to apply to the Ministry of Commerce who appraised applications and compiled a register of suitable consultants. All the names in this Register of Business Appraisers, with the exception of chartered accountancy firms, were selected for inclusion in the survey.

(e) Small Business Agencies

A Small Business Agency was set up by government in 1978 and functioned as a diagnostic and referral service in seven main centres in New Zealand until it was disbanded when government funding was withdrawn in 1986. Shortly afterwards some of the original staff members of the Small Business Agency established the Small Business Agency Limited which now functions as an independent network of private business consultants operating in eleven of the main urban centres. All eleven Small Business Agencies currently operating were included in the survey.

8.7 Selection of the Mail Questionnaire Data Collection Method

Four methods of gathering data to achieve the desired research objective were considered, namely, the case study method, the personal interview method, the telephone interview method and the mail questionnaire method.

The case study method has the advantage of allowing an in-depth review to be made of a particular topic with the additional benefit that the interviewer is on hand to answer any queries the interviewee may have. The main drawback of this method is the length of time that is involved for both interviewer and interviewee. Time and travel cost factors makes this method unsuitable for research covering a wide geographical area.

The personal interview method can cope with a larger number of subjects, but otherwise it has much the same advantages and disadvantages as the case study method. A wealth of information can be derived from the subject, but where research resources are limited, only a relatively small number of subjects can be surveyed.

The telephone interview method overcomes some of the logistical problems

of the case study and personal interview methods while still allowing the interviewer to give immediate responses to the subject being interviewed. The main disadvantages of this method are firstly, that the timing and place of the telephone call may not suit the respondent thus constraining the response and secondly, the cost of toll-calls tends to be prohibitive if the survey is to cover a wide area. To overcome these difficulties the mail questionnaire method was considered.

The mail questionnaire method offers two distinct advantages over the three methods discussed above. Firstly, and most importantly, this method is the most cost-effective way of reaching a large and geographically diverse population. Secondly, the questionnaire can be completed at a time and place best suited to the respondent. The main drawback of this method is that the researcher has no direct contact with the subject apart from the instructions contained in the covering letter and in the questionnaire.

Having assessed the merits and demerits of each of the above methods, the mail questionnaire method was selected as the most appropriate one for the wide-scale survey necessary to achieve the research objectives.

8.8 Data to be Collected: Questionnaire Design

Chapters 3 to 7 identified, by means of deductive reasoning and a literature search, the major factors which are believed, firstly, to influence the role of public accountants as expert advisors to small business, and secondly, to cause a gap between small business advice needs and public accountants' expert services. Each role-function and expert advice gap factor was stated in the form of a question on which respondents were asked to give an opinion as to whether the particular item constituted part of the public accountant's role or caused a gap in the accountant's service to small business clients.

An essential part of the societal duty of professional people such as accountants is to provide a satisfactory service in the area in which they profess to be expert. As "even a small percentage of client dissatisfaction can affect the bottom line by poor referrals and loss of a client's lifetime potential" (Cannella, 1991, p.44) small businesses and third parties were asked to give reasons for any dissatisfaction felt with accountants' services in order to gain some indication of possible areas of weakness which could undermine public accountants' professional standing.

Definitions of the terms 'public accountant', 'compliance services' and 'business advisory services' were included at the beginning of each questionnaire.

Three separate questionnaires were prepared for each of the three role-sender groups (small business, public accountants and third parties). However, the questions relating to public accountants' role, public accountants' services and the expert advice gap were common to all three questionnaires; *these sections which are common to all three questionnaires are shown in italics in the following discussion on the format of the questionnaires.*

8.8.1 The Small Business Questionnaire

The small business questionnaire was divided into seven sections as follows:

Section A Use of Chartered Accountants in Public Practice by Small Business

Question 1 solicited information relating to the main sources of advice for small business in order to assess the importance of public accountants in this respect.

To identify the main sources of help used in solving business problems small businesses were asked "Who do you turn to when you need help to solve a business problem?". Eleven of the most likely sources of help (family, business and professional) were suggested. Responses utilised a Likert-type scale ranging from (1) 'never' to (5) 'always'.

Questions 2 to 4 of Section A sought to establish the link between small business and chartered accountants in public practice. These three questions asked whether a public accountant was used by the respondent, whether the accountant was a chartered accountant and what size of accounting practice was involved.

Section B The Perceived Actual and Expected Role of Public Accountants

*To answer the question "Are accountants doing what they should be doing?" respondents were asked, using a yes/no/don't know format, whether accountants **actually** and **should** perform each of eleven suggested functions related to serving small business clients.*

Section C Use and Quality of Public Accountants' Services

A list of twenty-two services provided by public accountants was presented in this section. These services were divided into three categories, namely, bookkeeping services, compliance services and business advisory services. Small businesses were requested to indicate, in terms of 'never', 'sometimes' or 'frequently', the extent to which these services were used.

To determine the quality of accountants' services, small businesses were asked "How satisfied are you with your public accountant's services?". The assessment of the quality of accountants' services was gauged in terms of 'low', 'adequate' or 'high'.

Small businesses were requested to indicate their awareness of the range of services available from public accountants. A Likert-type scale ranging from (1) 'totally unaware' to (4) 'very aware' was used for responses.

To explore perceived deficiencies in public accountants' services small business clients were asked the open-ended question: "If you feel dissatisfied with public accountants' services to small business, what is the main reason?"

Section D Public Accountants as Business Advisors

To answer the question "What do you think of public accountants as business advisors?" three questions were asked relating to the major strengths, the major weaknesses and small business expectations of public accountants as business advisors.

Section E The Expert Advice Gap

This section sought to identify the existence and nature of the small business expert advice gap in relation to public accountants. All groups were asked "Are public accountants meeting small business needs?" Twenty-

eight statements were presented which may cause a gap between the services needed by small businesses and those provided by public accountants. A Likert-type scale ranging from (1) 'strongly disagree' to (5) 'strongly agree' was used for responses.

Section F Demographic Details of the Small Business Owner-Manager(s) and the Business

Thirteen questions were asked relating to the small business owner-manager and the business, for example, the age and education of the owner, and the nature and stage of development of the business.

Section G Additional Comments

The final section of the questionnaire invited small business owner-managers to raise any further issues they thought relevant to the topics covered in the questionnaire.

8.8.2 The Public Accountant Questionnaire

The questionnaire for public accountants was divided into the following five sections:

Section A Details of the Accounting Practice

Twelve questions were asked relating to the nature and size of the accounting practice; the nature and proportion of work derived from small business clients; the

frequency of financial statement preparation for small business clients; and small business training and education for public accountants.

Section B Range and Quality of Public Accountants' Services

A list of twenty-two services provided by public accountants was presented in the questionnaire. These services were divided into three categories, namely, bookkeeping services, compliance services and business advisory services.

Public accountants were asked to indicate, in terms of 'yes', 'no', or 'referred', whether their practice provided or referred each of the suggested services.

Public accountants were asked to assess the quality (in terms of 'low', 'adequate', 'high' or 'don't know') of the stated services of public accountants.

Public accountants were requested to indicate their opinion of how aware small businesses are of the range of services available from public accountants. A Likert-type scale ranging from (1) 'totally unaware' to (4) 'very aware' was used for responses.

Two questions were asked of public accountants concerning the difficulty of providing compliance and business advisory services.

Public accountants were asked three questions relating to the major strengths, the major weaknesses and small

business expectations of public accountants as business advisors.

Section C The Expert Advice Gap

To answer the question "Are public accountants meeting small business needs?", twenty-eight factors were stated each of which may cause a gap between the services needed by small business and those provided by public accountants. A Likert-type scale ranging from (1) 'strongly disagree' to (5) 'strongly agree' was used for responses.

Section D The Perceived Actual and Expected Role of Public Accountants in Relation to Small Business

To answer the question "Are accountants doing what they should be doing?" respondents were asked to respond, in terms of 'yes', 'no' or 'don't know', whether accountants actually and should perform each of eleven suggested duties related to serving small business clients.

Section E Additional Comments

The final section of the questionnaire invited public accountants to raise any further issues they thought relevant to the topics covered in the questionnaire.

8.8.3 The Third Parties Questionnaire

The questionnaire for third parties was divided into the following six sections:

Section A Relationship with Small Business and Public Accountants

This section sought to establish the capacity in which the third party was associated with small business and public accountants and the nature of the service they provided.

To identify the main sources of help used in solving business problems third parties were asked "Who do small business owner-managers turn to when they need help to solve a business problem?". Eleven main sources of help were presented and a Likert-type scale ranging from (1) 'never' to (5) 'always' was used for responses.

Section B The Perceived Actual and Expected Role of Public Accountants

*To answer the question "Are accountants doing what they should be doing?" third parties were asked whether accountants **actually** and **should** perform each of eleven suggested duties related to serving small business clients.*

Section C Quality of Public Accountants' Services

A list of twenty-two services provided by public accountants was presented in the questionnaire. These services were divided into three categories, namely, bookkeeping services, compliance services and business advisory services.

Third parties were asked to what extent (in terms of 'never', 'sometimes' or 'frequently') they encountered the services supplied by public accountants to small business.

Third parties were asked to assess the quality (in terms of 'low', 'adequate' or 'high') of public accountants' services.

Third parties were requested to indicate their opinion of how aware small businesses are of the range of services available from public accountants. A Likert-type scale ranging from (1) 'totally unaware' to (4) 'very aware' was used for responses.

To explore perceived deficiencies in public accountants' services third parties were asked the open-ended question: "If you feel dissatisfied with public accountants' services to small businesses, what is the main reason?"

Section D Public Accountants as Business Advisors

Three questions were asked of third parties relating to the major strengths, the major weaknesses and small business expectations of public accountants as business advisors.

Section E The Expert Advice Gap

To answer the question "Are public accountants meeting small business needs?", twenty-eight factors were stated each of which may cause a gap between the services needed by small businesses and those provided by public accountants. A Likert-type scale ranging from (1) 'strongly disagree' to (5) 'strongly agree' was used for responses.

Section F Additional Comments

The final section in the third party questionnaire invited respondents to raise any further issues they thought relevant to the topics raised in the questionnaire.

8.9 Pilot Study

The questionnaires devised for each of the three target groups were tested by means of a pilot study. The purpose of the pilot study was to identify and eliminate any difficulties which respondents might have encountered in trying to complete the questionnaire. In particular the pilot testing of the questionnaires was intended to ensure that the instructions were clear, that the questions were relevant and unambiguous, and that the questionnaire could be completed in a reasonable time.

The pilot study was carried out in Palmerston North which, being a medium sized and centrally situated town, is fairly representative of New Zealand urban centres. A pilot study sample was selected comprising three small business owner-managers, three public accountants and four third parties (two bankers, one enterprise board manager and one business consultant). A Massey University academic staff member specialising in market research techniques gave advice on the design, presentation and pilot testing of the questionnaires. The target respondents were contacted in advance to explain the objectives of the research and to seek their participation in the pilot testing of the questionnaires. An interview date was agreed upon and a draft questionnaire sent accompanied by a covering letter. Up to one hour was spent interviewing each participant to identify possible areas of weakness in the questionnaire and to determine how long it took to complete. The pilot study revealed that the wording and layout of the questionnaires needed to be simplified, especially the questionnaire targeted at small business owners.

Appropriate amendments were therefore made to simplify the terminology and improve the presentation in order to make the questionnaires easier to complete.

8.10 Despatch, Follow-up and Return of Questionnaires

The questionnaires with covering letters were sent out to each of the three sample groups on 1 February 1991. It was decided that a higher response rate might be achieved if the sample groups received the questionnaire in the quiet spell following the busy Christmas and summer holiday period. In those cases where there was no response to the first request, a reminder letter with a copy questionnaire was sent on the 14 February 1991. Where a response still had not been received following the first reminder, a second reminder and another copy of the questionnaire was sent on the 28 February 1991.

The date of receipt of questionnaires was recorded on sample master lists in order to determine the rate at which responses were received and to assess the effectiveness of the follow-up letters.

8.11 Response Rates

A very high response rate was attained for research involving small business and public accountants. Usable response rates of 63 percent for small businesses, 68 percent for public accountants and 79 percent for third parties were achieved (see Figure 5 overleaf). These response rates compare extremely favourably with research studies of a similar nature. For example, in researching the relationship between small business and public accountants in Australia, Shannon (1985, p.73) achieved a response rate of 22 percent for small business and 42 percent for public accountants while Holmes (1988a, pp.131,138) attained a response rate of 30 percent for small business and 40

percent for public accountants. In researching the New Zealand small business sector’s need for advisory services Devlin and LeHeron (1977, p.2) achieved a response rate of 29 percent while Bell and Shieff (1990, p.7) achieved a response rate of 35 percent.

Figure 5

Calculation of Usable Response Rates

	Small Business	Public Accnts	Third Parties	Total
Total number of questionnaires mailed	1400	221	209	1830
Less:				
Questionnaires returned				
- Not in Practice/Business)				
- No longer at Address)	115	21	10	146
- Unwilling to participate)				
Net Sample Size	1285	200	199	1684
Questionnaires returned completed	808	135	157	1100
Usable response rate	63%	68%	79%	65%

The higher than average response rate achieved in this survey is thought to be attributable to three factors. Firstly, the questionnaire mailing was timed to coincide with the quiet start-up period following the summer break. Secondly, up to two reminder letters were sent each of which was accompanied by a further copy of the questionnaire. Some respondents indicated that they had thrown away the first questionnaire(s) but had responded to a subsequent one when it appeared that the survey was of a serious nature. Thirdly, the New Zealand economy was in deep recession at

the time the survey was carried out which may have resulted in a more willing attitude by small business to participate in a search for ways of improving business advice and performance.

8.12 Statistical Analysis of Data

The closed ended questions were pre-coded so required no further preparation, apart from a check for completeness. The raw coded data contained in the questionnaires were transcribed to computer files for statistical analysis by staff at the Massey University Computer Centre. The survey data were tested using the Statistical Package for the Social Sciences [SPSS] software on an IBM clone personal computer.

As the data in this survey is primarily ordinal and cannot be assumed to have a normal distribution, the nonparametric statistical method is appropriate (Conover, 1971, p.92). There are several nonparametric tests available which may be used for testing the research objectives formulated above. From the range of nonparametric statistical tests presented by Siegel and Castellan (1988), the Kruskal-Wallis one-way analysis of variance was selected as appropriate for testing three independent samples.

(a) Kruskal-Wallis Test

Sample values almost always differ somewhat, and the problem is to determine whether the observed sample differences signify real differences among populations or whether they are merely the type of differences that are to be expected among random samples from the same populations. The significance of differences among three or more independent groups of samples can be determined by using the Kruskal-Wallis test (Siegel & Castellan, 1988, p.190). More specifically, the Kruskal-Wallis method tests whether three independent samples or groups could have been drawn from the

same population or identical populations with the same continuous (but unknown) distribution of responses (Siegel & Castellan, 1988, p.222).

(b) Scheffé Test

One characteristic of the Kruskal-Wallis test is that the test statistic, if significant, allows the conclusion to be drawn that there are differences among the three groups, that is, it indicates that at least one of the groups is different from at least one of the others. However, the Kruskal-Wallis test does not indicate which ones are different, nor does it reveal how many of the groups are different from each other. However, procedures do exist which allow the differences to be located. In the case of the Kruskal-Wallis test the appropriate procedure is the multiple-comparison technique to determine which population means are different from each other (Siegel & Castellan, 1988, p.213,223). Multiple comparison tests protect against calling too many differences significant. These tests set up more stringent criteria for selecting significant differences than does the usual t test. That is, the difference between two sample means must be larger to be identified as a true difference. Many multiple comparison tests are available, and they all provide protection in slightly different ways. The multiple-comparison test used for the purposes of this research is the Scheffé test because it is conservative for pairwise comparisons of means, that is, it requires larger differences between means for significance than most of the other methods (Norusis, 1988, p.B-156).

(c) t Test

The t test was used to test differences between the means of responses relating to (a) the perceived actual role and (b) the expected role of public accountants in relation to small business.

(d) **Factor Analysis**

The basic assumption of factor analysis is that underlying dimensions, or factors, can be used to explain complex phenomena. Factor analysis is a statistical technique used to identify a relatively small number of factors that can be used to represent relationships among sets of many interrelated variables (Norusis, 1988, p.B-41). For example, the concepts of role and expert advice gap are not single measurable entities but constructs which are derived from measurement of other, directly observable variables. Identification of such underlying dimensions or factors greatly simplifies the description and understanding of complex phenomena such as the social interaction between small business and public accountants. Factor analysis orders and simplifies correlations between related variables. When a group of variables has, for some reason, a great deal in common, a factor may be said to exist. These related variables are discovered using techniques of correlation. Starting with a mass of tests which show correlations a few facts or dimensions can be derived which can be taken as descriptive of the group. Descriptive labels can then be given to a collection of items which are highly correlated and are presumed to reflect common characteristics. By this process of identifying and classifying the attributes of our surroundings an attempt is made to make our world intelligible (Child, 1970, pp.1-8).

8.13 Content Analysis of Respondent Comments

Comments were elicited from respondents by incorporating two open-ended questions in the small business and third party questionnaires and one open-ended question in public accountants' questionnaire. The first open-ended question asked small business and third parties to give reasons for any dissatisfaction with public accountants' services. The second open-ended question invited all three sample groups to comment on any additional points they wished to raise in connection with the research topic.

Since its recognition as a major research technique early in this century, content analysis has been an increasingly useful methodology for processing qualitative data (Kaid & Wadsworth, 1989, p.198). Content analysis is defined as a research methodology that utilises a set of procedures to make valid inferences from text (Weber, 1985, p.9). As the coding of open-ended questions in surveys is specifically included among the many purposes for which content analysis has been found to be suitable (Weber, 1985, p.9), it was therefore used to analyse the responses to the open-ended questions in this research study.

Following Berelson (1952), there are two basic types of categories for content analysis. This research uses **substance** categories ("what is said") rather than **form** categories ("how it is said"). For every category an appropriate unit of analysis must be selected. Krippendorff (1980) suggests five ways of defining a unit: (1) a physical unit (book, time, pages), (2) a syntactical unit (sentence, word), (3) a referential unit (objects to which unit refers), (4) a propositional unit (redesigning sentences and other units into propositional units which can be analysed), and (5) a thematic unit (recurring elements). This research employs both the physical unit (comments) and the thematic unit (recurring elements). The unit of analysis was the written description based on the framework established in the questionnaires where eleven functions were proposed as constituting the role of public accountants and twenty-eight factors as potentially causing an expert advice gap. In the first instance comments were allocated to either one of the eleven role sub-categories or one of the twenty-eight expert advice gap sub-categories. A third category ('general issues') was added to accommodate those comments which were germane to the study but which had not been included within one of the two above pre-determined sub-categories.

Closely related to the unit of analysis is the way in which quantification is accomplished for each category and unit. The unit of enumeration used in this research was a simple frequency count. Holsti (1969) argues that "the

case for content analysis based on exact counts of frequency is a powerful one because quantification increases the degree of precision of one's conclusions and permits a more accurate description of covariance between elements" (p.599).

A total of 226 respondents (20 percent) made comments. Of these 143 comments came from small business, 65 comments from third parties and 18 comments from public accountants. These 226 comments were content analysed into 502 separate statements of which 97 related to role, 322 to the expert advice gap and 83 to general issues.

Having allocated comments to one of the three above designated categories, a count was then made of the number of comments in each category on the basis that counting assumes that higher relative counts reflect higher interest with the category (Weber, 1985, p.56). Although the count method does have the merit of guarding against novelty being substituted for importance, Kaid and Wadsworth (1989, p.199) warn that counting alone may result in meaningful, but infrequently occurring items, being overlooked. A similar situation exists in market research where focus groups are increasingly used to unlock insights which then can be quantitatively assessed.

8.14 Summary

The extensive literature search undertaken in Chapters 2 to 7 revealed that no major empirical research has been undertaken in New Zealand to explore the nature of the role of public accountants in relation to small business and to examine factors which may inhibit this role from being fulfilled. The research methodology discussed in this chapter is designed to rectify this omission.

The main aim of the research is to explore by empirical means the role of

public accountants in relation to small business and the expert advice gap factors which inhibit this role being effectively discharged. To achieve this aim research objectives were devised and samples of public accountants, small business and third parties selected. The perceptions of the three sample groups were solicited by means of a mail questionnaire. The questionnaire data were processed using statistical testing and content analysis techniques. The analysis and interpretation of the research data is undertaken in the next six chapters.

CHAPTER 9

DESCRIPTIVE ANALYSIS OF THE SMALL BUSINESS, PUBLIC ACCOUNTANTS AND THIRD PARTIES SAMPLE GROUPS

9.1 Introduction

In this chapter an analysis of the descriptive data derived from the questionnaires is undertaken. This is followed by the statistical testing and content analysis of the data in Chapters 10 to 13.

9.2 Descriptive Analysis - Small Business Sample Group

The small business group comprised a random sample of 1400 enterprises. Of those who participated 63 percent provided usable responses. The distribution of respondents by industrial sector is presented in Figure 6 below.

Figure 6
Small Business Respondents by Industrial Sector

<u>Industrial Sector</u>	<u>%</u>
Manufacturing and construction	35
Retail and wholesale	33
Service	32
	100%

Of the small business respondents 96 percent stated that they owned the business and 97 percent of this number also managed the business. The 4 percent non-owner respondents were usually managers, bookkeepers or accountants.

The ages of small business owner-managers are shown in Figure 7 below.

Figure 7
Age of Small Business Owner-Managers

<u>Age</u>	<u>%</u>
Under 30	2
30 - 39	20
40 - 49	36
50 - 59	30
60 and over	12
	100%

This figure shows that two-thirds of all small business owner-managers are between 40 and 59 years old. Very few small business owners are under 30 years of age.

Of the small business respondents, 81 percent were males and 19 percent were females. In terms of education, 35 percent of small business owner-managers had less than four years of high school, 21 percent had more than four years of high school, 25 percent had a polytechnic or trade qualification and 19 percent had a university qualification. Therefore more than half (56 percent) of all small business owner-managers had no trade or tertiary qualification.

In response to the question relating to identification of their primary business skill, 55 percent of small business respondents stated they were best at making the product or supplying the service, 35 percent considered themselves best at management while 10 percent felt that they were best at being entrepreneurial.

The length of time small business owners have been self-employed is shown in Figure 8 below.

Figure 8
Number of Years in Self-Employment

<u>Number of Years</u>	<u>%</u>
Less than 2 years	2
3 - 10 years	26
11 - 20 years	43
21 - 30 years	19
Over 30 years	10
	100%

Therefore 72 percent of small business respondent have been self-employed for more than ten years. Although the rate of small business failure, especially in the first few years, may be high, the length of time people have been self-employed may be a better indicator of the resilience of the sector than the age of the business itself.

As regards the legal form of small business respondents, 28 percent were sole traders, 23 percent were partnerships and 49 percent were companies. The limited company is therefore the most popular form of legal structure for small firms in this sample.

The number of people employed in the firms of small business respondents is shown in Figure 9 below.

Figure 9
Number of Employees

<u>Number of Employees</u>	<u>%</u>
1	17
2	20
3 - 5	33
6 - 10	20
11 - 20	8
More than 20	2
	100%

This figure indicates that 70 percent of the small businesses in the sample employed five people or less, 20 percent employed between six and ten people and only 8 percent employed between eleven and twenty people. It should be noted that one of the criteria on which the sample of small business was selected was that the firms should have 20 or less employees including the owner. The above figure shows that two percent of firms had more than 20 employees. This discrepancy probably arises due to changes in employee numbers between the date of completion of the statistical return and the date on which the questionnaire was filled in.

The sales turnover of the small business survey group is shown in Figure 10 overleaf.

Figure 10
Sales turnover

<u>Sales Turnover</u>	<u>%</u>
Less than \$250,000	50
\$250,000 - \$500,000	21
\$500,000 - \$1 million	15
More than \$1 million	14
	100%

As half of all small firms state that their sales turnover is less than \$250,000 this may explain why many small business respondents often regard their accountants' fees as expensive in relation to the level of their income.

The opinions of small business owners as to the stage of development of their firms is presented in Figure 11 below.

Figure 11
Stage of Development of the Business

<u>Stage of Development</u>	<u>%</u>
Start-up	2
Growing	30
Maturity	45
Declining	23
	100%

Figure 11 shows that one-third of the small business sample is at the start-up or growing phase while two-thirds are either mature or declining.

Two questions in the questionnaire related to the small firm's accounting system. The first question related to the frequency of preparation of financial statements and the second question to the extent to which the small firm's accounting system was computerised. The results are shown in Figure 12 below and Figure 13 overleaf respectively.

Figure 12
Frequency of Financial Statement Preparation

<u>Frequency</u>	<u>%</u>
Monthly	9
Two monthly	3
Three monthly	3
Six monthly	8
Annually	76
Other	1
	100%

As the above figure shows, three quarters of the respondent small firms still account for their operations on an annual basis. Part of the reason for this infrequent reporting may be the fact that only one-third of small firms in the sample were partly or fully computerised as shown in Figure 13 overleaf.

Figure 13
Type of Accounting System

<u>Accounting System</u>	<u>%</u>
Manual	63
Partly computerised	23
Fully computerised	14
	100%

Figure 14
**Means of Responses Relating to Sources of Help for Small Business Owner-
Managers**

<u>Source of business help</u>	<u>Small Business</u>		<u>Third Parties</u>	
	<u>Mean</u>	<u>Rank</u>	<u>Mean</u>	<u>Rank</u>
Spouse	3.21	1	3.09	3
Public Accountant	2.93	2	3.14	1
Another business person	2.56	3	2.94	5
Another member of staff	2.21	4	2.61	7
Other (relative, friend)	2.07	5	2.64	6
Bank Manager	2.02	6	3.11	2
Lawyer	2.00	7	2.50	9
Nobody	1.78	8	2.95	4
Business Consultant	1.27	9	2.53	8
Business Dev't Centre	1.06	10	2.17	10
Enterprise Board	1.03	11	1.96	11

In order to examine the relative importance of public accountants as problem solvers, small businesses and third parties were asked to whom small business owner-managers turn when help was needed to solve a business problem. The means of responses to this question (shown in Figure 14 on the previous page) show that, on average, spouses are the first persons from whom help is sought by small business owner-managers when they have a business problem. However, in the opinion of both small business and third parties, public accountants are the principal source of *professional* advice for small business, coming ahead of bank managers and lawyers.

The primacy of public accountants as advisors to small business is indicated by the fact that 96 percent of small business respondents said that they use the services of a public accountant and 94 percent stated that their public accountant is a member of the New Zealand Society of Accountants. Therefore 90 percent of all the small business respondents use professional accountants, that is chartered accountants in public practice. Of the accounting firms used by small business respondents, 78 percent were local practices, 10 percent were national practices, and 12 percent were international practices. The small businesses in the survey therefore predominantly use small, local public accounting practices.

9.3 Descriptive Analysis - Public Accountants Sample Group

A sample of 221 public accounting firms was selected. Of those which participated 68 percent provided usable responses. The categories into which the accounting practices fell are shown in Figure 15 overleaf.

Figure 15
Size of Accounting Practice

<u>Category</u>	<u>%</u>
Local practice	87
National practice	2
International practice	11
	100%

The number of partners per responding practice is presented in Figure 16 below which shows that 50 percent of all public accounting practices are operated by a sole practitioner and a further 33 percent consist of two or three person partnerships. The vast majority (83 percent) of the survey accounting practices are therefore very small enterprises in their own right and are a reflection of the small size of the majority of their clients, namely, small businesses.

Figure 16
Number of Partners Per Accounting Practice

<u>Number of Partners</u>	<u>%</u>
1	50
2	21
3	12
4	6
5 - 10	8
More than 10	3
	100%

The number of staff, including partners, employed in the respondent accounting practices is presented in Figure 17 below.

Figure 17
Number of Staff per Accounting Practice

<u>No. of Staff</u>	<u>%</u>
1	8
2	9
3 - 5	24
6 - 10	22
11 - 20	21
More than 20	16
	100%

Eighty-four percent of respondent public accounting practices employ less than twenty people which again emphasises the fact that the vast majority of accounting practices in the survey are similar in size to small businesses in New Zealand.

The number of small business clients per practice is presented in Figure 18 overleaf.

Figure 18
Number of Small Business Clients per Accounting Practice

<u>Number of Small Business Clients</u>	<u>%</u>
Less than 50	20
50 - 99	18
100 - 299	30
300 - 499	17
500 - 1000	12
More than 1000	3
	100%

The number of small business clients per partner for local as compared to national/international practices is shown in Figure 19 below.

Figure 19
Small Business Clients Per Partner

	<u>Local Practices</u>	<u>National/Intemational Practices</u>
Small business clients per partner	105	74
Small business and farming clients per partner	157	94

The high number of small business clients per partner among public accounting firms shown in Figure 19 indicates that most accounting partners will only be able to give a minimal amount of time to most small business clients, especially if farming clients are also taken into account.

An analysis of practice fee income *from all clients* according to services provided by public accountants is shown in Figure 20 below.

Figure 20
Analysis of Accounting Practice Fees From All Clients

<u>Service Provided</u>	<u>% of total fees</u>			
	0-24%	25-49%	50-74%	75-100%
Write-up and secretarial	84	13	3	-
Compliance services	8	12	44	36
Business advisory services	87	11	1	1
Auditing	93	7	-	-
Insolvency	100	-	-	-
Tax consultancy	96	3	1	-
Management consultancy	90	3	3	4
Non-accounting services	100	-	-	-

Figure 20 shows that eighty percent of surveyed public accounting practices derive more than half their fees from the provision of compliance services and only thirteen percent get more than 25 percent of their fees from business advisory services. An analysis of surveyed accounting practices' fee income specifically derived *from small business clients* is shown in Figure 21 overleaf.

Figure 21
Analysis of Fees Derived from Small Business Clients

<u>Service Provided</u>	<u>Total</u> <u>Accounting Practices</u>	<u>Local Accounting</u> <u>Practices</u>	<u>National/ Internat</u> <u>Accounting Practices</u>
	%	%	%
Write-up and Secretarial	9	9	8
Compliance Services	56	59	35
Business Advisory Services	9	9	11
Auditing	1	1	3
Insolvency	1	1	2
Tax consultancy	3	3	1
Management consultancy	5	5	-
Non-Accounting services	1	1	-
	85%	88%	60%

Figure 21 shows that 88 percent of the fee income of surveyed local accounting practices, and 60 percent of the fee income of surveyed national and international accounting practices, comes from small business clients. In local accounting practices, compliance services and tax consultancy for small business clients provide 62 percent of fees while business advisory services and management consultancy for small business clients provide 14 percent of fees; the comparative figures for national and international practices are 36 percent and 11 percent respectively. Small business clients are therefore extremely important to local accounting practices and of less, but still considerable, importance to national and international public accounting firms.

In many small accounting practices, the scope of operations is not wide enough to permit division into specialist sections. However, in practices which have sections which deal with business advisory services, the names given to such sections are shown in Figure 22 below.

Figure 22
Name for Business Advisory Services Section

<u>Name</u>	<u>%</u>
Accounting services	54
Business services	9
Business advisory services	15
Management advisory services	2
No special name	20
	100%

Three questions in the questionnaire related to the education and training of public accountants in small business matters. Although 85 percent of public accountants' fee income comes from small business, only 15 percent of public accountant respondents stated that their professional training had included any specific small business courses. This shortfall is at least partly compensated for by the fact that 67 percent of public accountants said that their practical training included specific courses on providing business advisory services to small business. However, 81 percent of public accountants maintained that the education and training of public accountants should include more small business courses.

Public accountants were asked about the main difficulty associated with supplying compliance services. Their responses are presented in Figure 23 overleaf.

Figure 23
Main Difficulty in Supplying Compliance Services

<u>Main Difficulty</u>	<u>%</u>
Keeping up with tax legislation	63
Recruiting competent staff	10
Producing accurate statements	3
Other	24
	100%

Figure 23 shows that public accountant respondents find that keeping up with tax legislation is by far the greatest difficulty encountered in providing compliance services.

The most common 'other' difficulty associated with supplying compliance services relates to keeping down fees to clients. Respondents mention " the high cost of providing the service due to complex legislation", and " the difficulty of being able to charge a fair fee for the amount of work necessary to comply with legislation". Other problems highlighted are: obtaining decisions from the Inland Revenue Department, errors made by the Inland Revenue Department, time constraints associated with meeting Inland Revenue Department deadlines and obtaining accurate information and records from clients.

Public accountants' opinions of the main difficulty associated with supplying business advisory services are presented in Figure 24 overleaf.

Figure 24
Main Difficulty in Supplying Business Advisory Services

<u>Main Difficulty</u>	<u>%</u>
Lack of time	42
Recruiting competent staff	5
Insufficient training	5
Lack of demand	30
Other	18
	100%

Public accountant respondents indicate that lack of time, most probably due to keeping up with tax legislation for compliance purposes, is the biggest drawback to providing more business advisory services. Lack of demand for business advisory services on the part of small business clients is the second most important point. However, caution must be exercised in interpreting these results as the issue of fees was not considered in this part of the questionnaire. Therefore examination of the ‘other’ option gives some indication as to whether fees is regarded as an important issue in this case. As with compliance services, the issue of fees is the principal ‘other’ difficulty relating to the provision of business advisory services. Specifically mentioned are the problems of recognition of the value of services by small business clients, and that, while most clients may need business advisory services, they cannot afford the extra fees involved. The issues of fees and cost-effectiveness are dealt with in greater detail in Chapters 12 and 13.

9.4 Descriptive Analysis - Third Parties Sample Group

The third party sample of 209 individuals and organisations resulted in a response rate of 79 percent. The composition of the responses comprised

bankers 54 percent and business consultants (business development centres, enterprise boards, small business agencies and business consultants) 46 percent. Third parties were asked to whom, in their opinion, small business owners turned when they needed help with a business problem. The results, shown in Figure 14 (p.143), reveal that third parties rank public accountants as the first source of advice, with bank managers second and spouses third.

9.5 Summary and Conclusions

In this chapter information of a descriptive nature relating to each of the three survey groups is analysed and the results discussed. The information obtained related mainly to the nature, size and organisation of small firms and public accounting practices and the individuals associated with them.

The small business sample group is almost evenly divided between the three sub-categories of manufacturing, retail, and service. Ninety-six percent of small business respondents are owner-managers of their businesses. Less than half of small business respondents have tertiary education or trade qualifications. As many small firms fail within the first few years of existence the average age of firms is therefore low. It is postulated that the number of years in self-employment is perhaps a better measurement of the resilience of the small business sector. The survey revealed that seventy-two percent of small business respondents have been self-employed for more than 10 years. Entrepreneurship is often regarded as an important ingredient in stimulating economic growth, however, only 10 percent of the small business sample believe that being entrepreneurial was their strongest point compared to 55 percent who consider themselves best at making the product or supplying the service and 35 percent who deem themselves best at managing the business.

Most firms in the sample are very small, 70 percent having five or less employees and 50 percent having a turnover of less than \$250,000. With respect

to the stage of development of the business, two-thirds of respondents judge their firms to be at the mature or declining stage while one-third were at the start-up or growing stage. The great majority of small firm respondents do not have financial reports prepared on a frequent basis, with some 76 percent still relying on annual accounts. In spite of the so-called computer revolution only 14 percent of the small business respondents are fully computerised compared to two thirds which utilise a manual accounting system. When confronted by a business problem the primary source of help for small business respondents is their spouse with public accountants taking second place (but first among external professional advisors, followed by bank managers and lawyers). However, third party respondents (54 percent of whom were bank managers) perceive small business to turn first to public accountants, secondly to bank managers and thirdly to spouses.

Of the sample of public accounting firms, 87 percent were local practices, 13 percent were national or international practices, fifty percent comprised sole-practitioners, eighty-nine percent had less than five partners and 41 percent had five or less staff. Therefore, like the clientele they serve, most public accounting practices in the survey are very small. The partners in local practices had on average 105 small business clients (157 including farming clients) while each partner in national/international practices had 74 small business clients (94 including farming clients) in addition to other clients. The implication of the high ratio of partners to small business clients is that most clients will receive little personal individual attention from partners.

Local accounting practices receive a total of 88 percent of fees from small business clients (of which 62 percent is from compliance and tax consultancy and 14 percent from business advisory services and management consultancy) whereas national/international practices derive 60 percent of their income from small business clients (of which 36 percent is from compliance and tax consultancy and 11 percent from business advisory services and management consultancy). The small business sector is therefore of considerable importance

to large as well as small public accounting practices in New Zealand.

In the following four chapters the data which are common to the three questionnaires are examined using statistical procedures and content analysis. The role of the public accountant in relation to small business is examined in Chapter 10 (statistical techniques) and Chapter 11 (content analysis), and the small business expert advice gap in relation to public accountants is examined in Chapter 12 (statistical techniques) and Chapter 13 (content analysis).

CHAPTER 10

STATISTICAL ANALYSIS OF THE ROLE OF PUBLIC ACCOUNTANTS IN RELATION TO SMALL BUSINESS

10.1 Introduction

As stated in Chapter 1 the aims of the research study are (1) to ascertain the role of public accountants in relation to small business clients, (2) to identify factors which inhibit this role from being discharged thus creating an expert advice gap and (3) to determine whether significant differences of opinion exist between the three role-sender groups relating the role of public accountants and to factors inhibiting that role.

In this chapter the first aim and third research aim (in relation to role) will be addressed, that is, to ascertain the role of public accountants in relation to small business clients and to identify differences of opinion between role-sender groups in relation to such a role.

In Chapter 3 it was established that the role of professions in general is to solve problems of moment in society through the application of their expertise. It was postulated that the role of the accounting profession in relation to small business, is to solve problems, by application of their expertise, which small business people cannot, or do not wish to, deal with themselves.

The role of public accountants in relation to small business in New Zealand was explored by means of empirical research. Using the mail questionnaire method the opinions of role-senders (small business, public accountants and third parties) were sought on the interface between public accountants and small business. Both the actual and expected role of public accountants in relation to small business were examined by:

1. obtaining the opinions of three relevant role-sender groups
2. ascertaining whether opinions differ between the three role-sender groups
3. identifying whether opinions differ between major sub-groups within the three role-sender groups
4. determining whether there are significant differences in role-senders' opinions of public accountant's actual as compared to expected role

10.2 Method of Obtaining Perceptions of Role-Sender Groups

Role-senders' opinions were derived from responses to Section B of the small business and third party questionnaires ('Are accountants doing what they should be doing') and Section D of the public accountant questionnaire ('The role of public accountants in relation to small business'). Both sections contained a list of the same eleven role-functions relating to public accountants in their dealings with small business.

Role-senders were asked to give their opinion as to whether public accountants (a) actually performed these functions and (b) should perform these functions. In both cases individuals were asked to respond in terms of

'yes', 'no' or 'don't know'. To convert these frequencies to a more useful mathematical format for the purposes of this research, the 'yes' responses were given a value of +1, and the 'no' responses a value of -1. The 'don't know' responses were excluded from the computation. The values of +1 and -1 have no intrinsic meaning but were simply used to give some indication of the strength of respondents' opinion in relation to a particular function. Therefore, a positive mean may be interpreted as indicating that, on average, a group considers that a particular function is (or should be) part of the public accountant's role. Conversely, a negative mean may be interpreted as indicating that, on average, a particular function is not (or should not) be part of the public accountant's role (Porter, 1990, p.175).

10.3 Method of Determining the Existence and Location of Significant Differences Between the Three Groups of Role-Senders

For each of the eleven role-functions specified in the questionnaire, means of responses were calculated for the total sample group as well as for each of the three individual sample groups. The Kruskal-Wallis procedure was then used to test for significant differences in responses between the groups. Where the Kruskal-Wallis test indicated that differences of opinion were significant, the Scheffé test was then used to locate between which pairs of groups these significant differences lay.

10.4 Method of Determining the Existence of Significant Differences Between the Major Sub-Groups Within the Three Groups of Role-Senders

To determine whether there were significant differences of opinion *within* the three survey groups they were divided into the following sub-groups:

Small business

(1) manufacturing, (2) retailing, (3) service

Public accountants

(1) local practices, (2) national/international practices

Third parties

(1) bankers, (2) business consultants

The Kruskal-Wallis test was used to establish whether any differences of opinion between these sub-groups were significant.

10.5 Role of Public Accountants - Analysis and Interpretation of Data

The role of public accountants in relation to small business was ascertained by meeting Research Objectives 1 to 6 (summarised in Appendix A).

Research Objective 1

To identify role-senders' opinions of the actual role of public accountants in relation to small business clients

In order to identify whether public accountants are perceived to be actually carrying out the eleven role-functions specified in the questionnaire, means of role-sender responses were calculated for each function. The means were then rank ordered in terms of positive and negative values. The results are shown in Figure 25 overleaf.

Figure 25

Means* of survey group responses
regarding the actual role of public accountants

	Total Group	Small Business	Third Parties	Public Accnts
	<i>Mean</i>	<i>Mean</i>	<i>Mean</i>	<i>Mean</i>
<u><i>Role is actually performed</i></u>				
Providing compliance services	.99	.98	1.00	1.00
Giving accounting related advice	.73	.69	.70	.94
Concern for clients' financial health	.53	.56	.05	.88
Acting as a counsellor	.43	.45	-.03	.76
Waiting for client to state problem	.43	.38	.71	.43
Giving general business advice	.17	.19	-.30	.53
Acting as agent of Inland Revenue Dept	.04	.07	-.24	.18
<u><i>Role is not actually performed</i></u>				
Actively seeking out client problems	-.31	-.21	-.79	-.33
Giving specific business advice	-.32	-.31	-.58	-.04
Providing accounting training	-.38	-.38	-.66	-.10
Being member of small business management team	-.63	-.62	-.83	-.45

* Means of responses where 'yes' = +1 and 'no' = -1

In terms of the total sample the rank ordering of means indicates that, on average, public accountants are perceived to be actually performing the following roles-functions

- * providing compliance services
- * giving accounting related advice
- * showing concern for clients' financial health
- * acting as counsellors
- * waiting for clients to state problems
- * giving general business advice

Opinion is almost evenly divided as to whether or not public accountants are actually

- * acting as agents of the Inland Revenue Department

Public accountants, on average, are not perceived as

- * being members of the small business management team
- * providing accounting training
- * giving specific business advice
- * actively seeking out client problems

The most important finding concerning the above role-functions is that public accountants are perceived to actually wait for clients to state problems and not to actively seek out client problems. This indicates the lack of a proactive approach to problem solving on the part of public accountants.

Except for providing compliance services, where there is almost unanimous agreement, the means of responses shown in Figure 25 indicate that differences in opinion exist between the three sample groups as to the actual

functions performed by public accountants. The next research objective is to ascertain, using the Kruskal-Wallis test, whether these differences of opinion are statistically significant.

Research Objective 2

*To identify (a) the existence and (b) the location of significant differences of opinion **between** role-sender groups as to the **actual** role of public accountants in relation to small business*

The results of the Kruskal-Wallis test, presented in Figure 26 overleaf, indicate that, except for provision of compliance services, the differences of opinion which exist between the three sample groups regarding role-functions are all significant. This finding indicates a lack of congruence among role-senders, except for provision of compliance services, concerning perceptions of the actual role that public accountants perform.

While the Kruskal-Wallis test shows that the three role-sender groups have significantly different opinions on ten of the eleven specified role-functions relating to public accountants, it gives no indication between which groups these differences are located. For example, it should be of importance to the accounting profession to know whether significant differences of perception lie between public accountants and small business, or between public accountants and third parties. Application of the Scheffé test allows the location of such differences to be determined. The Scheffé test results, presented in Figure 27 (p.164), show that a total of nineteen significant differences of opinion occur concerning the actual role of public accountants, six between small business and third parties, eight between third parties and public accountants, and five between small business and public accountants. One interpretation of these findings is that there is a slight bias in differences towards third parties, but otherwise there is no very marked differences between any particular pairs of groups.

Figure 26

Kruskal-Wallis test to identify the existence of significant differences between survey group responses regarding the actual role of public accountants

			Total Group
1	Concern for client's financial health	χ^2 signif.	61.36 .00*
2	Providing compliance services	χ^2 signif.	5.43 .07
3	Giving accounting-related advice	χ^2 signif.	10.19 .01*
4	Giving general business advice	χ^2 signif.	55.81 .00*
5	Giving specific business advice	χ^2 signif.	8.70 .01*
6	Acting as a counsellor	χ^2 signif.	66.52 .00*
7	Waiting for client to state problem	χ^2 signif.	7.82 .02*
8	Actively seeking out client problems	χ^2 signif.	26.26 .00*
9	Being a member of the small business management team	χ^2 signif.	9.96 .01*
10	Providing accounting training	χ^2 signif.	24.74 .00*
11	Acting as an agent of the Inland Revenue Department	χ^2 signif.	24.75 .00*

* Differences in responses significant at a significance level of 0.05

Figure 27

Scheffé test to identify the location of significant differences between survey group responses regarding the actual role of public accountants

		Small B'nss	Third Party	Public Accnt	Differences located between		
		Means	Means	Means	SB-TP 1-2	TP-PA 2-3	SB-PA 1-3
1	Concern for client's financial health	.56	.05	.88	1-2	2-3	1-3
2	Providing compliance services	.98	1.00	1.00			
3	Giving accounting-related advice	.69	.70	.94			1-3
4	Giving general business advice	.19	-.30	.53	1-2	2-3	
5	Giving specific business advice	-.31	-.58	-.04		2-3	
6	Acting as a counsellor	.45	-.03	.76	1-2	2-3	1-3
7	Waiting for client to state problem	.38	.71	.43			
8	Actively seeking out client problems	-.21	-.79	-.33	1-2	2-3	
9	Being a member of SB management team	-.62	-.83	-.45		2-3	
10	Providing accounting training	-.38	-.66	-.10	1-2	2-3	1-3
11	Acting as agent of IRD	.07	-.24	.18	1-2	2-3	1-3
	Number of differences				6	8	5

1 = Small Business (SB); 2 = Third Parties (TP); 3 = Public Accountants (PA)

Research Objective 3

*To identify significant differences of opinion between major sub-groups within role-sender groups as to the **actual** role of public accountants in relation to small business*

To ascertain whether significant differences exist within the three survey groups, each group was divided into the sub-categories presented in Section 10.4 (pp.158-159). The Kruskal-Wallis test was used to ascertain whether there were significant differences of opinion relating to the actual role of public accountants between these sub-groups.

The results of the Kruskal-Wallis test, presented in Figure 28 overleaf, show that for small business there was only one role-function where opinions were significantly different between the three sub-groups (manufacturing, retail and service industries). For public accountants there was also only one significant difference of opinion between the two sub-groups (local practices and national/international practices) and for third parties there are two significant differences of opinion between sub-groups (bankers and business consultants).

There are therefore few significant differences of opinion between major sub-groups of the three survey groups at a significance level of 0.05 concerning the actual role that public accountants are perceived to perform in relation to small business. The opinions within each of the three sample groups are therefore, on balance, alike on the issue of role.

Figure 28

Kruskal-Wallis test to identify the existence of significant differences in responses between major sub-groups within each survey group regarding the actual role of public accountants

			Small Business	Third Parties	Public Acnts
1	Concern for client's financial health	χ^2 signif	6.93 .03*	.13 .72	.22 .64
2	Providing compliance services	χ^2 signif	2.31 .32	.87 .35	.00 1.00
3	Giving accounting-related advice	χ^2 signif	5.42 .07	.30 .59	.04 .85
4	Giving general business advice	χ^2 signif	.56 .76	3.55 .06	2.70 .10
5	Giving specific business advice	χ^2 signif	2.35 .31	.03 .87	1.76 .19
6	Acting as a counsellor	χ^2 signif	3.51 .17	.10 .75	.00 .98
7	Waiting for client to state problem	χ^2 signif	1.79 .41	.23 .63	.07 .80
8	Actively seeking out client problems	χ^2 signif	3.58 .17	.36 .55	.00 .95
9	Being a member of small business mgt team	χ^2 signif	1.35 .51	1.11 .29	.05 .82
10	Providing accounting training	χ^2 signif	1.22 .54	7.22 .01*	.61 .43
11	Acting as an agent of the IRD	χ^2 signif	.14 .93	6.45 .01*	4.82 .03*

* Differences in responses significant at a significance level of 0.05

Research Objective 4

To identify role-senders' opinions of the expected role of public accountants in relation to small business clients

In order to identify whether role-senders expect public accountants to carry out the eleven role-functions suggested in the questionnaire, the means of role-sender responses were calculated and then rank ordered. The results of this procedure are presented in Figure 29 below.

Figure 29

Means* of survey group responses regarding the expected role of public accountants

	Total Group	Small Business	Third Parties	Public Acnts
	<i>Mean</i>	<i>Mean</i>	<i>Mean</i>	<i>Mean</i>
<u>Role should be performed</u>				
Providing compliance services	1.00	.99	1.00	1.00
Giving accounting related advice	.99	.99	.99	1.00
Concern for clients' financial health	.97	.96	.99	.98
Actively seeking out client problems	.81	.78	.84	.94
Acting as a counsellor	.79	.78	.75	.95
Giving general business advice	.72	.69	.66	.93
Providing accounting training	.44	.43	.37	.56
Giving specific business advice	.34	.34	.20	.57
Member of small business mgt team	.07	.01	.08	.42
<u>Role should not be performed</u>				
Acting as agent of IRD	-.27	-.18	-.66	-.34
Waiting for client to state problem	-.36	-.25	-.67	-.64

* Means of responses where 'yes' = +1 and 'no' = -1

On average role-senders expect public accountants to perform the following role-functions

- * provide compliance services
- * give accounting-related advice
- * show concern for clients' financial health
- * actively seek out client problems
- * act as counsellors
- * give general business advice
- * provide accounting training
- * give specific business advice

On average, the opinion of the total sample group is almost evenly divided as to whether the public accountant should

- * be a member of the small business management team

On the other hand respondents, on average, do not expect public accountants to

- * wait for clients to state problems
- * act as agents of the Inland Revenue Department

The three main role-functions expected by role-senders of public accountants are to provide compliance services, to give advice on accounting-related matters and to be concerned about clients' financial well-being. These three role-functions are also perceived by role-senders to be actually carried out in practice. However, there is one crucial role-function which, although expected of public accountants, is not perceived to be carried out in actual practice, namely, actively seeking out client problems rather than waiting for clients to state them.

Research Objective 5

*To identify (a) the existence and (b) the location of significant differences of opinion **between** role-sender groups as to the **expected** role of public accountants in relation to small business*

The results of the Kruskal-Wallis test, presented in Figure 30 overleaf, show that differences of opinion between the three survey groups are significant for six of the eleven expected role-functions. This compares to significant differences in ten of the eleven role-functions in relation to actual role, shown in Figure 26 (p.163). Thus there is more congruence of opinions on the expected, as compared to the actual, role of public accountants by role-senders. This indicates the existence of an expectation gap in relation to role.

The significant differences of opinion between the three groups relate to such areas as giving general business advice, acting as counsellors and actively seeking out client problems. These differences in opinions indicate areas of possible concern where public accountants' perceptions may not be in line with those of other role-senders.

The Scheffé test was used to determine between which pairs of groups these significant differences of opinions are located. The results of the Scheffé test, shown in Figure 31 (p.171), indicate that differences of opinion lie between ten pairs of groups. In three cases the differences occur between small business and third parties, in three cases the differences are between third parties and public accountants and in four cases the differences lie between small business and public accountants. One conclusion that can be drawn is that, while there is no marked bias of differences of opinion between any two particular groups of role-senders, all the differences involve two pairs of groups.

Figure 30

Kruskal-Wallis test to identify the existence of significant differences
between survey group responses regarding the expected role of public
accountants

			Total Group
1	Concern for client's financial health	χ^2 signif.	4.79 .09
2	Providing compliance services	χ^2 signif.	3.37 .19
3	Giving accounting-related advice	χ^2 signif.	3.52 .17
4	Giving general business advice	χ^2 signif.	13.33 .00*
5	Giving specific business advice	χ^2 signif.	5.21 .07
6	Acting as a counsellor	χ^2 signif.	12.05 .00*
7	Waiting for client to state problem	χ^2 signif.	20.05 .00*
8	Actively seeking out client problems	χ^2 signif.	8.80 .01*
9	Being a member of the small business management team	χ^2 signif.	20.85 .00*
10	Providing accounting training	χ^2 signif.	4.56 .10
11	Acting as an agent of the Inland Revenue Department	χ^2 signif.	19.51 .00*

* Differences in responses significant at a significance level of 0.05

Figure 31

Scheffé test to identify the location of significant differences between survey group responses regarding the expected role of public accountants

		Small B'nss	Third Party	Public Acctnt	Differences located between		
		Means	Means	Means	SB-TP 1-2	TP-PA 2-3	SB-PA 1-3
1	Concern for client's financial health	.96	.99	.98			
2	Providing compliance services	.99	1.00	1.00			
3	Giving accounting-related advice	.99	.99	1.00			
4	Giving general business advice	.69	.66	.93		2-3	1-3
5	Giving specific business advice	.34	.20	.57			
6	Acting as a counsellor	.78	.75	.95		2-3	1-3
7	Waiting for client to state problem	-.25	-.67	-.64	1-2		1-3
8	Actively seeking out client problems	.78	.84	.94			
9	Being a member of SB management team	.01	.08	.42	1-2		1-3
10	Providing accounting training	.43	.37	.56			
11	Acting as agent of IRD	-.18	-.66	-.34	1-2	2-3	
	Number of differences				3	3	4

1 = Small Business (SB); 2 = Third Parties (TP); 3 = Public Accountants (PA)

Research Objective 6

To identify significant differences of opinion between major sub-groups within role-sender groups as to the expected role of public accountants in relation to small business

The results of the Kruskal-Wallis test, presented in Figure 32 below, show that there are few significant differences between major sub-groups of the three sample groups. It can therefore be concluded that the views of major sub-groups within each of the three groups are relatively alike.

Figure 32

Kruskal-Wallis test to identify the existence of significant differences in responses between major sub-groups within each survey group regarding the expected role of public accountants

			Small Business	Third Parties	Public Acnts
1	Concern for client's financial health	χ^2 signif	2.30 .32	1.15 .28	.29 .59
2	Providing compliance services	χ^2 signif	.04 .98	.00 1.00	.00 1.00
3	Giving accounting-related advice	χ^2 signif	.26 .88	1.15 .28	.00 1.00
4	Giving general business advice	χ^2 signif	1.29 .52	.00 .95	.01 .94
5	Giving specific business advice	χ^2 signif	.66 .72	5.74 .02*	3.52 .06
6	Acting as a counsellor	χ^2 signif	.58 .75	2.69 .10	1.09 .30
7	Waiting for client to state problem	χ^2 signif	3.66 .16	.89 .35	1.95 .16
8	Actively seeking out client problems	χ^2 signif	6.16 .05*	5.92 .02*	1.56 .21
9	Being a member of small business mgt team	χ^2 signif	2.16 .34	.57 .45	2.49 .12
10	Providing accounting training	χ^2 signif	1.25 .54	3.06 .08	.88 .35
11	Acting as an agent of the IRD	χ^2 signif	4.62 .10	2.75 .10	.17 .68

* Differences in responses significant at a significance level of 0.05

Research Objective 7

To identify whether there are significant differences of opinion between role-sender groups as to the actual and expected role of public accountants in relation to small business

The results of a paired sample *t* test of the actual and expected role of public accountants in relation to small business, shown in Figure 33 below, reveal significant differences in responses for all role-functions except that of the provision of compliance services. This finding again indicates the existence of an expectation gap relating to role.

Figure 33

Paired Sample *t* Test with Respect to the Actual and Expected Role of Public Accountants in Relation to Small Business Clients

		Actual Role Mean ¹	Expt'd Role Mean ¹	<i>t</i> Value	2 Tail Prob
1	Concern for client's financial health	.53	.97	-15.55	.00*
2	Providing compliance services	.99	1.00	-1.63	.10
3	Giving accounting-related advice	.73	.99	-11.80	.00*
4	Giving general business advice	.17	.72	-17.11	.00*
5	Giving specific business advice	-.32	.34	-17.32	.00*
6	Acting as a counsellor	.43	.79	-12.44	.00*
7	Waiting for client to state problems	.43	-.36	-19.49	.00*
8	Actively seeking out client problems	-.31	.81	-31.06	.00*
9	Being member of small business mgt. team	-.63	.07	-18.51	.00*
10	Providing accounting training	-.38	.44	-22.13	.00*
11	Acting as agent of Inland Revenue Department	.04	-.27	10.04	.00*

¹ Means of responses where 'yes' = +1 and 'no' = -1

* Differences in responses significant at a significance level of 0.05

10.6 Summary and Conclusions

The main objective of this chapter was to answer the question "Are public accountants actually doing what they should be doing?" To achieve this objective perceptions of role-senders were sought as to the actual and expected role of public accountants in relation to small business clients. As role is not a single measurable entity but a construct derived from measurement of other directly observable variables, role-senders were therefore requested to express their opinion regarding eleven specified role-functions which were based on the literature review of role undertaken in Chapter 3.

Comparison of the actual and expected role of public accountants in relation to small business

The means of responses show that in five of the eleven functions, public accountants are perceived by role-senders to actually be doing what they are expected to do, namely:

1. providing compliance services
2. giving accounting-related advice
3. being concerned for clients' financial health
4. acting as counsellors to clients
5. giving general business advice

However, in one case public accountants are perceived to be actually performing a function which role-senders believe, on average, that they should not be doing, namely, waiting for clients to state their problems

In a further three cases role-senders perceive, on average, that public accountants are not actually performing functions which are expected of them, namely:

1. actively seeking out client problems
2. giving specific non-accounting advice
3. providing accounting training

The *t* test showed that, except for the provision of compliance services, the differences which exist between role-sender groups relating to the actual and expected role of public accountants are significant. It can therefore be concluded that, apart from compliance services, there is an expectation gap on the part of role-senders with respect to the role of public accountants in relation to small business.

Differences in opinion between and within role-sender groups

The Kruskal-Wallis test was used to identify whether the differences in responses, apparent in the means of responses, were statistically significant. This test indicated that in relation to actual role, there were significant differences in role-sender responses with respect to ten of the eleven role-functions. Similarly, in relation to expected role, differences in role-sender responses were found to be significant with respect to six of the eleven role-functions.

The Scheffé test was used to find between which pairs of sample groups significant differences lay. No major bias was located by the Scheffé test of differences between any particular pairs of role-sender groups. The Kruskal-Wallis test also indicated that few differences of opinion existed between major sub-groups within each of the three survey groups.

Four important findings can be discerned from an analysis of the data relating to role.

Firstly, public accountants are actually performing the role traditionally expected of them, namely, providing compliance services, providing accounting-related advice and being concerned for clients' financial well-being.

Secondly, for all three sample groups expectations exceed perceptions of actual role performed, except for provision of compliance services. Thus public accountants are not living up to the expectations of role-senders in many important areas. This indicates the existence of an expectation gap in relation to role other than in the traditional area of compliance services.

Thirdly, the means of responses show a general tendency for public accountants to adopt a more positive perception of their role than third parties and, to a lesser extent, small business. It can be concluded from this finding that a perception gap exists between public accountants, small business and third parties on the role of public accountants. This disparity in perceptions should be of concern to the accounting profession, given the need for public accountants to actually meet, and to be seen to be meeting, the needs of the small business sector for their services.

Fourthly, all groups (including public accountants) perceive that public accountants are not active in seeking out client problems although this is expected of them. This finding is of particular importance in relation to the definition of public accountants as problem solvers.

In the following chapter respondent comments relating to the role of public accountants are content analysed.

CHAPTER 11

CONTENT ANALYSIS OF THE ROLE OF PUBLIC ACCOUNTANTS IN RELATION TO SMALL BUSINESS

11.1 Introduction

Content analysis of respondent comments is utilised to bring greater depth of understanding and insight to the findings of the statistical analysis. Content analysis of comments relating to the role of public accountants is the subject of the current chapter. Content analysis of comments relating to the expert advice gap is dealt with in Chapter 13 and to general issues in Chapter 14.

Two sections in the questionnaires invited comments from respondents by means of open-ended questions. The first open-ended section sought comments on the issue of client dissatisfaction. Small business and third parties (but not public accountants) were asked the question 'If you feel dissatisfied with public accountants' services to small business, what is the main cause?' This question was designed to reveal some of the most problematic issues in public accountants' relationship with small business.

The second open-ended section sought comments of a more general nature. The final part of each questionnaire contained a section ('Additional comments - please indicate the questions to which your comments apply') in which respondents were given the opportunity to make further comments relating to the issues covered in the questionnaire. This gave respondents the opportunity to draw further attention to any points relating to the interface

between accountants and small business, particularly issues which may have been overlooked in the questionnaire.

Figure 34

Analysis of Respondent Comments

	Total No of Usable Responses	No. of Respondents making comments	%
Small Business (Note 1)	808	143	18
Third Parties (Note 1)	157	65	41
Public Accnts (Note 2)	135	18	13
Total	1100	226	21%

Note 1: Small business and third parties were asked to comment upon (1) areas of dissatisfaction and (2) general issues.

Note 2: Public accountants were asked to comment only upon general issues.

As shown in Figure 34, a total of 226 respondents made comments in response to the two open-ended questions described above. Some of these comments covered more than one topic which resulted in the initial 226 comments being sub-divided into 502 separately identifiable statements. These 502 statements were content analysed, in the first instance, into three categories, namely role (97 statements), expert advice gap (322 statements) and general issues (83 statements). The 97 role statements were classified

according to the scheme of 11 role-functions already established in the role section of the questionnaire. The 322 expert advice gap statements were similarly categorised using the framework of 28 factors already established in the expert advice gap section of the questionnaires. General issues were sub-divided into 9 sections based on subject themes.

Where only a small number of comments were received on a particular issue caution has to be exercised in interpreting the value of the opinions expressed. However, as discussed in Section 8.13 (pp.133-135) such items have been included as imparting at least one point of view, even if unrepresentative, on a particular issue, if such a view is indicative of role-sender concern.

11.2 Content Analysis of Respondent Comments

Research Objective 8

To content analyse respondent comments pertaining to the role of public accountants in relation to small business.

As stated above, content analysis of respondent comments relating to role resulted in 97 statements which were classified according to the framework of eleven role-functions established in the questionnaire. The frequencies of the results are presented in Figure 35 overleaf.

In Chapter 10 respondent opinions on each role-factor were statistically analysed. This analysis included the calculation of means to obtain representative views of the actual role and expected role of public accountants in relation to small business. In order to relate the content analysis of role to the statistical analysis of role, at the beginning of each of the following sections, the content analysis results are reviewed in conjunction with the means of responses for each role-function, as presented in Figure 25 (p.160) and Figure 29 (p.167).

Figure 35

Content Analysis of Comments Relating to the Role of Public Accountants

		Frequency of Comments	%
1	Actively seeking out client problems	25	26
2	Waiting for client to state problem	21	22
3	Providing compliance services	16	16
4	Concern for client's financial health	11	11
5	Being a member of the small business management team	5	5
6	Acting as an agent of the IRD	5	5
7	Providing accounting training	4	4
8	Giving accounting-related advice	3	3
9	Giving general business advice	3	3
10	Giving specific business advice	3	3
11	Acting as a counsellor	1	2
	Total comments relating to role	97	100%

11.3 Public accountants actively seek out small business problems (25 comments - 26 percent of total)

The means of responses, presented in Figure 25 and Figure 29, show that problem solving is a role that, on average, all three sample groups believe public accountants should be, but are not, doing. It is therefore not surprising that the results of the content analysis, shown in Figure 35, reveal that the lack of proactivity on the part of public accountants evoked the largest number of comments relating to role.

This section should be read in conjunction with Section 11.4 which relates to the reverse position whereby public accountants wait for clients to state problems before initiating action. These two sections account for a total of 48 percent of all the statements made in connection with role.

Three themes emerge from the content analysis of this issue:

- (1) Small business survival often depends on rapid identification of problems, especially at the start-up stage
- (2) Public accountants do not make sufficient use of the financial statements they produce for small business clients for compliance purposes to identify problem areas
- (3) Public accountants do not give timely, in-depth advice

(1) Survival needs prompt problem identification

For many small businesses survival is a constant battle. Identifying problems as early as possible to avert or ameliorate difficulties is essential to maximise their chances of continued existence. In the opinion of one computer bureau operator, "A small business is vulnerable to quick decline if a major mistake

is made, therefore prevention is needed rather than cure. Unless public accountants have 'hands-on' contact, they may be unable to solve problems."

Small businesses are particularly vulnerable during the start-up stage. "When our bookshop business started up there was no follow-up by our public accountant to see if things were under control". A coffee shop owner claims that "not enough help and advice about finance was given in the first six to twelve months of business; we had to struggle alone". These comments indicate expectations on the part of owners of start-up ventures that public accountants should take an active interest in the progress the new business is making and be prepared to offer assistance when necessary. But, in the opinion of a public accountant, ninety percent of small businesses need in-depth advice before they enter business, therefore trying to retrieve the situation after start-up is often too late to prevent failure. This remark points to the need for more pre-venture education and training within the small business sector as a measure to reduce the high failure rate of small firms.

Often accountants can give good advice but fail to do so at considerable cost to small business operators, whereas an early warning system may avert insolvency. The lack of problem identification at an early stage is raised by a garage owner: "Our public accountants did not spot problems shown in the financial statements and tell us quickly enough to fix them before we got into trouble". According to a paint and wallpaper retailer there is a lack of initiative or interest in discussing with the client problems concerning financial matters which could initially be more apparent to the accountant than the client.

(2) Failure to analyse financial statements

A common criticism of public accountants is that they do not make sufficient use of the financial statements, produced as part of the compliance requirements, to identify problems. A banker comments that annual financial

results are often produced without small business clients being informed of problems that may be evident therein, and cites the example of annual financial statements being posted to clients without any analysis of the financial position. However, as many small business clients do not understand financial matters, they often remain unaware of any shortfall in their financial management.

A banker points out the necessity of problem identification:

—
 Explanations of developing trends need to be more fully explained so that small business operators understand where improvements in management should be channelled. Often accountants only prepare tax returns or financial statements and do not make a point of highlighting downward trends so the client can become more aware of negative situations.

(3) Public accountants do not give timely, in-depth advice

Another banker asserts that "accountants tend to allow clients to get into financial trouble before they give them correct advice; generally 'the horse has bolted' before action is taken although in many cases problems have really been evident for several years". An accusation is made that public accountants shift on to bankers their professional responsibility to warn clients of impending problems, "Public accountants fail to make appropriate advice available at the onset of observing detrimental trends developing, then wait for the bank to inform the client."

Members of other professions also comment that public accountants should be more active in addressing client problems and in offering advice. For example, a consulting engineer states that "public accountants are generally only interested in doing the accounts and taking the money; if you press the panic button they are generally engaged with someone else". A dentist

maintains that "one needs to prise business advice out of public accountants; as professionals they should advise just as dentists advise patients how to minimise tooth decay". A plastic surgeon observes that there is a lack of overall financial advice regarding investment for retirement and lack of business management advice.

Third parties comment on the lack of in-depth, critical analysis of clients' businesses and on inadequate advice on existing and potential problems. However, in mitigation, a banker points to the problem inseparably linked to criticisms that public accountants should be providing more and better services, namely, the reluctance of many small businesses to incur more fees.

Expectations of public accountants as problem-solvers are aptly summed up by a garage owner, "Most small business owners are unskilled at management and therefore rely on public accountants to spot problems and advise corrective measures before problems become entrenched". Or, expressed more simply by a hairdresser, "I would love an accountant whom I could just phone up with a problem whenever I needed help".

The general tenor of the comments on this issue is that public accountants could, and should, show more initiative in identifying business problems in their early stages and be able to point clients towards solutions. But, as a public accountant cautions, not all small business clients will succeed in business, some will fail, even with the best of advice.

11.4 Public accountants wait for small business clients to state problems (21 comments - 22 percent of total)

The means of responses, presented in Figures 25 and 29 show that role-sender groups, on average, do not expect public accountants to wait for clients to

state problems although this is what they perceive to happen in actual practice.

Two themes are apparent from the content analysis of comments relating to this issue:

- (1) Public accountants are too reactionary when dealing with small business clients
- (2) There exists a paradoxical situation whereby public accountants wait for small business clients to ask questions but clients do not know what questions to ask

(1) Public accountants are reactive

That public accountants are not expected to adopt a merely passive role when dealing with small business clients is clearly revealed in the following remark made by a banker:

Public accountants' services are reactive rather than proactive. Their services are mainly centred around compliance requirements and seldom incorporates projections, remedial action or advice unless specifically requested. These requests mainly come from the lenders as small business appears reluctant to invest extra money in business advisory services.

Small business owners are also of the opinion that many public accountants are too reactive. A grocery owner states the problem concisely, "If you do not ask for a service, you will not get it". Another small business complains, "You always have to go to them first, whereas they should let you know what is happening." A computer consultant complains that public accountants seem to wait for the client to suggest ideas.

There are instances where clients do have an idea of what they want but feel that it is the public accountant and not themselves who should be suggesting the action to be taken. For example, a carpet cleaning firm maintains that "public accountants could be more forthcoming with analysis of financial statements without having to ask them; they should start off with the explanation of results". A menswear retailer comments, "I have always been disappointed that, as the client, I have always had to suggest ideas for possible tax savings and new ideas; these are never suggested by the accountant."

In a similar vein a business consultant states that, "Public accountants seem unable to see the 'big picture'. There are always exceptions, but generally public accountants are unresponsive and not truly service oriented." Other relevant comments point out that public accountants rarely contribute, seldom offer beyond that which is requested, make no suggestions as to improvements (a general medical practitioner) and are loath to provide information unless asked specifically for it (a heating service firm).

(2) Paradoxical situation

Content analysis shows the existence of a paradoxical situation whereby both public accountants and small business clients wait for each other to initiate questions. The following remark is made by a business development centre director:

I often have clients who return claiming that their accountant is "useless" because he did not give them the answers. Upon probing it is often revealed that in reality the client did not know the questions to ask, nor did the accountant say "well these are the things we need to address". Perhaps more training and attention is needed to help analyse what clients need.

The problem created by the impasse whereby unknowledgeable clients face reactive accountants is summed up in the comment of a stained glass maker, "My accountant does not offer business advice and I do not seem to know the right questions to ask".

11.5 Public accountants as providers of compliance services (16 comments - 16 percent of the total)

The means of responses presented in Figures 25 and 29 show that there is almost unanimous agreement by role-senders that public accountants are both expected to, and actually do, provide compliance services to small business clients.

Two themes are evident from the content analysis of the comments relating to this issue:

- (1) Public accountants have a crucial role in helping small business to cope with the complexities of the taxation system
- (2) Public accountants can help small business conserve scarce funds by tax minimisation

(1) The complexity of the tax system

The complicated and rapidly changing nature of the New Zealand tax system makes it difficult, if not impossible for most small business owners to comply unaided with their tax reporting obligations. This forces them to seek outside expert assistance which comes mainly from public accountants. In the view of a consulting engineer, "If New Zealand did not have complex tax laws we could probably handle all accounting functions in-house." A panel beater

confesses that "the tax system is so difficult to understand that, even when explained in simple terms by a very patient accountant, it does not register with me".

Dealing with the tax authorities can be a time-wasting affair for small firms. Some small firms find that it is often more cost-beneficial in the long-run to delegate tax matters to public accountants who have the requisite expertise. "The principal reason for using a public accountant is to reduce the risk of wrangles with the Inland Revenue Department." Even when funds are scarce small firms often find they cannot adopt a do-it-yourself approach to compliance requirements as the following comment from a carpenter illustrates: "I cannot afford to use all the services my public accountant supplies. The fees are expensive relative to my income. I do my own Goods and Services Tax and cash-flows to reduce costs. The annual accounts and tax returns are complex and are the only reason I use an accountant."

Some small firms are not adept at dealing with the administration involved in complying with government regulations which is such an inseparable part of doing business in the present-day world. A sports shop proprietor draws attention to "the problem of dealing with Inland Revenue Department forms if you are not a 'paper person' and the fact that late returns result in penalties." According to a roading contractor, "Many small firms, particularly one person businesses, are run by people who are good at their own job, but hopeless when it comes to the business side. The hardest thing for the small business is the never-ending paper work and returns required by the Inland Revenue Department and Companies Office."

The need to use a public accountant is succinctly stated by a logging contractor as follows: "The Inland Revenue Department have put increased pressure on employers and small businesses to comply, so we have little choice. After working all day at your business you either try to keep up with on-going paper work or you succumb to using an accountant." Even business

consultants sometimes find it useful to use the tax expertise of public accountants:

As an advisor to small business, a small business man, and a user of business advisory services, I find public accountants expensive, and pushed for time. I use them for tax returns because I cannot afford to keep any of my staff up with the tax legislation and specialised advice.

Some small business owners do not appreciate that public accountants' compliance services saves them time that they themselves would otherwise have to spend on meeting tax and company reporting requirements. A building contractor complains that "fees are much higher than tax savings". However, public accountants' fees will not normally be covered by tax savings except where excessive tax payments had been made in previous years as a result of incompetence or ignorance. The saving is usually in terms of time and convenience to the small business owner.

Some small business owners are loathe to face up to the fact that paying both tax and for the time and expertise taken to compute the tax is an unavoidable part of business life. For example, a coffee shop proprietor complains that "It costs small business for an unproductive service to provide information to the Inland Revenue Department who seem to be the main beneficiary at my expense".

The importance of public accountants as suppliers of compliance services is summed up by a builder, "Taxation is probably the area where most laymen are most ignorant and therefore where they rely most heavily on their accountant."

(2) Tax minimisation

Tax avoidance or minimisation is seen as an extremely important role for accountants. Strong comments are made on the importance of tax minimisation to preserve cash-flow and thus enhance the financial health of small businesses. A hire centre owner asserts "I use a 'Big 5' firm because I have had bad experience with small accounting practices who do not try to minimise tax payable. Minimising tax is most important." A paint manufacturer criticises public accountants for over-concentration on financial statement preparation: "Public accountants are only interested in producing a tidy set of financial statements. They have no real concern as to possible ways of restructuring to reduce tax".

11.6 Public accountants' concern for clients' financial health (11 comments - 11 percent of total)

The means of responses presented in Figure 29 show that there is very strong support from all role-sender groups that public accountants should be concerned for the financial health of the client's business. However, Figures 25 and 26 reveal significant differences in opinion as to whether this role-function is actually performed in practice. Public accountants believe most strongly that this role-function is actually carried out, small business give moderate support while the views of third parties are almost evenly split.

The theme which emerges from the content analysis of comments relating to this issue (reinforcing that made in Sections 11.3 and 11.4 that public accountants are not sufficiently proactive) is that public accountants prepare financial statements for small business clients but do not appear to be interested in the financial position which these statements reveal.

Comments from small business and third parties reveal that some public accountants do not show much concern for the financial well-being of their clients' businesses. A restaurant owner states: "There is no real interest in our welfare, no interest in helping us to be more familiar with our accounts or to use planning and budgets; only very minimal services are provided". The degree of concentration on compliance services is illustrated by the following comment by a teashop proprietor: "They give the impression that they only want you in their office to sign your annual accounts and they do not expect to see you for another twelve months"

Public accountants are accused of being indifferent to small business performance (real estate agents) and of failing to give advice on what small business should be doing to improve business management and profit margins (shearing services). A shoe retailer observes that "Public accountants are only interested in checking, balancing the books and charging the fee. They have no idea of my business, what makes it tick, how it can be improved, no idea whatsoever".

Some third parties are of the opinion that public accountants should go beyond the provision of compliance services and give advice that will enhance the survival and growth prospects of clients' businesses. A business consultant states that "Public accountants should spend more time discussing the client's business with them as opposed to 'doing the books' and I will see you next year. *Small business operators need to know more to remain competitive* [emphasis added]". A banker dismisses most accounting firms as only bookkeepers who do not assist their clients' firms to expand. Similarly some business development centres find that public accountants seldom help with the growth objectives of small business clients or give enough attention to the health of the business other than the reviewing financial statement position.

The four role-factors discussed above (actively seeking out client problems, waiting for clients to state problems, providing compliance services and concern for clients' financial health) account for 75 percent of the total comments relating to role. Conversely, the remaining seven role-factors accounted for only 25 percent of the total comments. Nevertheless, the content analysis of each of these seven role-factors will be discussed as it is considered that the comments made are helpful in illustrating the findings of the statistical analysis presented in Chapter 10. Due to the small number of statements in each case, the opinions expressed, while not considered to be quantitatively representative, may still be qualitatively important for the reasons discussed in Section 8.13.

11.7 Public accountants as members of the small business management team (5 comments - 5 percent of total)

The results of the means of responses, presented in Figure 25 indicate that role-sender groups do not perceive, on average, that public accountants actually perform this role-function. Figure 29 shows that the opinions of small business and third parties are almost evenly divided, whereas there is a moderate degree of support by public accountants that public accountants should be active members of the small business management team.

The theme which emerges from the content analysis of comments relating to this issue is that there is a general reluctance for, and by, public accountants to be involved in a decision-making capacity in clients' businesses.

One small business respondent took the extreme view that "accountants should not interfere with the running of any business as most successful companies that have failed have been managed by accountants".

According to a banker too many public accountants are still once a year financial statement producers for small business; however, when they do work closer with the business they regularly try to make the decisions for the owner rather than providing the owner with the resources to make his own decisions.

The extent to which public accountants should be involved in making management decisions on behalf of small business clients as opposed to the giving of advice is raised in the following comment made by a public accountant:

Some clients are overdependent on accountants and think we can advise them on everything. We must not let this go to our heads. Any businessman who needs an accountant to run his business should not be in business. A wise businessman takes advice from many sources including his accountant and then acts as he decides best after considering all relevant factors. If this means he acts against our advice we must respect his right to do so, because we may not know the whole story.

According to one small business owner, processing annual figures for tax purposes after the fact is too late for true effective management. Small firms need close-knit, day-to-day guidance and advice from their public accountants because outside directors are seldom available. The ultimate decisions, however, still lie with the small business owner and not with the accountant who should act in an advisory rather than a management capacity.

11.8 Public accountants act as agents of the Inland Revenue Department (5 comments - 5 percent of total)

The means of responses shown in Figure 29 show that all three survey groups, on average, believe that public accountants should not act as agents

of the tax authorities. Public accountants and small business, on balance, marginally believe (as shown in Figure 25) that public accountants do actually act as agents of the tax authorities while third parties are of the opposite opinion.

The theme that arises from the content analysis of this issue is that, because of their dealings with the tax authorities (which also entails maintaining a reasonable working relationship with them), public accountants are sometimes seen as being more on the side of the tax authorities than that of the small business client. For example, a plumber states, "Sometimes I feel that public accountants are working for the Inland Revenue Department and not for the small business client". A firm of machinery wholesalers maintains that accountants do not like a fight with the Inland Revenue Department and, as a result, they give in and let the client pay more tax. The owners of another small business comment that their public accountant is very apprehensive of the Inland Revenue Department, while a banker sees public accountants mainly as form fillers and tax collection agents.

11.9 Public accountants as providers of accountancy training to small business (4 comments - 4 percent of total)

The means of responses results presented in Figures 25 and 29 reveal that all role-sender groups believe, on average, that public accountants should provide accounting training for small business clients but that this does not actually happen in practice.

The comments made support the concept of accountants educating their clients to do more of their own accounting work. For example, one restaurant owner remarks that "Public accountants in general do not seem to realise that with a little effort we could be taught to operate our own monthly accounts

far more effectively. On the whole we are very disappointed with public accountants' performance".

A hairdresser comments, "My public accountant does not encourage me to learn new skills appropriate to my business in order to improve the business". This client obviously realises a need but reveals a 'make me do it' passive-aggressive type attitude. A pizza parlour operator maintains that public accountants should give more accounting education and business advice to small business.

The reason, in the opinion of one business consultant, that little effort is made to educate clients is to ensure continued total dependence by small business clients on public accountants.

11.10 Public accountants as providers of accounting-related business advisory services (3 comments - 3 percent of total)

The results of the means of responses presented in Figure 25 and 29 show that there is almost unanimous agreement that public accountants should provide accounting-related advice but there is slightly less, but still strong, support for the view that public accountants actually provide such advice.

One respondent (a physiotherapist) commented on the failure of a public accountant to give advice on basic accounting and tax matters. According to a business consultant, public accountants are generally only equipped to provide accounting-related advice so should not go beyond this stage.

11.11 Public accountants as advisors on general business matters (3 comments - 3 percent of total)

The means of responses presented in Figures 25 and 29 show, on average, fairly strong support from all groups (especially from public accountants) that accountants should give advice on general business matters. However, there is much less support for the view that this role-function is carried out in actual practice, with third parties, in general, adopting a negative view.

The case for public accountants acting as general business advisors is stated by an architect: "It is very important that the public accountant stays in close contact with the client. I prefer to deal with a one-man firm as he is approachable, keen and willing to try new methods and procedures but still maintains a conservative stance when it comes to tricky business ventures."

11.12 Public accountants as providers of non-accounting business advisory services (3 comments - 3 percent of total)

The means of responses presented in Figures 25 and 29 show that, while role-senders, on average, expect public accountants to provide specific (non-accounting) business advice, the general perception among small business and third parties is that this is not done in actual practice while the views of public accountants are almost evenly divided.

Business consultants provide some services which compete with those of public accountants. Perhaps not unsurprisingly a third party comments that public accountants should not venture into specialist areas outside their traditional sphere of expertise.

In the opinion of a business development centre:

Accountants are generally perceived as a very professional body. They are no doubt aware of other agencies providing business advice and thus making a conscious effort to provide this service themselves. I believe that they should concentrate on financial matters and general business practice and leave specialised areas such as marketing to the relevant consultants.

Some small businesses also provide services which compete with those supplied by some public accountants. Such competitors sometimes take a dim view of public accountants encroaching on their territory. An insurance and investment company comments that "Public accountants should stick to bookkeeping; such areas as estate planning, investment advice and retirement planning are not their business and they do not have the expertise". An electronics business warns that many public accountants set themselves up as computer advisors but are really computer illiterate and have a very narrow view of what is available in the computer field.

11.13 Public accountants as counsellors to small business clients (1 comment - 1 percent of total)

The means of responses presented in Figure 29 show that role-senders, in general, believe that public accountants should act as counsellors to small business clients. Figure 25 reveals that public accountants and small business believe that public accountants actually carry out this function, while the opinions of third parties are almost evenly split on the issue.

A small business view on the role of public accountants as business counsellors is that given by the owner of a freight transport firm as follows:

I consider that I have a reasonable flair for small business management and do not rely on the help of an accountant to help operate, but I need an accountant more as a provider of compliance services and as a springboard for discussing general business matters.

11.14 Summary and Conclusions

Content analysis is used to add richness and insight to the statistical analysis of the accountant's role undertaken in the previous chapter. Comments from role-senders were obtained by means of two open-ended sections in the questionnaire. Content analysis of comments relating to public accountants' role revealed that some role-functions attracted a greater degree of attention than others. The basis of content analysis is that higher frequency counts of comments relating to a particular issue reflect higher interest by respondents on that issue.

Four role-functions attracted 75 percent of comments. These four role-functions, which can therefore be said to be of greatest concern to respondents, are as follows:

1. Actively seeking out client problems
2. Not waiting for clients to state problems
3. Providing compliance services
4. Being concerned for the client's financial health

Content analysis reveals a strong concern by role-senders for public accountants to be more active in identifying and solving business problems

experienced by their small business clients. While supplying compliance services is seen as the primary role of public accountants in relation to small business (especially for tax administration and tax minimisation purposes) many public accountants are perceived as being too compliance orientated and not sufficiently interested in the financial health of the client's business or in ways of helping it to survive and prosper. In particular, respondents feel that more use should be made of the financial statements produced as part of the compliance system to identify problems.

There is little support for public accountants to become more involved in the actual decision making of the small business client as opposed to providing advice.

Relating the overall findings of the content analysis of role to those of the statistical analysis of role presented in Chapter 10 it can be concluded that two strong patterns emerge:

- (1) The main area of concern revealed by content analysis is the lack of a proactive approach to problem solving on the part of public accountants. This finding reinforces the statistical analysis which showed that role-senders perceive that public accountants are not sufficiently proactive in eliciting client problems in spite of this role being expected of them.
- (2) The statistical analysis shows that role-senders perceive public accountants to be doing what is expected of them in the two core areas of supplying compliance services and being concerned for clients' financial well-being. The content analysis reinforces how highly important both areas are to the public accountant's role. Nevertheless, even in these traditional areas content analysis reveals that there is room for improvement.

In Chapters 12 and 13 the results of the empirical research relating to the small business expert advice gap is examined by means of statistical procedures and by content analysis respectively.

CHAPTER 12

STATISTICAL ANALYSIS OF THE SMALL BUSINESS EXPERT ADVICE GAP IN RELATION TO PUBLIC ACCOUNTANTS

12.1 Introduction

The purpose of this chapter is to address the second and third research aims, as presented in Chapter 1, namely, to identify factors which potentially create an expert advice gap and to identify whether differences in perceptions exist between role-senders relating to such an expert advice gap. The chapter is divided into five sections: (1) the range of services supplied by accountants, (2) the extent to which these services are used by small business, (3) the perceived quality of these services, (4) public accountants as business advisors to small business and (5) factors potentially causing a small business expert advice gap. The aims specified above will be achieved by meeting research objectives 9 to 20 (summarised in Appendix A)

12.2 The Range of Services Offered by Public Accountants

Research Objective 9

*To identify the range of services provided by public accountants
to small business clients*

Public accountants were asked to identify which services they provided to small business or referred to other experts. The responses to this question are presented in Figure 36 below.

Figure 36

Frequency of responses: services provided by public accountants and used by small business

		Services Provided by Public Accountants			Services Used by Small Business		
		Yes %	No %	Referred %	Frequently %	Sometimes %	Never %
1	Cash flow forecasts	99	1	-	8	20	72
2	Prep. of annual accounts	98	1	1	90	5	5
3	Preparation of tax returns	98	1	1	90	6	4
4	Operating budgets	97	3	-	8	20	72
5	Write-up, data processing	95	4	1	11	15	74
6	Financial results analysis	95	5	-	40	31	29
7	Financing proposals	95	5	-	7	32	61
8	Secretarial and admin	93	7	-	6	17	77
9	Buying/selling a business	91	6	3	3	35	62
10	Business valuation	86	10	4	4	32	64
11	Tax and estate planning	83	6	11	14	38	48
12	Capital expend. evaluation	80	19	1	8	29	63
13	Business plans	76	21	3	4	23	73
14	Computerised accounting	74	10	16	19	15	66
15	Costing and pricing	71	27	2	2	7	91
16	Personal investment	70	13	17	6	36	58
17	Retirement and succession	69	23	8	2	12	86
18	General management	66	31	3	2	20	78
19	Credit control	54	40	6	2	10	88
20	Advice on marketing	27	58	15	1	8	91
21	Advice on personnel	23	60	17	1	11	88
22	Advice on production	23	67	10	1	6	93

Figure 36 shows that the range of services provided by public accounting practices varies. Over 90 percent of responding practices offer compliance services and a basic range of accounting-related business services such as cash-flows and budgets. Approximately 70 percent of responding practices offer a complete range of compliance and accounting-related business advisory services such as business valuation, tax and estate planning, business plans and capital expenditure evaluation. The only accounting-related business service which is provided by less than 70 percent of public accountants is credit control advice (offered by 54 percent of accounting respondents). With regard to advice on non-accounting business services, 66 percent of responding practices offer general management services but less than 30 percent offer specific marketing, production and personnel services.

In some instances public accountants refer, either to other accountants or to appropriate non-accounting experts, services which they cannot provide themselves. The main accounting-related services referred by responding practices are in those areas which demand very specialised knowledge. For example, although 70 percent of accounting respondents offer personal investment advice, 17 percent refer this service to others. Similarly, computerisation of accounting systems is offered by 74 percent of respondents and referred by 16 percent of respondents and tax and estate planning is offered by 83 percent and referred by 11 percent of respondents. The other area of services which accounting respondents refer are non-accounting services, namely, marketing (offered by 27 percent, referred by 15 percent), personnel (offered by 23 percent, referred by 17 percent) and production (offered by 23 percent, referred by 10 percent).

Practically all public accountant respondents offer the traditional services of cash-flow forecasting, preparation of financial statements and tax returns, and budgeting. Surprisingly, cash flow forecasting is the most frequently offered service. This is probably because cash management is so essential to business survival and is closely associated with tax payment by small firms.

12.3 Public Accountants' Services Used by Small Business

Research Objective 10

To identify the extent to which public accountants' services are used by small business

The extent to which small business respondents use public accountants' services is also shown in Figure 36 (p.202). Public accountants' services most often used (that is 'frequently' and 'sometimes' combined) by small business respondents are preparation of tax returns (96 percent), preparation of annual financial statements (95 percent) and analysis of financial statements (71 percent).

The other main accounting-related business advisory services used by small business respondents are tax and estate planning (52 percent), personal investment advice (42 percent), financing proposals (39 percent), buying or selling a business (38 percent) and capital expenditure evaluation (37 percent).

Services which are very seldom used by small business respondents generally relate to specialist non-accounting functions such as, personnel (12 percent), marketing (9 percent) and production (7 percent). However, an unexpected finding is that certain accounting-related services are also included in this category, namely, retirement and succession (14 percent), credit control (12 percent) and costing and pricing (9 percent).

It can be concluded from the data presented in Figure 36 that the services most commonly provided by public accounting practices are those which are most frequently used by small business clients, namely, compliance services and, to a lesser extent, analysis of financial results. A point worth noting is that the service offered by the largest number (99 percent) of public

accountants is cash-flow forecasting, most probably because cash is the life-blood of business. However, only 28 percent of small business respondents indicate that they use this service.

To assess awareness of public accountants' services small business respondents were asked *Before you read the list of services shown in the questionnaire to what extent were you aware of the range of services provided by public accountants?* Similarly, public accountants were asked the extent to which they thought small business was aware of their services. A total of 74 percent of small business respondents stated that they were moderately or very aware of the range of public accountants services. The comparable figure for public accountants was 77 percent. This indicates that, on balance, small business respondents think that they have a reasonable degree of awareness of public accountants' services, an overall perception similar to that held by public accountants. However, 6 percent of small business respondents stated that they were totally unaware and 20 percent stated that they were only slightly aware of the range of public accountants' services. Public accountants therefore have room to improve the marketing of their services in this area.

It appears that most public accounting practices provide a fairly wide range of services. However, it can be expected that the smaller public accounting practice will often not have the resources to supply a complete range of services to small business. To test this supposition services provided by accounting practices were cross-tabulated with practice size (local practices and national/international practices). Figure 37 overleaf indicates that, in general, the larger the practice the more services offered but the difference in range of services is not as large as might have been expected. Significant differences in responses between local and national/international accounting practice firms were indicated in only five areas, namely, costing and pricing, retirement and succession, production, marketing, and personnel.

Figure 37

Comparison of services provided by local and national/international accounting practices

		Local Prac	Nat/Inter- nat Prac	χ^2	Signif.
		%	%		
1	Write-up, data processing	95	100	.89	.64
2	Secretarial and administration	92	100	.43	.51
3	Preparation of annual accounts	98	100	.29	.87
4	Preparation of tax returns	98	100	.29	.87
5	Analysis of financial results	95	100	.10	.75
6	Operating budgets	96	100	.00	.99
7	Cash flow forecasts	99	100	.00	1.00
8	Costing and pricing	67	94	7.47	.02*
9	Credit control	53	56	.07	.97
10	Capital expenditure evaluation	77	100	4.69	.10
11	Retirement and succession	65	94	5.88	.05*
12	Computerised accounting systems	72	88	2.49	.29
13	Business plans	73	100	5.79	.06
14	Financing proposals	95	100	.11	.74
15	Buying or selling a business	91	94	2.32	.31
16	Business valuation	84	100	3.05	.22
17	Tax and estate planning	81	94	1.83	.40
18	Personal investment advice	70	69	.71	.70
19	Advice on production	21	44	6.90	.03*
20	Advice on marketing	23	56	15.43	.00*
21	Advice on personnel	20	47	11.31	.00*
22	Advice on general management	63	87	3.28	.19

% Percentage of respondents providing this service

* Differences in responses significant at a significance level of 0.05

12.4 The Quality of Public Accountants' Services

Research Objective 11

To ascertain role-senders' opinions of the quality of public accountants' services to small business clients

The three survey groups were asked whether they regarded the quality of public accountants' services to be 'low', 'adequate', or 'high', (or 'don't know' if appropriate). To convert the frequency data on quality of public accountants' services into a format which is more useful for the purposes of this study, 'low' responses were assigned a value of -1, 'adequate' responses a value of 0, and 'high' responses a value of +1. The 'don't know' responses were omitted so that only the perceptions of those respondents who stated a definite opinion were taken into account. Having assigned these values, means of responses were then calculated and ranked for the total sample group as well as for the three individual sample groups.

The results, presented in Figure 38 overleaf, show that the overall opinion of role-senders is that public accountants, on average, perform adequately to highly in 7 of the 22 services (items 1 to 7 in Figure 38) specified in the questionnaire. The services regarded most highly in terms of quality are the traditional accounting tasks of preparation of tax returns and annual financial statements followed by write-up and data processing, analysis of financial results, tax and estate planning, secretarial and administrative services, and computerised accounting systems. However, it should be noted that, although the sample group as a whole regard the quality of analysis of financial results as adequate, third parties perceive this service to be of low quality. Reasons for this perception are indicated by the content analysis in Section 13.5.

Figure 38

Means* of survey group responses regarding the quality of public accountants' services

		Total Group	Small B'nss	Third Party	Public Acctnt
		<i>Means</i>	<i>Means</i>	<i>Means</i>	<i>Means</i>
1	Preparation of tax returns	.61	.60	.52	.77
2	Preparation of annual accounts	.57	.59	.37	.72
3	Write up and data processing	.32	.25	.19	.69
4	Analysis of financial results	.25	.35	-.19	.31
5	Tax and estate planning	.25	.22	.14	.50
6	Secretarial and administration	.24	.20	.06	.55
7	Computerised accounting systems	.22	.24	.12	.28
8	Financing proposals	.10	.08	-.08	.41
9	Cash flow forecasts	.07	.00	-.06	.47
10	Business valuation	.06	.04	-.14	.36
11	Operating budgets	.05	.00	-.08	.43
12	Capital expenditure evaluation	.04	.04	-.21	.33
13	Buying or selling a business	.03	-.02	-.15	.43
14	Personal investment advice	-.04	.02	-.31	.00
15	Business plans	-.05	-.05	-.22	.17
16	Credit control	-.16	-.15	-.36	.07
17	Advice on general management	-.16	-.08	-.51	.02
18	Costing and pricing	-.18	-.28	-.24	.12
19	Retirement and succession	-.18	-.24	-.50	.25
20	Advice on personnel	-.38	-.28	-.69	-.26
21	Advice on production	-.42	-.38	-.65	-.22
22	Advice on marketing	-.46	-.38	-.73	-.35

* Means of responses where 'low' = -1, 'adequate' = 0 and 'high' = +1

On eight services (items 8 to 15 in Figure 38) the quality of public accountants' services are perceived, on balance, to be adequate. These services are financing proposals, cash-flow forecasts, business valuation, operating budgets, capital expenditure evaluation, buying and selling a business, personal investment advice and business plans.

Seven services (items 16 to 22 in Figure 38) provided by public accountants are perceived, on average, to be of low quality. The accounting-related services in this category are credit control, costing and pricing, and retirement and succession; the non-accounting services are general management, personnel, production and marketing.

These results indicate that respondents, on balance, perceive public accountants' compliance services to be of an adequate to high quality. Public accountants' basic business advisory services are generally perceived by the sample group to be of adequate quality. However, third parties and small business perceive certain of these services, such as buying and selling a business, budgets and business plans to be barely adequate. A surprising result is that respondents, on average, perceive certain accounting-related services to be of low quality, namely, credit control, costing and pricing, and retirement and succession. Less surprising, but still of importance, is the finding that public accountants are held in low regard (even by public accountants themselves) as suppliers of non-accounting services such as general management, personnel, production and marketing.

To identify to what extent perceptions of service quality differs according to size of accounting practice, small business respondents' opinions of service quality were compared according to whether they used a small (local) or a large (national/international) accounting practice. The means of responses, presented in Figure 39 overleaf, reveal that small businesses respondents served by national/international accounting practices perceived the quality of public accountants' services to be slightly higher than those served by local accounting practices.

Figure 39

Means* of Responses regarding Quality of Public Accountants' Services -
Comparison of Local and National/International Practices

		Local Practices	Nat/Internat Practices
		Mean	Mean
1	Write-up, data processing	.22	.31
2	Secretarial and administration	.18	.23
3	Preparation of annual accounts	.57	.62
4	Preparation of tax returns	.59	.60
5	Analysis of financial results	.34	.34
6	Operating budgets	-.02	.03
7	Cash flow forecasts	-.04	.04
8	Costing and pricing	-.33	-.26
9	Credit control	-.19	-.08
10	Capital expenditure evaluation	.02	.06
11	Retirement and succession	-.22	-.38
12	Computerised accounting systems	.22	.30
13	Business plans	-.07	.00
14	Financing proposals	.03	.22
15	Buying or selling a business	-.04	.00
16	Business valuation	.00	.15
17	Tax and estate planning	.19	.32
18	Personal investment advice	.01	.03
19	Advice on production	-.40	-.40
20	Advice on marketing	-.41	-.33
21	Advice on personnel	-.30	-.23
22	Advice on general management	-.10	-.03

* Means of responses where 'low' = -1, 'adequate' = 0 and 'high' = +1

Research Objective 12

To identify (a) the existence and (b) the location of significant differences of opinion of between role-sender groups regarding the quality of public accountants' services to small business

The results of the Kruskal-Wallis test, presented in Figure 40 below, reveal that, at a significance level of 0.05, there are significant differences of opinion between the three role-sender groups as to the quality of all 22 services (including even the highly rated compliance services) specified in the questionnaire.

Figure 40

Kruskal-Wallis test to identify the existence of significant differences between survey group responses regarding the quality of public accountants' services

1	Write-up, data processing	χ^2 signif	52.08 .00*
2	Secretarial and administration	χ^2 signif	64.24 .00*
3	Preparation of annual accounts	χ^2 signif	29.00 .00*
4	Preparation of tax returns	χ^2 signif	14.29 .00*
5	Analysis of financial statements	χ^2 signif	87.25 .00*
6	Operating budgets	χ^2 signif	98.94 .00*
7	Cash-flow forecasts	χ^2 signif	100.97 .00*
8	Cost and pricing	χ^2 signif	74.45 .00*
9	Credit control	χ^2 signif	91.28 .00*
10	Capital expenditure evaluation	χ^2 signif	40.31 .00*
11	Retirement and succession	χ^2 signif	40.72 .00*
12	Computerised accounting systems	χ^2 signif	89.56 .00*

Figure 40

Kruskal-Wallis test to identify the existence of significant differences between survey group responses regarding the quality of public accountants' services

13	Business plans	χ^2 signif	87.30 .00*
14	Financing proposals	χ^2 signif	77.93 .00*
15	Buying or selling a business	χ^2 signif	58.12 .00*
16	Business evaluation	χ^2 signif	44.18 .00*
17	Tax and estate planning	χ^2 signif	8.27 .02*
18	Personal investment advice	χ^2 signif	20.07 .00*
19	Advice on production	χ^2 signif	48.47 .00*
20	Advice on marketing	χ^2 signif	64.87 .00*
21	Advice on personnel	χ^2 signif	53.96 .00*
22	Advice on general management	χ^2 signif	79.30 .00*

* Differences in responses significant at a significance level of 0.05

The Scheffé test was used to identify between which groups the significant differences, indicated by the Kruskal-Wallis test above, are located. The results of the Scheffé test, presented in Figure 41 overleaf, show that in 21 cases there are differences of opinion between small business and third parties, in 18 cases differences lay between small business and public accountants and in 12 cases differences were located between third parties and public accountants. There is therefore a marked disparity of opinions as to the quality of public accountants' services between all three groups, especially between small business and third parties and small business and public accountants. Scrutiny of the means presented in Figure 41 shows that, in general, third parties have the lowest opinion of the quality of public accountants' services perhaps because they have wider experience in judging the calibre of public accountants' output.

Figure 41

Scheffé test to identify the location of significant differences between survey group responses regarding the quality of public accountants' services

		Small B'nss	Third Party	Public Accnt	Differences located between		
		Means	Means	Means	SB-TP 1-2	TP-PA 2-3	SB-PA 1-3
1	Write-up data, processing	.25	.19	.69	1-2		1-3
2	Secretarial and admin	.20	.06	.55	1-2		1-3
3	Preparation of annual a/cs	.59	.37	.72	1-2	2-3	1-3
4	Preparation of tax returns	.60	.52	.77		2-3	1-3
5	Analysis of financial results	.35	-.19	.31	1-2	2-3	
6	Operating budgets	.00	-.08	.43	1-2	2-3	1-3
7	Cash flow forecasts	.00	-.06	.47	1-2	2-3	1-3
8	Cost and pricing	-.28	-.24	.12	1-2		1-3
9	Credit control	-.15	-.36	.07	1-2	2-3	1-3
10	Capital exp. evaluation	.04	-.21	.33	1-2	2-3	
11	Retirement and succession	-.24	-.50	.25	1-2		1-3
12	Computerised acctg sys.	.24	.12	.28	1-2		1-3
13	Business plans	-.05	-.22	.17	1-2	2-3	1-3
14	Financing proposals	.08	-.08	.41	1-2	2-3	1-3
15	Buying/selling a business	-.02	-.15	.43	1-2	2-3	
16	Business valuation	.04	-.14	.36	1-2		1-3
17	Tax and estate planning	.22	.14	.50	1-2		
18	Personal investment advice	.02	-.31	.00	1-2		1-3
19	Advice on production	-.38	-.65	-.23	1-2	2-3	1-3
20	Advice on marketing	-.38	-.72	-.35	1-2		1-3
21	Advice on personnel	-.28	-.69	-.26	1-2		1-3
22	General management	-.08	-.51	.02	1-2	2-3	1-3
	Number of differences				21	12	18

1 = Small Business (SB); 2 = Third Parties (TP); 3 = Public Accountants (PA)

Research Objective 13

To identify significant differences of opinion between major sub-groups within the role-sender groups regarding the quality of public accountants' services to small business

The Kruskal-Wallis test was used to establish whether differences of opinion existed between the major sub-groups within each of the three groups of role senders. The major sub-groups within each sample group are as specified in Section 10.4 (pp.158,159). The results are shown in Figure 42 below.

Figure 42

Kruskal-Wallis test to identify significant differences in response between major sub-groups within each survey group regarding the quality of public accountants' services

			Small Business	Third Parties	Public Accnts
1	Write-up, data processing	χ^2 signif	2.96 .23	1.81 .18	.75 .38
2	Secretarial and administration	χ^2 signif	6.98 .03*	.72 .39	4.71 .03*
3	Preparation of annual accounts	χ^2 signif	1.64 .44	6.64 .01*	.07 .77
4	Preparation of tax returns	χ^2 signif	1.72 .42	.25 .62	.12 .72
5	Analysis of financial statements	χ^2 signif	3.83 .15	9.57 .00*	.02 .86
6	Operating budgets	χ^2 signif	1.87 .39	1.39 .24	.00 .94
7	Cash-flow forecasts	χ^2 signif	.97 .61	1.12 .29	.36 .55
8	Costing and pricing	χ^2 signif	4.62 .10	8.13 .00*	4.15 .04*
9	Credit control	χ^2 signif	2.39 .30	1.26 .26	.09 .76
10	Capital expenditure evaluation	χ^2 signif	3.83 .15	.00 .92	1.48 .22
11	Retirement and succession	χ^2 signif	.47 .79	1.20 .27	.57 .45

Figure 42

Kruskal-Wallis test to identify significant differences in response between major sub-groups within each survey group regarding the quality of public accountants' services

			Small Business	Third Parties	Public Accts
12	Computerised accounting systems	χ^2 signif	.86 .65	3.19 .07	.95 .33
13	Business plans	χ^2 signif	.30 .86	.00 .97	.75 .39
14	Financing proposals	χ^2 signif	.36 .83	.77 .38	.29 .59
15	Buying or selling a business	χ^2 signif	5.08 .08	1.73 .19	.52 .47
16	Business evaluation	χ^2 signif	2.13 .34	.28 .60	.46 .49
17	Tax and estate planning	χ^2 signif	.45 .80	1.36 .24	6.44 .01*
18	Personal investment advice	χ^2 signif	.90 .64	.96 .33	5.49 .02*
19	Advice on production	χ^2 signif	.95 .62	11.16 .00*	1.44 .23
20	Advice on marketing	χ^2 signif	.61 .74	11.93 .00*	4.61 .03*
21	Advice on personnel	χ^2 signif	.01 .99	12.02 .00*	1.27 .26
22	Advice on general management	χ^2 signif	.56 .75	5.97 .02*	1.51 .22

* Differences in responses significant at a significance level of 0.05

Figure 42 reveals that there is only one significant difference between sub-groups within the small business sample group. In the public accountant sample group dissimilarities are found between local and national/international practices in five of the twenty-two services provided. Within the third party sample group differences occur between bankers and business consultants in seven of the twenty-two cases with the majority of differences relating to non-accounting services. Once again, the third party sub-group of bankers and business consultants show the greatest number of intra-group differences.

12.5 Public Accountants as Business Advisors

Research Objective 14

To ascertain role-senders' opinions of public accountants acting as business advisors to small business clients

Respondents were asked their opinions of (a) the strengths, (b) the weaknesses and (c) the problem solving ability of public accountants acting in the capacity of business advisors.

(a) The main strengths of public accountants as business advisors

The sample was asked to comment on the question "What do you see as the major strength of public accountants as business advisors to small business?". Three categories of strengths were provided in the questionnaire with an option provided for respondents to state other points if they thought the prescribed categories were unsuitable.

The aim was to ascertain whether the main strength of public accountants lay in (1) their depth of knowledge of clients' businesses, (improbable in view of the high ratio of small business clients to partners), (2) their wide experience of small business problems which comes from dealing with a large number of varied clients, or (3) their ability to be able to provide an impartial and objective expert opinion. The choice was therefore between depth of knowledge, width of knowledge or objectivity of opinion. The results are presented in Figure 43 overleaf.

Figure 43

Frequency of survey group responses regarding the main strengths of public accountants as business advisors

		Total Group	Small Business	Third Parties	Public Accnts
		%	%	%	%
1	In depth knowledge of client's business	17	16	17	21
2	Wide experience of small business problems	34	30	36	49
3	Able to provide an objective viewpoint	44	49	37	28
4	Other	5	5	10	2
		100%	100%	100%	100%

The opinion of the total sample group is that the main strength of public accountants when acting as business advisors is their ability to provide an objective viewpoint. Wide experience of small business problems is seen as public accountants' next strongest point. This view is, to some extent, at variance with the comments expressed in Chapter 11 concerning the lack of proactivity on the part of public accountants in seeking out problems. In-depth knowledge of the client's business is seen as public accountants' least strong point as business advisors.

The Scheffé test results, presented in Figure 46 (p.222), show that the differences in opinion between the three sample groups regarding the strengths of public accountants as business advisors are significant. Small business perceives the main strength of public accountants as

business advisors to be their ability to provide an objective viewpoint. On the other hand public accountants see their main strength as being their wide experience of small business problems. Third parties are almost evenly divided between the two above mentioned strengths, namely, wide experience of small business problems and able to provide an objective viewpoint. The perception of public accountants is again interesting in view of the concerns expressed in Chapters 10 and 11 that accountants tend to wait for clients to state problems rather than actively seeking them out. All three groups ranked in-depth knowledge of the client's business in third place.

This section in the questionnaire also contained an open-ended option to cater for respondents who did not agree with any of the three strengths provided. A total of fifteen comments were made, nine from third parties, five from small business and one from public accountants. An analysis of these fifteen comments revealed that (1) some small business and third party respondents thought that public accountants had no strengths as business advisors and (2) public accountants, in general, were perceived to be competent to give only accounting-related advice.

(b) The major weaknesses of public accountants as business advisors

All sample groups were asked to the question 'What do you see as the major weakness of public accountants as business advisors to small business?'. A choice of four categories of weaknesses was given on which to respond. The suggested areas of weakness were (1) lack of time to give in-depth advice, (2) over-conservative, (3) too remote from the client's business and (4) lack of business awareness. The responses, presented in Figure 44 overleaf, indicate that the major weakness of public accountants as business advisors is perceived by respondents to be almost equally their lack of time to give in-depth advice and being too

remote from the client’s business. Worthy of remark is that lack of business awareness was perceived to be public accountants’ least weak point as business advisors.

The Scheffé test results, shown in Figure 46 (p.222), reveal that differences between the three groups regarding the main weaknesses of public accountants as business advisors are not significant.

Figure 44

Frequency of survey group responses regarding the main weaknesses of public accountants as business advisors

	Total Group	Small Business	Third Parties	Public Accnts
	%	%	%	%
Lack of time to give in-depth advice	33	29	44	41
Over-conservative	15	18	6	14
Too remote from the client's business	32	36	20	19
Lack of business awareness	11	9	18	14
Other	9	8	12	12
	100%	100%	100%	100%

An option was also included for 'other' views on the major weakness of public accountants as business advisors. A total of 45 comments were made, 20 from small business, 13 from third parties and 12 from public accountants. Four themes emerge from an analysis of these comments. Firstly, a dilemma is indicated when small business and third parties remark on the high cost of public accountants' services while, on the other hand, public accountants maintain that in providing business advisory services "the time required to assist clients is considerable, but the client cannot afford the resulting fees". (Content analysis undertaken in the following chapter reveals that the issue of fees is the one which evoked most respondent comments.) Secondly, all three groups mention the lack of practical business experience on the part of public accountants. Thirdly, small business respondents believe that public accountants have too little understanding of clients' businesses to be able to offer valid advice. Fourthly, it is claimed that public accountants are not well-equipped in a range of non-accounting business skills such as marketing and production. In addition to these four themes a banker makes the interesting point that, because public accountants have no investment, and therefore no risk, in small business clients, they do not care about clients' financial position.

(c) The expectations of small business clients of public accountants' problem solving ability when acting as business advisors

The three sample groups were asked 'What expectations do small business clients have of public accountants as business advisors?'. The results, shown in Figure 45 overleaf, reveal that 59 percent of respondents believe that small business perceives public accountants to be reasonably good at solving *some* small business problems, 23 percent believe that small business perceives public accountants to be able to solve *most* small business problems and 18 percent believe that small business

perceives public accountants to be of little value in solving *any* small business problems.

Figure 45

Frequency of survey group responses regarding small business expectations of public accountants as business advisors

	Total Group	Small Business	Third Parties	Public Acnts
	%	%	%	%
Public accountants are able to solve most business problems	23	19	23	41
Public accountants are of little value in solving any small business problems	18	20	24	4
Public accountants are reasonably good at solving some small business problems	59	61	53	55
	100%	100%	100%	100%

The Scheffé test results, presented in Figure 46 overleaf, reveal that differences of opinions indicated by the above frequencies of this issue are significant. The majority of all three groups believe that small business perceives public accountants to be reasonably good at solving *some* small business problems. But whereas only 4 percent of public accountants believe that small business perceives public accountants to be of little value in solving *any* small business problems, 24 percent of third parties and 20 percent of small business see small business as perceiving them in this more pessimistic light. Again the trend is discerned that third parties generally take the most negative view and public accountants the most positive view of the three sample groups on the role and performance of public accountants in relation to small business clients.

Research Objective 15

To identify (a) the existence and (b) the location of significant differences between role-senders' opinions of public accountants acting as business advisors to small business

Differences in role-sender perceptions regarding the strengths, weaknesses and problem solving ability of public accountants as business advisors were tested using the Kruskal-Wallis test. The results, shown in Figure 46 below, indicate that differences of opinion between the three survey groups are significant with respect to two of the issues relating to public accountants as business advisors, namely, the major strengths of public accountants as business advisors and the problem solving ability of public accountants. The effect of these findings have been covered in the previous discussions on the strengths, weaknesses and problem solving ability of public accountants in Section 12.6.

Figure 46

Kruskal-Wallis test to identify the existence of differences between survey group responses regarding public accountants as business advisors

			Total Group
1	Main strength of public accountants as business advisors	χ^2 signif.	17.78 .00*
2	Main weakness of public accountants as business advisors	χ^2 signif.	.91 .63
3	Small business clients' expectations of public accountants as problem solvers	χ^2 signif.	8.60 .01*

* Difference in responses significant at a significance level of 0.05

The Scheffé test was used to locate between which pairs of groups significant differences are located. The results of the Scheffé test, presented in Figure 47 below, show that differences lie between small business and public accountants in two cases and between third parties and public accountants in one case.

Figure 47

Scheffé test to identify the location of differences between survey group responses regarding public accountants as business advisors

		Differences located between		
		Small Business and Third Parties	Third Parties and Public Accnts	Small Business and Public Accnts
1	Main strength of public accountants as business advisors		2-3	1-3
2	Main weakness of public accountants as business advisors			
3	Small business clients' expectations of public accountants as problem solvers			1-3
	Total number of differences		1	2

1 = Small Business (SB); 2 = Third Parties (TP); 3 = Public Accountants (PA)

Research Objective 16

To identify significant differences of opinion between major sub-groups within the role-sender groups regarding public accountants as business advisors to small business

Figure 48 overleaf reveals that only one significant difference occurs between major sub-group responses within the sample groups, namely,

between bankers and business consultants within the third party group with respect to the main weakness of public accountants as business advisors.

Figure 48

Kruskal-Wallis test to identify significant differences in responses between major sub-groups within each survey group regarding public accountants as business advisors

			Small Business	Third Parties	Public Accnts
1	Main strength of public accountants as business advisors	χ^2 signif	1.81 .40	.29 .59	.93 .33
2	Main weakness of public accountants as business advisors	χ^2 signif	.05 .97	8.44 .00*	.00 .99
3	Small business client's expectations of public accountants as problem solvers	χ^2 signif	5.75 .06	.13 .71	.56 .45

* Difference in responses significant at a significance level of 0.05

12.6 The Small Business Expert Advice Gap

Research Objective 17

To identify the main factors causing a small business expert advice gap in relation to public accountants

In relation to the question ‘Are public accountants meeting small business needs?’ sample groups were asked to respond to a series of 28 issues in

terms of ‘strongly disagree’, ‘disagree’, ‘neutral’, ‘agree’, and ‘strongly agree’. Values of -2, -1, 0, +1 and +2 were awarded respectively to each of these five terms. The opinions of the total survey group, converted to means and ranked, are presented in Figure 49 below. Where negatively phrased statements attracted negative responses these have been converted to positive statements showing positive responses.

Figure 49
Means* of survey group responses regarding the small business expert
advice gap in relation to public accountants

		Total Group	Small B'nss	Third Party	Public Acnts
	<i>Factors perceived as causing a gap</i>				
1	Small business wish to use minimum compliance services	.74	.62	1.06	1.05
2	Small business would use more business advisory services if had funds	.74	.75	.75	.63
3	Public accountants do not communicate well with small business	.64	.55	1.06	.61
4	Small business does not see the benefit of using business advisory services	.56	.46	.87	.74
5	Small business does not acknowledge the need for business advisory services	.50	.35	.86	.95
6	Accounting profession should have business advisory services standards	.45	.52	.64	-.15
7	Small business seeks help from public accountants when too late	.43	.26	.96	.79
8	Public accountants too busy with tax compliance work	.36	.33	.65	.23
9	Public accountants do not make small business aware of business advisory services	.34	.33	.46	.26
10	Public accountants' fees are unreasonable	.29	.40	.50	-.59
11	Public accountants should provide more business advisory services	.20	.12	.45	.39
12	Small business does not communicate well with public accountants	.18	.04	.75	.33
13	Public accountants do not see the need for business advisory services	.13	.17	.23	-.25

Figure 49 continued

Means* of Responses regarding Quality of Public Accountants Services**Comparison of Local and National/International Practices**

		Total Group	Small B'nss	Third Party	Public Acnts
	<i>Factors not perceived as causing a gap</i>				
14	Use of public accountants is not a threat to small business independence advice	.68	.72	.38	.80
15	Public accountants are competent to provide business advisory services	.66	.59	.69	1.00
16	Public accountants have good inter-personal skills	.60	.63	.19	.90
17	Public accountants make few compliance mistakes	.37	.35	.26	.63
18	Public accountants should provide non-accounting business advisory services	.34	.31	.45	.35
19	Small business are at ease with public accountants	.32	.42	-.19	.35
20	Public accountants' compliance services are cost-beneficial	.30	.22	.38	.67
21	Public accountants do wish to supply business advisory services to small business	.20	.16	.17	.48
22	Public accountants provide a good range of business advisory services	.18	.21	-.17	.41
23	Public accountants are well trained to provide business advisory services	.17	.17	-.16	.56
	<i>Factors where opinion is divided</i>				
24	Small business does implement public accountants' advice	.07	-.05	.44	.32
25	Public accountants' business advisory services are cost-beneficial	.03	-.08	.06	.61
26	Small business does not have the ability to use business advisory services	.02	.05	-.02	-.15
27	Lack of time does not prevent small business from using public accountants	.01	-.07	.25	.21
28	Public accountants provide high quality business advisory services	.01	.03	-.39	.41

* Means of responses where 'strongly disagree' = -2, 'disagree' = -1, 'neutral' = 0, 'agree' = +1 and 'strongly agree' = +2

Thirteen factors (items 1 to 13 in Figure 49) are perceived, on average, by the total sample group as causing an expert advice gap. Of these the five most important factors are:

1. Most small businesses wish to use only the minimum amount of compliance services they can get away with
2. If small firms could afford it they would use public accountants' business advisory services to a greater extent
3. Most public accountants could do a lot more to communicate properly with their small business clients
4. Most small businesses do not have a clear picture of the benefits to be gained from using public accountants' business advisory services
5. Most small businesses really need to make more use of public accountants' business advisory services but generally will not acknowledge the fact

It should be noted that although content analysis (see Chapter 13) finds that the issue of fees is the one of most concern to respondents, it does not appear among the top five factors causing an expert advice gap (being ranked in tenth place in Figure 49). The probable reason for this is because opinions are polarised on the matter, with small business and third parties maintaining that public accountants' fees are unreasonable while public accountants take the opposite stance.

Ten factors (items 14 to 23 in Figure 49) were found, on average, not to cause a gap in the opinion of the total sample group. The four most important factors identified are as follows:

1. Using a public accountant is *not* seen as a threat to the independence of the small business owner-manager
2. Public accountants *are* competent to provide business advisory services to small businesses
3. Public accountants *do* generally form good personal relationships with their small business clients
4. Public accountants *seldom* make serious mistakes in the compliance services they provide for small business clients

These findings are important as they indicate that the relationship between public accountants at a personal level is generally perceived by respondents to be good and that public accountants provide good quality compliance services and are competent to provide business advisory services. The foundation of the relationship between public accountants and their small business clients therefore appears to be sound.

In five cases (items 24 to 28 in Figure 49) the opinions of the total sample group were, on average, almost evenly divided as to whether or not the particular factor results in a gap.

The two most important factors identified are as follows:

1. Small firms often do not implement the advice they receive from their public accountants
2. Public accountants' business advisory services are cost-beneficial

The second of these finding is of particular importance to the accounting profession as it indicates that public accountants will either have to reduce their fees to make their services more cost-beneficial or, if they are in reality already cost-beneficial, then this must be demonstrated more convincingly to change small business perceptions.

Research Objective 18

To identify (a) the existence and (b) the location of significant differences of opinion between role-sender groups with respect to the small business expert advice gap in relation to public accountants

The Kruskal-Wallis test was used to show whether the differences in opinions between the three sample groups indicated in the varying means of responses shown in Figure 49 are significant. The results of the Kruskal-Wallis test, shown in Figure 50 overleaf, indicate that differences in responses to 26 of the 28 gap factors are significant, that is, the three sample groups differ in their perceptions of the factors causing an expert advice gap.

Figure 50**Kruskal-Wallis test to identify the existence of significant differences****between survey group responses regarding the small business expert advice****gap**

			Total Group
1	Small business wishes to use minimum compliance services	χ^2 signif.	52.94 .00*
2	Small business does not acknowledge need for business advisory services	χ^2 signif.	79.46 .00*
3	Small business not at ease with public accountants	χ^2 signif.	49.83 .00*
4	Small business does not communicate well with public accountants	χ^2 signif.	73.49 .00*
5	Use of public accountants is threat to small business independence	χ^2 signif.	25.19 .00*
6	Public accountants' fees are reasonable	χ^2 signif.	104.66 .00*
7	Small business would use more business advisory services if it had funds	χ^2 signif.	1.97 .37
8	Public accountants' compliance services are cost-beneficial	χ^2 signif.	30.02 .00*
9	Public accountants' business advisory serves are cost-beneficial	χ^2 signif.	76.27 .00*
10	Public accountants are competent to provide business advisory services	χ^2 signif.	30.71 .00*
11	Public accountants should provide non-accounting business advice services	χ^2 signif	6.49 .04*
12	Lack of time prevents small business using public accountants	χ^2 signif	21.48 .00*
13	Small business does not have ability to use business advisory services	χ^2 signif	6.31 .04*
14	Small business does not see benefit of using business advisory services	χ^2 signif	36.98 .00*
15	Small business seeks help from public accountants when too late	χ^2 signif	100.83 .00*
16	Small business does not implement public accountants' advice	χ^2 signif	58.72 .00*
17	Public accountants do not see need for small business advisor	χ^2 signif	29.04 .00*

Figure 50 continued

Kruskal-Wallis test to identify the existence of significant differences**between survey group responses regarding the small business expert advice gap**

			Total Group
18	Public accountants do not wish to supply business advisory services to small business	χ^2 signif	25.27 .00*
19	Public accountants do not make small business aware of business advisory services	χ^2 signif	2.30 .32
20	Public accountants do not communicate well with small business	χ^2 signif	42.85 .00*
21	Public accountants have good interpersonal skills	χ^2 signif	84.78 .00*
22	Public accountants are too busy with tax to provide business advisory services	χ^2 signif	18.21 .00*
23	Public accountants not well trained to provide business advisory services	χ^2 signif	43.63 .00*
24	Public accountants provide a good range of business advisory services	χ^2 signif	43.59 .00*
25	Public accountants should provide more business advisory services	χ^2 signif	32.12 .00*
26	Public accountants make few compliance mistakes	χ^2 signif	12.63 .00*
27	Public accountants provide high quality business advisory services	χ^2 signif	78.81 .00*
28	Accounting profession should have business advisory service standards	χ^2 signif	65.50 .00*

* Differences in responses significant at a significance level of 0.05

It should be noted that the two factors on which all three sample groups were in agreement were

1. Small business would use more business advisory services if it had the funds to do so
2. Public accountants do not make a sufficient effort to make small business aware of the full range of business advisory services that they are able to supply

The first finding indicates that there is consensus among role-sender groups that the lack of funds is a major constraint on the greater use of business advisory services. The second finding indicates that public accountants should do more to market their business advisory services. This result is at variance with that stated in Section 12.3 (pp.204-205) in which three quarters of small business respondents stated that they were moderately or very aware of the range of public accountants' services, a perception with which public accountants were generally in agreement. Possible reasons for this apparent inconsistency are (1) small business respondents had read the list of services provided by public accountants before making their response which may have resulted in respondents assessing their awareness more highly than they would otherwise have done, and (2) nevertheless, a quarter of small business respondents still indicated that they were totally unaware or only slightly aware of the range of public accountants' services.

As the Kruskal-Wallis test indicated that significant differences between survey groups occur in relation to 26 of the 28 expert advice gap issues, it is important to know between which pairs of groups these differences in opinion lie. The Scheffé test was used to identify the location of such differences. The results of the Scheffé test, shown in Figure 51 overleaf, indicate that in 17 cases significant differences are located between small business and third parties, in 17 cases between third parties and public accountants and in 19 cases between small business and public accountants. No particular bias in the direction of differences is therefore discernable. This could indicate that no one group saw matters in a fundamentally dissimilar way from any other group on the aspects being examined relating to the interface of public accountants with small business clients.

Figure 51

Scheffé test to identify the location of significant differences in survey group responses regarding the small business expert advice gap

		Small B'nss	Third Party	Public Accts	Differences located between		
		Means	Means	Means	SB-TP	TP-PA	SB-PA
1	Small business wishes to use minimum compliance services	.62	1.06	1.05	1-2	—	1-3
2	Small business does not acknowledge need for business advisory services	.35	.86	.95	1-2		1-3
3	Small business not at ease with public accountants	-.42	.19	-.35	1-2	2-3	
4	Small business does not communicate well with public accountants	.04	.75	.33	1-2	2-3	1-3
5	Use of public accountants is threat to small business independence	-.72	-.38	-.80	1-2	2-3	
6	Public accountants' fees are reasonable	-.40	-.50	.59		2-3	1-3
7	Small business would use more advisory services if had funds	.75	.75	.63			
8	Public accountants' compliance services are cost-beneficial	.22	.38	.67		2-3	1-3
9	Public accountants' business advisory services are cost-beneficial	-.08	.06	.61		2-3	1-3
10	Public accountants are competent to provide business advisory services	.59	.69	1.00		2-3	1-3
11	Public accountants should provide non-accounting business advisory services	.31	.45	.35			
12	Lack of time prevents small business using public accountants	.07	-.25	-.21	1-2		1-3
13	Small business does not have ability to use business advisory services	.05	-.02	-.15			
14	Small business does not see benefit of using business advisory services	.46	.87	.74	1-2		1-3

Figure 51 continued

Scheffé test to identify the location of significant differences
in survey group responses regarding the small business expert advice gap

		Small B'nss	Third Party	Public Accts	Differences located between		
		Means	Means	Means	SB-TP	TP-PA	SB-PA
15	Small business seeks help from public accountants when too late	.26	.96	.79	1-2		1-3
16	Small business does not implement public accountants' advice	-.05	.44	.32	1-2		1-3
17	Public accountants do not see need for small business advisory services	.17	.23	-.25	1-2	2-3	
18	Public accountants do not wish to supply business advisory services to small business	-.16	-.17	-.48		2-3	1-3
19	Public accountants do not make small business aware of business advisory services	.33	.46	.26			
20	Public accountants do not communicate well with small business	.55	1.06	.61	1-2	2-3	
21	Public accountants have good inter-personal skills	.63	.19	.90	1-2	2-3	1-3
22	Public accountants are too busy with tax to provide business advisory services	.33	.65	.23	1-2	2-3	
23	Public accountants not well trained to provide business advisory services	-.17	.16	-.56	1-2	2-3	1-3
24	Public accountants provide a good range of business advisory services	.21	-.17	.41	1-2	2-3	1-3
25	Public accountants should provide more business advisory services	.12	.45	.39	1-2		1-3
26	Public accountants make few compliance mistakes	.35	.26	.63		2-3	1-3
27	Public accountants provide high quality business advisory services	.03	-.39	.41	1-2	2-3	1-3
28	Accounting profession should have business advisory service standards	.52	.64	-.15		2-3	1-3
	Total differences				17	17	19

1 = Small Business (SB); 2 = Third Parties (TP); 3 = Public Accountants (PA)

Research Objective 19

To identify significant differences of opinion between major sub-groups within role-sender groups regarding the small business expert advice gap in relation to public accountants

The results of the Kruskal-Wallis test, presented in Figure 52 overleaf, reveal that no differences were indicated between the three sub-groups (manufacturing, retailing and service industries) within the small business group. Within the public accountant group four differences were detected between small (local) practices and large (national/international) practices. Of particular importance is the finding that significant differences of opinion occur between small and large accounting practices as to the reasonableness of public accountants' fees and the cost-benefit of their business advisory services. It should be noted that differences in opinion on these two issues also occur between the three sample groups. This indicates that public accountants themselves are divided on the issue of fees which is of so much concern to other role-senders. Also worthy of remark is the finding that small and large accounting firms have significantly different opinions relating to the supply by public accountants of non-accounting business advisory services.

Within the third party group eleven differences of opinion were indicated between the two sub-groups (bankers and business consultants). The majority of these differences of opinion concern the supply and cost-benefit of public accountants' business advisory services. Once again more differences occur within the third party group than in either of the other two groups. The probable reason is that the two third party sub-groups, bankers and business consultants, while both being closely associated with small business, perform essentially different functions in relation to it and therefore probably have, to some extent at least, different outlooks.

Figure 52

Kruskal-Wallis test to identify significant differences in responses between major sub-groups within each survey group regarding the small business expert advice gap

			Small Business	Third Parties	Public Accnts
1	Small business wishes to use minimum compliance services	χ^2 signif	3.69 .16	.93 .33	.49 .48
2	Small business does not acknowledge need for business advisory services	χ^2 signif	2.84 .24	16.72 .00*	4.46 .04*
3	Small business not at ease with public accountants	χ^2 signif	5.64 .06	3.69 .06	.15 .69
4	Small business does not communicate well with public accountants	χ^2 signif	3.53 .17	5.03 .02*	.01 .91
5	Use of public accountants threat to small business independence	χ^2 signif	1.24 .54	5.38 .02*	1.02 .31
6	Public accountants' fees are reasonable	χ^2 signif	1.11 .57	.00 .98	5.43 .02*
7	Small business would use more business advisory services if had funds	χ^2 signif	.72 .70	3.88 .05*	3.16 .08
8	Public accountants' compliance services are cost-beneficial	χ^2 signif	2.23 .33	.03 .85	.18 .67
9	Public accountants' business advisory services are cost-beneficial	χ^2 signif	.07 .96	16.08 .00*	5.79 .02*
10	Public accountants are competent to provide business advisory services	χ^2 signif	.55 .76	2.17 .14	.64 .42
11	Public accountants should provide non-accounting business advisory services	χ^2 signif	1.27 .53	4.34 .04*	4.31 .04*
12	Lack of time prevents greater small business use of public accountants' services	χ^2 signif	.18 .91	.17 .67	.02 .87
13	Small business does not have ability to use business advisory services	χ^2 signif	1.77 .41	.41 .52	2.15 .14

Figure 52 continued

Kruskal-Wallis test to identify significant differences in responses between major sub-groups within each survey group regarding the small business expert advice gap

			Small Business	Third Parties	Public Accts
14	Small business does not see benefit of using business advisory services	χ^2 signif	.83 .66	2.97 .09	3.18 .07
15	Small business seeks help from public accountants when too late	χ^2 signif	1.21 .54	.83 .36	.48 .49
16	Small business does not implement public accountants' advice	χ^2 signif	.33 .84	.00 .97	.63 .43
17	Public accountants do not see need for small business advisor	χ^2 signif	.22 .90	1.66 .20	.30 .58
18	Public accountants do not wish to supply business advisory services to small business	χ^2 signif	1.66 .44	2.03 .15	2.60 .11
19	Public accountants do not make small business aware of business advisory services	χ^2 signif	4.48 .11	.02 .87	.00 .98
20	Public accountants do not communicate well with small business	χ^2 signif	1.80 .41	5.83 .02*	.50 .48
21	Public accountants have good inter-personal skills	χ^2 signif	.64 .72	1.29 .26	.10 .75
22	Public accountants are too busy with tax to provide business advisory services	χ^2 signif	.48 .78	1.11 .29	.46 .50
23	Public accountants not well trained to provide business advisory services	χ^2 signif	2.39 .30	23.05 .00*	.14 .70
24	Public accountants provide a good range of business advisory services	χ^2 signif	2.04 .36	14.66 .00*	.35 .55
25	Public accountants should provide more business advisory services	χ^2 signif	.28 .87	4.60 .03*	1.81 .18
26	Public accountants make few compliance mistakes	χ^2 signif	3.97 .14	.34 .55	.56 .45
27	Public accountants provide high quality business advisory services	χ^2 signif	.93 .63	5.65 .02*	3.49 .06
28	Accounting profession should have business advisory standards	χ^2 signif	.08 .96	.00 1.00	1.66 .20

* Differences in responses significant at a significance level of 0.05

Research Objective 20

To undertake a factor analysis of the small business expert advice gap in relation to public accountants

Factor analysis was used to identify a relatively small number of factors that describe the complex phenomenon comprising the expert advice gap. Respondent scores relating to the twenty-eight expert advice gap issues were first subjected to a principal-components analysis. This process extracted six factors. The next stage concerned the determination of the number of factors to retain. All six factors were retained. Components with eigenvalues greater than or equal to 1 were selected for rotation. Varimax rotation was used as this method does not require any assumptions about the general structure of the variables. The rotated factor matrix is shown in Figure 53 (p.240). The six factors which can be said to represent the relationships among the expert advice gap variables are:

1. Public accountant deficiencies
2. Small business deficiencies
3. Public accountant competence
4. Fee issues
5. Business advisory services issues
6. Small business competence

Factor 1 relates to deficiencies on the part of public accountants as an important component of the expert advice gap. For example, not making small business aware of their business advisory services, not communicating effectively, being too busy with tax and not being aware or willing to supply business advisory services.

Factor 2 acknowledges the part of small business deficiencies in potentially creating an expert advice gap in not communicating well with public accountants, seeking advice when it is too late, not heeding advice received and not acknowledging the need for business advisory services.

Factor 3 encompasses the competence of public accountants and the type and quality of services they supply to small business.

Factor 4 raises the fundamental-issue of the reasonableness of public accountants' fees and the cost-benefit of their compliance and business advisory services to small business clients.

Factor 5 covers business advisory service issues involving the issue of whether the limited use of such services is caused by lack of small business funds or lack of competence on the part of public accountants, particularly in non-accounting areas and whether there should be specific professional standards and guidelines for business advisory services.

Factor 6 relates to two general areas of small business inability to maximise their use of business advisory services, namely, lack of competence to benefit from such services and lack of time to organise the use of such services.

Factor analysis therefore reveals the underlying dimensions of the expert advice gap, namely the crucial significance of public accountants, as the professional party in the relationship, to minimise deficiencies and maximise competencies in order to provide the optimum benefit to clients. Small business clients must also understand their role and responsibilities in the relationship to optimise the benefits to be gained by using public accountants' services. Above all, public accountants must provide cost-effective services or clients will turn to those who can, as the accounting profession has no statutory monopoly of compliance or

business advisory services with which to shut out competition as is the case with auditing.

Figure 53

Factor Analysis of Expert Advice Gap Issues

	Fact 1	Fact 2	Fact 3	Fact 4	Factor 5	Fact 6
PUBLIC ACCOUNTANT DEFICIENCIES						
Public accountants do not make small business aware of business advisory services	.6974	.1138	-.0226	-.0351	.1511	-.0043
Public accountants could communicate better with small business clients	.6593	.2331	-.1772	.0377	.1932	-.1750
Public accountants too busy with tax to provide business advisory services	.6166	.1777	-.1456	-.0971	-.1102	.0716
Public accountants do not realise small business need for business advisory services	.6017	-.0286	-.3130	.0059	.0742	.1551
Public accountants not willing to supply business advisory services	.4950	-.1097	-.2332	-.0279	-.0713	.2695
Public accountants should supply less compliance, more business advisory services	.4270	.0613	.1401	.0031	.4033	-.0487
SMALL BUSINESS DEFICIENCIES						
Small business does not communicate well with public accountants	.1072	.6850	-.0553	.0892	.0967	.1496
Small business seek help from public accountants when too late	.2388	.6479	.0837	.0776	.0746	.1032
Small business does not implement advice of public accountants	.0810	.5674	-.0231	.1052	-.2339	.0888
Small business independence threatened by using public accountants	-.1449	.5310	-.3818	.0921	.1463	.1566
Small business only wish to use minimum compliance service	-.0517	.5159	.0755	-.1666	-.1968	-.0626
Small business emotionally uncomfortable when dealing with public accountants	.0718	.5106	-.3567	.0081	.2559	.0127
Small business does not acknowledge greater need of business advisory services	.0351	.4724	.1819	.1832	.4356	-.0647
Small business does not recognise benefits of using business advisory services	.3244	.4521	.1604	.0529	.2071	.2461

Figure 53 continued**Factor Analysis of Expert Advice Gap Issues**

	Fact 1	Fact 2	Fact 3	Fact 4	Factor 5	Fact 6
PUBLIC ACCOUNTANT COMPETENCE						
Public accountants not properly trained to provide business advisory services	.3319	.0670	-.6062	-.0628	-.1476	.0500
Public accountants form good personal relationships with small business	-.1355	-.1510	.5460	.1636	-.1030	.2192
Public accountants competent to provide accounting related business advisory services	-.0367	.1532	.5424	.1464	-.0192	-.0681
Public accountants provide high quality business advisory services	-.4442	.0093	.5232	.1798	.0233	.1562
Public accountants provide an adequate range of business advisory services	-.4857	-.0351	.5193	.0112	-.0273	.1204
Public accountants provide competent compliance services	-.0585	-.0294	.4063	.1330	.0905	-.0594
FEE ISSUES						
Public accountants' compliance service are cost-beneficial	-.0241	.0480	.0803	.7640	.0481	.0236
Public accountants' business advisory services are cost-beneficial	-.0335	.1522	.2204	.6759	.1668	-.0440
Public accountants' fees are reasonable	-.1042	.0352	.2638	.6591	-.0999	.0937
BUSINESS ADVISORY SERVICE ISSUES						
Public accountants are competent to provide non-accounting business advisory services	.0031	-.0190	-.0322	.1784	.6258	.0291
Small business would use more business advisory services if could afford it	.1201	.1289	.2169	-.3025	.5459	.1555
Profession should introduce business advisory services standards	.1098	-.1000	-.3526	-.0161	.4718	.1659
SMALL BUSINESS COMPETENCE						
Small business lacks competence to use more business advisory services	.0197	.2256	.0125	.0198	.0466	.7664
Small business does not use more business advisory services due to lack of time	.0454	.1116	-.0098	.0243	.0997	.7319
EIGENVALUES	4.51	3.22	1.63	1.40	1.29	1.18
PERCENTAGE OF VARIANCE EXPLAINED	16.1%	11.5%	5.8%	5.0%	4.6%	4.2%

12.7 Summary and Conclusions

This chapter firstly explored the range, extent of use and quality of public accountants' services. Attention was then devoted to examining perceptions of public accountants acting in the capacity of business advisors. Finally perceptions of the main factors inhibiting public accountants from meeting the needs of small business, thus leading to the expert advice gaps were investigated.

Range of public accountants' services

Of the responding accounting practices, over 90 percent offer a basic range of compliance and accounting-related business advisory services. Approximately 70 percent of public accounting firms surveyed offer a full range of compliance and accounting-related business advisory services. An important observation is the fact that only 54 percent of public accountants sampled provide advice on credit control. Approximately 25 percent of public accounting respondents offer a full range of both accounting and non-accounting business advisory services such as marketing, production, personnel and general management matters. It can therefore be concluded that the majority of public accounting practices in the survey offer a reasonable range of advisory services across all business areas but where a service is not offered a client will often be referred to an appropriate adviser.

Extent of accounting services used by small business

Small business respondents use public accountants' compliance services frequently, but use accounting-related business advisory services on a less frequent basis and their non-accounting services only to a very limited degree. To a certain extent this can be expected due to the

different nature of the three types of service, namely, compliance services, accounting-related business advisory services and non-accounting business advisory services. Reporting of financial results and associated taxation to comply with legislation is a regular obligation for all enterprises regardless of size. On the other hand, with the possible exception of operating budgets and cash-flow, most business advisory services will generally be used only as and when required (for example, financing proposals or buying or selling a business). For non-accounting business advisory services, such as marketing and personnel, users will in many instances probably seek specialist consultants, therefore public accountants can be expected to have more competition in these areas than in accounting services. In general, it appears that the range of public accountants' services offered matches the needs of small business for those services, although there may be gaps between supply and demand in particular areas or at particular times.

Quality of public accountants' services

The perceived quality of public accountants' services is adequate to high for compliance services and the most commonly used business advisory services. The quality of the lesser used business advisory services, such as cash-flow forecasts, business valuation and operating budgets, is perceived to be adequate to low. For seldom used services, such as marketing, production and personnel, the quality is perceived to be low, even by public accountants themselves. These findings indicate the existence of a performance gap with respect to both accounting-related and non-accounting business advisory services.

Factors perceived as causing an expert advice gap

Of the factors postulated in the conceptual framework in Chapter 5 as causing an expert advice gap, the total survey group perceived, on

balance, that thirteen factors caused a gap and that ten factors did not cause a gap. In a further five cases, respondents were almost evenly split as to whether the factors did or did not cause a gap.

The five main factors perceived as causing a gap are:

1. Small business only wish to use the minimum of compliance services
2. Small business would use more business advisory services if they had the funds to do so
3. Public accountants do not communicate well with small business clients
4. Small business does not have a clear picture of the benefit to be gained from using public accountants' business advisory services
5. Small business really needs to make more use of public accountants' business advisory services but will generally not acknowledge the fact

Of these five factors four are attributable to small business. The reason for lack of demand for business advisory services is largely explained by the small business desire to use only the bare minimum of public accountants' services (mainly unavoidable compliance services). The second of the above factors points to the reason for this, namely, a shortage of funds to pay for more services. However, point four indicates that public accountants need to do more to convince small business of the benefits of using their services. Point five is of importance in that it indicates that respondents perceive that a genuine small business need

exists for public accountants' services rather than such a need being artificially created by public accountants.

The main expert advice gap factor attributable to public accountants is their failure to communicate effectively with small business clients. This is a factor with which even public accountants themselves agree and indicates the existence of a communications gap.

Of the expert advice gap factors, an important finding is that small business and third parties perceive that public accountants' fees are unreasonable, a view which is not shared by public accountants. Such a fundamental issue indicates a major stumbling block in the relationship between public accountants and the small business sector.

Factors not perceived as causing an expert advice gap

Of the factors which were found not to cause a gap the five most important are:

1. The use of public accountants is not perceived as a threat to the independence of small business owners
2. Public accountants are perceived to be competent to provide business advisory services
3. Public accountants have good interpersonal skills
4. Public accountants provide good quality compliance services
5. Public accountants should provide non-accounting business advisory services

The important inferences from these findings are that small business clients, on average, do not feel their independence to be threatened by accountants, that public accountants are perceived to be competent suppliers of business advisory services and acceptable suppliers of non-accounting services and that, above all, they are competent at their traditional role, that of supplying compliance services.

Differences of opinion between role-senders

Kruskall-Wallis tests indicates that small business, public accountants and third parties have different perceptions of public accountants' service quality, of public accountants as business advisors and of the factors causing the expert advice gap. In general public accountants take the most optimistic or favourable view and third parties the most pessimistic or negative. The existence of such a perception gap should be of concern to the accounting profession. If the accounting profession's view of its own performance is not congruent with the perceptions of other role-senders, this may indicate that it is out of touch with its clientele and is thus not fulfilling its societal role. The ramifications of this situation are that the accounting profession could lose its autonomy to organise its own affairs. This in turn would probably result in a loss of status, prestige and reward.

Factor analysis

Factor analysis uncovered six dimensions that can be used to explain the complex phenomena of the small business expert advice gap. The main element explaining the gap is the competency of public accountants, who as the professionals in the relationship, must ensure that they minimise deficiencies in the delivery of their service while being aware of the changing demands of their small business clients. Vital to the success of their role is the provision of their expertise at a fee which is cost-

beneficial to their clients. By minimising their own deficiencies in seeking and using external advice, small business can enhance the benefits to be obtained by using public accountants, and thus help to narrow the expert advice gap.

Possible explanations for the results of the statistical analysis undertaken in this chapter are examined in the next chapter where respondent comments relating to the small business expert advice gap are content analysed.

CHAPTER 13

CONTENT ANALYSIS OF THE SMALL BUSINESS EXPERT ADVICE GAP IN RELATION TO PUBLIC ACCOUNTANTS

13.1 Introduction

In Chapter 12 the research data relating to the small business expert advice gap was analysed using statistical procedures. In this chapter content analysis is used to investigate respondents' comments relating to the small business expert advice gap.

13.2 Content Analysis of Respondent Comments

Research Objective 21

To content analyse respondent comments relating to the factors which inhibit the discharge of the public accountant's role causing a small business expert advice gap.

As discussed in Section 11.1 (p.177) respondent comments were obtained by the inclusion of two open-ended sections in the questionnaires, one seeking instances of dissatisfaction with public accountants' services and the other seeking general comments relevant to the interface between public accountants and small business. Respondent comments were divided into three categories, namely (1) role, (2) expert advice gap and (3) general issues.

This chapter examines those comments related to the second category, namely, expert advice gap. A total of 322 comments were made relating to small business expert advice gap factors. Each of these issues will be examined in the order set out in Figure 54 overleaf. The comments relating to each expert advice gap issue are reviewed in conjunction with the means of responses (presented in Chapter 12) in order to integrate the content analysis findings with the statistical analysis findings of the expert advice gap.

It should be noted at the outset that the results of the Kruskal-Wallis test on the expert advice gap, presented in Figure 49 (p.225), show that there are only two issues on which all three sample groups agree, namely, (1) small businesses would use more business advisory services if they had the funds to do so, and (2) public accountants do not make small business sufficiently aware of their business advisory services. In the other 26 gap issues the responses between the three sample groups are significantly different.

13.3 Public accountants' fees (54 comments - 17 percent of total)

The means of responses (presented in Figure 49) to the statement *Public accountants' fees are reasonable in relation to the level of expertise and competence they bring to small business clients* reveal that small business and third party respondents do not think that public accountants' fees are reasonable. On the other hand, public accountants believe that their fees are reasonable. With such a polarity in opinions it comes as no surprise to find that the content analysis, shown in Figure 54 overleaf, reveals that the question of fees evoked the most comments of all the small business expert advice gap issues. Fifty-four comments (17 percent of the total) relate to fees in general and a further seventeen comments (6 percent of the total) relate to whether clients would use more services if they could afford it (dealt with in Section 13.9, p.270).

Figure 54

Content Analysis of Comments Relating to the Small Business Expert Advice Gap

		No. of Comments	%
1	Public accountants' fees are reasonable in relation to their expertise	54	17
2	Public accountants provide high quality bus. adv. serv.	51	16
3	Public accountants provide a good range of bus. adv. serv.	33	11
4	Public accountants do not communicate well with small business	27	8
5	Public accountants too busy with tax to provide bus. adv. serv.	24	7
6	Public accountants have good inter-personal skills	20	6
7	Small business would use more bus. adv. serv. if had funds	17	6
8	Public accountants do not make clients aware of bus. adv. serv.	15	5
9	Small business wishes to use min. compliance services	10	3
10	Public accountants make few compliance mistakes	9	3
11	Public accountants should provide more bus. adv. serv.	8	2
12	Public accountants' bus. adv. serv. cost beneficial	7	2
13	Public accountants do not wish to supply bus. adv. serv.	7	2
14	Public accountants not well trained to provide bus. adv. serv.	7	2
15	Use of public accountant is threat to small business independence	6	2
16	Public accountants' compliance services cost-beneficial	4	1
17	Public accountants should provide non-accounting bus. adv. serv.	3	1
18	Lack of time prevents small business using public accountants	3	1
19	Small business does not have ability to utilise bus. adv. serv.	3	1
20	Small business does not implement public accountants' advice	3	1
21	Public accountants do not see need for small bus. adv. serv.	3	1
22	Small business does not acknowledge need for bus. adv. serv.	2	1
23	Public accountants are competent to provide bus. adv. serv.	2	1
24	Small business does not communicate well with public accountants	1	-
25	Small business does not see benefit of using bus. adv. serv.	1	-
26	Small business seeks help from public accountants when too late	1	-
27	Accounting profession should have bus. adv. serv. standards	1	-
28	Small business not at ease with public accountants	Nil	-
	TOTAL	322	100%

Almost a quarter of all comments relating to the small business expert advice gap relate to the issue of fees which can therefore be regarded as an area of major concern to respondents. In addition, many comments relating to other issues include reference to public accountants' fees which indicates that the issue of fees is also an important contributory factor to other gap issues.

Four themes are evident from the content analysis of comments relating to the fees issue:

- (1) Public accountants' fees are high (but not excessive) in relation to the turnover and profit of most small businesses
- (2) Public accountants overcharge small business clients
- (3) Public accountants put reward before service
- (4) Public accountants' fees are not itemised so there is no accountability for work performed

Each of these issues is discussed in the order set out above.

(1) Fees are high but not excessive

The comment that accountants' fees are high in relation to the turnover of most small businesses is a common one. A small business owner puts this issue in perspective thus: "The cost of the public accountant is far higher than the client's own charge out rate. This means that one hour's advice costs up to one day's profits". Letting the client see a range of services and associated costs may help, according to an electrical repair firm: "We are a small company but are afraid the cost of accounting advice may not be warranted. If we could choose from a menu or set of case study examples with costs attached it would help".

Public accountants are well aware of fee resistance on the part of small business clients. One accountant maintains that under the current economic conditions the main client problem is not the ability of the practitioner to do the work, but the ability of the client to pay for the services. Another accountant remarks that the difficulty in servicing the small business sector is the problem of client recognition of the extent of work done and fee justification. A public accountant states that some accounting practices have problems justifying their charges for small business consultancy in relation to the small size of their clients' turnover.

Awareness of the high cost of accountants' time can sometimes distract the attention of the client from the advice given by accountants in interviews. "Small business is more concerned about the cost factor of talking to the public accountant than the benefits and solutions that might be offered" (menswear retailer). "I think that I do not get enough advice but I always worry that the cost factor is ever present" (secondhand dealer). Not all small business clients are dissatisfied with the cost of their accountants' services. "I feel that I am getting my money's worth from my accountant. If I wish to use any other services that my accountant can provide then I must be prepared to pay a fair price for those extra services" (menswear retailer). "Accountants provide the services for which the customer is willing to pay. If you are aware of the services you can ask to use them but also need to expect to pay accordingly" (pharmacy).

A business consultant helps to put matters into perspective by pointing out that "Clients complain of high fees and of little discussion with public accountants. In fairness, most of these people are often slow payers and their records are a bit of a shambles".

(2) Public accountants overcharge their small business clients

Typical comments from small business respondents are "most public accountants overcharge"; "public accountants charge too much for the small amount of work

they seem to do" and "fees are too high for the service provided". One business consultant strongly criticises accountants for charging excessive fees as follows: "With the three companies I have worked with this year, their public accountants could only be described with one word - extortionists".

In some cases specific details are given to indicate perceived instances of overcharging; for example, a business consultant states that a client is charged \$1000 per month for a computer printout that would take less than two hours of a young clerk's time to produce. The allegation of overcharging is corroborated by a small business person who formerly worked in a public accountant's office who states that "public accountants' charges are quite unrealistic in relation to the work carried out." A bookseller remarks that "We cannot afford the luxury of an accountant. Our experience has been that accountants have largely priced themselves out of the reach of the small business person".

Another common complaint is that clients are overcharged in spite of doing a considerable part of the initial accounting preparation themselves. For example, an electrical appliance retailer maintains that "the fee is too high bearing in mind that we supply full and complete computerised records for the financial year".

One small business owner accuses accountants of charging according to what the market will bear rather than on a time basis. "Fees are too costly; my experience is that the more you turnover the more they charge you even if the amount of work stays the same". However, the reverse does not necessarily apply, for another small business owner comments that "as turnover declines, surely making less work for accountants, the cost does not come down".

In mitigation there does appear to be ignorance (or unwillingness) on the part of some small business owners to appreciate the extent of complexity of some of the work that accountants do. For example, comments are made of "high costs for a minimal return", that "public accountants tend to charge too much for

'merely' compliance services" and that public accountants charge exorbitant fees for mechanical services devoid of advice.

(3) Public accountants put reward before service

Perceptions of overcharging of clients are particularly serious as one of the hallmarks of a profession is the concept of service before reward. Many comments indicate that this concept is not evident in the relationship between public accountants and small business clients. "Public accountants are concerned for their fees, not for their clients" (soft furnishings retailer). "Public accountants are generally more interested in their own affairs and finances and it is hard for them to put proper effort towards clients" (chemical manufacturer). "They are more concerned about their own welfare than yours. Their first concern should be for the client as he is paying for the service" (construction firm).

The conflict between the professional and the business ethic within accounting practices is evident in the following two comments both made by business consultants; "public accountants have greater concern for their own growth than for their clients' progress" and "public accountants do only what they are paid to do and get more deeply involved only if they see opportunity for themselves personally.

(4) Fees are not itemised hence there is no accountability for work performed

Not only are public accountants' fees perceived by some small business clients and third parties as being high or even excessive but the computation of the fee amount is seldom explained. Typical comments are: "Extremely high fees for the work done and the bill is never itemised" (painter and decorator). "Accountants are too expensive and not explicit about value and content of work performed" (freight transport firm). "I cannot seem to relate fees charged to work done" (insurance broker). "We are charged \$100 per hour without any

tangible proof of work and certainly without any accountability" (bookseller). A small business client remarks that "public accountants say that they charge by the hour but few of them show hours worked and the charge per hour; most other businesses have to".

13.4 Quality of public accountants' business advisory services (51 comments - 16 percent of total)

The means of responses (presented in Figure 49) to the statement *Public accountants generally provide high quality business advisory services to small businesses* reveal that, on average, public accountants believe that they do provide high quality business advisory services. On the other hand, third parties believe that they do not provide high quality business advisory services, while the views of small business are almost evenly split on this issue.

The content analysis reveals that dissatisfaction relating to the quality of accountants' business advisory services can be divided into three categories:

- (1) Lack of practical business experience by public accountants
- (2) Production of poor-quality financing proposals by public accountants
- (3) Lack of marketing ability on the part of public accountants

(1) Lack of practical business experience by public accountants

One of the main reasons why public accountants are perceived by many third parties and small business owners as not supplying high quality business services is because "they have never been in business and are really only bookkeepers". Other typical comments in this vein are: "Public accountants do not know the

business because they have never had to operate a business in real life" (osteopath), and "The biggest problem with accountants providing business advisory services is that they know the theory but not the day-to-day running of the business" (smallgoods and bacon curing firm).

Business consultants similarly comment that public accountants have no commercial experience on which to draw; for example, "they have not been in business therefore cannot really empathise." A business development centre director regards public accountants as having very little 'hands-on' experience in running a business. The perception is that "public accountants are good at number crunching but lack the ability to see the whole picture". The following view of a business consultant is representative of third party comments:

In many cases accounting and business advisory services are chalk and cheese. Accounting is more or less an exact science whereas business advisory services is real-life oriented and cannot always be delivered by academics (sic). The advisor must have first-hand experience. This would disqualify many accountants that I have met and dealt with. Numbers are important but are not the be all and end all of small business ownership.

Not all public accountants are in disagreement with such sentiments; one states that "public accountants lack commercial experience, 'street fighting' ability, and marketing expertise". Perhaps not unsurprisingly, a business consultant claims that "Public accountants attempt to be all things to all people. They should focus more on their strengths and redirect clients to other business advisors for the appropriate expert advice". A small business owner remarks that "When public accountants attempt to act as business consultants they become distracted from their primary function - bookkeeping. As with most professionals they are not good businessmen and cannot give good advice".

One conclusion that can be drawn from the above comments is that running a professional accounting practice is seen by many small business people and third parties as being divorced from commercial reality and not providing business experience. The reason for this may be because public accountants' services to small business are dominated by government demanded compliance services rather than the more market-driven business advisory services.

(2) Production of poor-quality financing proposals by public accountants

Public accountants are often called upon to help small business clients to prepare financing proposals. The means of responses presented in Figure 38 indicate that small business and third parties do not regard the quality of accountants' financing proposals very highly. Some additional light is cast on this issue by a scrutiny of bankers' comments, for example:

With loan application data the accountant appears to have applied very little objective analysis. It appears that the bottom line answer that justifies the loan is all that is important. The volumes and increases, however erroneous, appear to have little weight.

A business consultant accuses public accountants of producing mechanical cash-flows, for example, dividing annual figures by twelve to arrive at monthly figures, with little attempt to inject reality into the forecasts. Such substandard performance is corroborated by another business consultant who states that "with cash-flows, public accountants appear often to start with the answer the client expects". This finding is in line with that of another banker: "Cash-flow forecasts and budgets are produced to what the customer wants, not what is achievable and practical".

(3) Lack of marketing ability on the part of public accountants

Figure 38 indicates that of all the functional skills, marketing is the one on which accountants are rated lowest. This view is supported by respondent comments such as "on marketing, public accountants should be locked outside the door" (real estate agent) and "public accountants do not always understand marketing in reality".

In more general terms, some small business owners accuse public accountants of often trying to show their expertise in areas such as marketing, consulting and personnel management which are outside their field. An extreme view of the inadequacy of public accountants as business advisors is evident in the comment that "advice from public bar patrons is wider than that given by public accountants" (waste management operator).

In view of the apparent shortage of business skills among public accountants, one small business commentator counsels, "If you get a good public accountant with good practical skills - keep him! (sports goods retailer). A butcher perhaps best captures the small business attitude regarding public accountants as business advisors in the statement that "good public accountants are competent to give business advisory services" thus implying that not all public accountants are competent enough to supply business advisory services.

13.5 Range of public accountants' business advisory services (33 comments - 11 percent of total)

The means of responses (presented in Figure 49) to the statement *Most public accountants provide an adequate range of business advisory services to suit the needs of their small business clients* reveal that the survey group, taken as a whole, agrees with this point. However, whereas, in general, public accountants

and small business owners agree that public accountants provide an adequate range of business advisory services, third parties disagree.

Two themes, both of which reinforce public accountants' lack of proactivity examined in Chapter 11, emerge from the content analysis of comments relating to this issue:

- (1) Some public accountants over-concentrate on compliance services
- (2) Public accountants are in a unique position to provide more than compliance services to small business clients

(1) Over-concentration on compliance services

Some public accountants are criticised for over-concentrating on compliance services to the detriment of business advisory services. A typical comment made by a banker is that "Many accountants are still only prepared to provide a bookkeeping service and keep the Inland Revenue Department happy. *Small businesses are starved for good advice, financial planning and management* [emphasis added]".

The existence of this expertise gap is referred to by another banker, "Small business owners rarely have financial skills and are generally wholly reliant on public accountants and financiers for assistance and advice. Generally just cursory assistance is given".

Public accountants are accused of over-concentrating on compliance services and ignoring the general financial position of the client. A banker comments, "They prepare accounts for the tax department and lenders but do not discuss the business in depth with customers. Many times I have seen customers' businesses deteriorate further (and customers lose out) because their accountant cannot analyse his own financial statements". Another banker remarks that "a poor or

deteriorating financial position, as revealed in the financial statements, is not highlighted to the small business client or targets set to reverse the trend".

Small practices may simply not have the range of ability among partners to offer a full range of compliance and business advisory services, for example a banker points out that:

In general small accounting firms with less than about six partners generally do not have the expertise to offer good in-depth business advice. They appear more concerned keeping records and avoiding tax to the extent that often the on-going viability of the business is threatened.

This view is supported by a member of the legal profession who states that "Some accountants make incredibly bad decisions by trying to maximise tax savings to the exclusion of sensible business decisions".

By default, bankers feel that they are forced to give advice to small business clients which should be part of the accountant's role, for example:

Usually the only contact by the accountant with the small business client is to tell them how much tax to pay. Very little if any advice is given on financial statement trends. This is usually left to the banker who has an investment in the business.

Once again the limitation of services to preparation of financial statements and tax returns is perceived to be due to the inability of clients to pay for more. A banker observes that:

Accountants do not involve themselves enough with small businesses. They only perform rather perfunctory number crunching exercises. In many cases analysis would be helpful for the client. (However, perhaps

this limited service is also a function of cost constraints imposed by the client).

(2) Public accountants are in a unique position to help small business clients

The special position of the public accountant in relation to the small business client is made clear in the following comment by a banker:

The accountant who prepares the financial statements is in a unique position. He must be prepared to discuss the resultant data and provide advice which suits the business (and not merely the taxation angle although this must play a part). Several of my business clients have negative equity as a result of poor advice by accountants seeking only to eliminate tax. This has led to some businesses going under, leaving the owner nothing to live for.

(Over-emphasis on tax minimisation is referred to in greater detail in Section 13.7, p.265).

Public accountants may often have vital financial information already to hand which they fail to utilise for the benefit of the client. A professional engineer comments:

The common problem with most small businesses is a lack of financial information which can be used as a management tool. One set of accounts on an annual basis, usually late, is of no value in running a business. Ideally, they should get simple trading results monthly. Most importantly they should be able to see if the business is generating cash, not just paper profit. The information is there, it just needs to be presented in a proper manner.

A consulting engineer observes that there is lack of analysis of final accounts and succinctly indicates the existence of an expert advice gap with the observation "*We operate in a vacuum* [emphasis added]." Several bankers take pains to point out the lack of analysis and interpretation of financial results and failure to volunteer advice with regard to non-viable businesses. A business consultant accuses public accountants of failing to draw to the attention of their clients trends which can be perceived from an intelligent study of successive years' financial statements. An enterprise board points out that some small towns lack competitive 'alternative' accountants leaving the local people to put up with a traditional (and by implication substandard) service. A small town garage owner goes so far as to declare that:

People in small business find it difficult to obtain information on basic financial management and planning. It would be good to be able to receive this help from a well trained accountant. This service is lacking in New Zealand in the accounting world.

13.6 Public accountants' communication skills (27 comments - 8 percent of total)

The means of responses (presented in Figure 49) to the statement *Most public accountants could do a lot more to communicate properly with their small business clients* reveal that, on average, support for this issue comes from all three groups, but is particularly strong from third parties. It is worthy of note that there is higher agreement with regard to this issue from public accountants than from small business.

Two themes emerge from the content analysis of comments relating to this issue:

- (1) The reluctance of public accountants to use language comprehensible to the layperson

(2) Lack of contact by public accountants with small business clients

(1) Use of non-comprehensible language

A common comment is that accountants do not use words that their clients can understand. A builder states "I find accountants hard to talk to; most of them do not speak in layman's terms" while a dentist complains of accountants' "lack of communication and failure to talk in layman's language". Business development centres are similarly dissatisfied with public accountants because of their inability to communicate in basic language to those who are unfamiliar with accounting jargon.

Accountants are particularly criticised for not explaining financial statement results to clients in easily understandable terms. An enterprise board director comments that "Some do not do enough to ensure that their clients understand in plain language what the financial statements reveal about the business". According to another enterprise board, if public accountants cannot communicate even in their area of supposed expertise, they will presumably have even greater difficulty in more specialised areas.

To compound the problem clients may not indicate that they do not understand the explanations and advice given by accountants. A garage owner remarks that "Public accountants often do not communicate well with clients when explaining the annual financial statements and as a result we often agree with something we know nothing about".

There are some indications that public accountants may overestimate the abilities of clients. "Public accountants expect you to understand things too quickly, they completely baffle me" (coffee shop proprietor). "Public accountants are often unable to communicate at client level; the client knows what he gets, but not why he needs it, or what it means" (business development centre).

Two comments, which by coincidence come from the same small town, reveal that there are both advantages and disadvantages associated with being a public accountant in a typical New Zealand rural town. "Public accountants are often part of the board of directors of a competitor firm in a small town which limits the amount of free discussion that I am prepared to have with them" (vehicle parts retailer). "Small business in small towns are able to communicate with public accountants probably because they know them; it might be different in a big town" (dairy operator).

(2) Lack of contact with clients

An important aspect of communication is the degree to which contact is maintained between public accountants and small business clients. Public accountants are criticised for having too many clients to have the time to care about individual ones, being unavailable for discussion and for having inflexible work hours. A chiropractor pointedly remarks, "It is easier to see my bank manager". The problem of accessibility can sometimes be critically important: "Public accountants take days to get back to you even when attempting to see them on urgent matters" (sports goods dealer).

Another common grievance is that if the small business client does not go to see the public accountant, they do not make an effort to visit the client. "We do not mind paying the fee if advice was given, or even if the accountant visited the shop premises once a year just to show interest in the client" (butcher). "They never call into our place of business. We have been with our accountants for approximately fifteen years and they have not set foot in our shop. It must be time for a change" (panel beaters).

If public accountants are to adequately serve the small business sector, good communication skills are essential. A firm of auto-electricians illustrates the role assumed by their accountant with regard to communication in the following comment: "Our present accountant taught us more in one hour than the previous

one in fifteen years. He told us that it is his duty to make us understand the answers to any questions we may have".

The general feeling on the issue of communication is summed up by a building contractor as follows, "More contact and communication is required in these changing times".

13.7 Balance of tax compliance and business advisory services work (24 comments - 7 percent of total)

The means of responses (presented in Figure 49) to the statement *Most public accountants are too busy with tax compliance work to be able to spend much time on business advisory services for small business* reveal that all three survey groups agree, on average, on this point. Public accountants, who presumably are in the best position to assess the accuracy of this statement, show the least support while third parties show most support. However, public accountants state that the main difficulty associated with supplying more business advisory services is lack of time, and the next main difficulty is lack of demand (see Figure 24, p.152).

Three themes are evident from the content analysis of comments relating to this issue:

- (1) Coping with rapidly changing tax legislation absorbs much of the public accountant's time
- (2) Lack of timeliness in preparation of financial statements and tax returns
- (3) Public accountants are so busy that they are not looking for more work

(1) Problem of coping with changing tax legislation

In the opinion of one banker, "In a lot of cases the accountant is too busy to devote much time to one individual, thus in the main only compliance services are provided. However, in turn the customer must be prepared to pay for additional services if requested".

A public accountant admits that "compliance services have become so demanding that it is difficult to apply adequate resources to other services". This view is corroborated by an enterprise board, "Most public accountants seem to want to provide more business advisory services to clients but are kept fully occupied learning and implementing the ever-increasing government changes to tax laws".

Small business clients have similar perceptions that accounting practices are dominated by tax work. For example, an electronic appliance retailer observes that:

Public accountants in general do not seem to have enough time left after doing the mundane tax and compliance requirements work to provide the positive benefits to small businesses of advisory and training services. Streamlining of the compliance side of the accounting practice would leave time available for the advisory work.

It should be noted that the tax compliance side of public accountants' work in New Zealand is being speeded-up by the use of direct electronic transfer of tax files to the Inland Revenue Department which should eliminate much costly form-filling.

The time pressures involved in coping with an ever-changing tax system is appreciated to some extent by small business clients and third parties. "Unless it is something really important I hesitate to approach my accountant as it seems like an intrusion on his busy job, although once contacted he seems to be willing

to help" (dental laboratory). "Most public accountants have the ability to provide a wide range of services, but their high work load means that they can give only the minimum required and affordable by clients" (business development centre). "Work pressures usually limit the time spent and therefore the effectiveness of the accountant's service in most areas outside annual accounts and compliance work" (business consultant).

The sheer volume of compliance work may mean that inadequate attention is given to other matters, "Public accountants are often too busy to really look and think in depth" (vehicle parts retailer).

(2) Tardiness in producing financial and tax statements

An adequate service must be timely as well as accurate. Analysis of comments reveals that some respondents criticise public accountants for a lack of timeliness in producing financial statements and tax returns. For example, a builder complains that March year-end accounts are not received until January of the following year. Another builder states that:

The firm we used for many years always left our annual accounts until the last possible moment, therefore we did not know until a year after the end of the year if the business had flourished (or otherwise). We have now changed accountants. Perhaps we should have done so years ago.

It appears that bankers also encounter the same problem of tardiness. There is mention of the poor attitude of public accountants to urgent requests from bankers for information to help clients and of the length of time taken to produce financial statements in acceptable format to support loan applications.

(3) Public accountants not looking for more work

Content analysis reveals that there is a perception among some small business people and third parties that public accountants simply do not want more business, which may account for the lack of marketing of their services. For example, "In some cases public accountants should force their involvement, but they are busy and often do not appear to be looking for more work" (fashion shop). This perception also applies to business development centres: "Public accountants are never looking for work as it is an uncompetitive industry". However, there are indications that this perception may be changing. One business consultant remarks that "things are improving, perhaps because accountants are generally looking for work nowadays".

13.8 Public accountants' interpersonal skills (20 comments - 6 percent of total)

The means of responses (presented in Figure 49) to the statement *Public accountants generally form good personal relationships with their small business clients* reveal that there is, on balance, strong support for this point of view from public accountants, rather less support from small businesses and minimal support from third parties. It appears that perhaps public accountants overestimate their ability in this area. The content analysis points out some areas where improvement could be effected.

(The proactive element of interpersonal skills has been discussed in Chapter 11, Sections 11.3 and 11.4, when dealing with the role of the public accountant in relation to small business clients.)

Two themes are evident from the content analysis of comments relating to this issue:

- (1) Lack of interest shown by public accountants in small business clients
- (2) As public accounting practices grow bigger it becomes more difficult to maintain good interpersonal relationships with small business clients

(1) Lack of interest shown in small business clients

The most common indication of dissatisfaction in relation to inter-personal skills is that public accountants show a lack of time and interest when dealing with small business clients. In this context a hairdresser remarks, "I feel as if the business is too small to be of interest to my public accountant, in spite of trading successfully for seventeen years".

Many commentators refer to the superior attention awarded to big business clients. "With big business clients it is one hundred percent contact, but with small business you feel as if you are wasting their time" (a menswear retailer).

Small business clients variously comment that accountants shun involvement at the personal level, appear remote, unapproachable, uncooperative and uninterested, are overbearing, and lack good customer skills. A banker remarks rather scathingly, "They still have to learn to get away from their aloof attitude and talk to their customers, that is, to learn their business".

Some public accountants are also perceived to lack good management skills in running their own practices which can be rather off-putting to small business clients seeking advice on how to improve management efficiency. For example, according to a small printing business operator, "My accountant is disorganised and does not know the meaning of deadlines; there is no commitment and very little help".

(2) Interpersonal relationships decline as practice size grows

Problems can develop as the accounting practice grows. A banker remarks that the bigger the firm, the more impersonal and intimidating it appears. Another banker refers to the difficulty of establishing and maintaining good client relationships as the accounting practice grows bigger:

I have met accountants who do get close to their customers and build a good relationship. They retain their customers over a longer period and gain as the business grows. Unfortunately, the bigger the practice, the greater the emphasis on billing by minutes of contact; this trend does not encourage relationships.

A respondent points out that perhaps not all public accountants will make good business advisors because, while technical skills are essential, clients must also feel at their ease and able to communicate their problems without holding back on information.

Problems associated with the effect of practice size on small business clients are dealt with at greater length in Chapter 14, Section 14.4.

13.9 Non-use of business advisory services caused by lack of funds (17 comments - 6 percent of total)

The means of responses (presented in Figure 49) to the statement *If small firms could afford it they would use public accountants business advisory services to a greater extent* and the Kruskal-Wallis test (presented in Figure 50) reveal that there are no significant differences between the three sample groups regarding this issue.

The theme evident from the content analysis of comments relating to this issue is that, given better financial resources or lower fees, small business clients would use accountants' business advisory services to a greater extent. The barrier to the greater use of public accountants' business advisory services therefore appears to be one of cost rather than competence. A finance company owner states that "The whole question is difficult in that I believe *public accountants could supply top-rate business advisory services but the average small business could not afford to pay the fees* [emphasis added]". Similarly, a leather goods manufacturer comments that "The fees charged by public accountants makes one hesitate to engage their time for advice which is not strictly in their line of expertise". The question of the high cost of fees relative to small business income is also raised by a service station owner who remarks that "Public accountants are expensive to use, cancelling out more frequent use of other than year-end compliance work". This leads one enterprise board director to conclude that "Accountants' fees are the biggest single barrier to increased use of their services" which agrees with the views expressed in Section 13.3.

Lack of financial resources on the part of many small businesses can lead to an incongruous situation where, in the opinion of one public accountant "those clients who need help most can afford it least". According to one enterprise board, by definition, a small business requiring assistance cannot afford to pay for it.

13.10 Public accountants do not adequately market their business advisory services (15 comments - 5 percent of total)

The means of responses (presented in Figure 49) to the statement *Public accountants do not make a sufficient effort to make small businesses aware of the full range of business advisory services that they are able to supply* and the

Kruskal-Wallis test (presented in Figure 50) reveal that there are no significant differences of opinion between the three survey groups regarding this point.

The main theme that emerges from the content analysis of the comments relating to this issue is that public accountants should market their services more effectively.

Although the lifting of restrictions on advertising by chartered accountants in New Zealand has resulted in more publicity for their services, public accountants still do not appear to be doing enough to make small business aware of their business advisory services. For example, a printing firm comments, "After fifteen years with the same firm we have never been made aware of the services available". A chemical company owner believes that public accountants' services should be better listed and described.

There is some doubt that public accountants in rural areas can offer a wide range of business advisory services. A garage owner comments, "I have no reason to believe that accounting firms in smallish country towns actually do supply a wide range of services. Mostly they do the annual accounts and tax returns and that's that".

Even when public accountants do try to keep their clients informed, their attempts are not always appreciated. For example, a landscape gardener remarks, "I suppose that I am a small fish in a big tank and therefore get minimal targeted information, although I do get their newsletter about imputation tax and so on, which does not concern me".

Comments emanating from both small business and third parties indicate some strong feelings that public accountants could, and should, do more to market their services. One consequence of public accountants not differentiating their services effectively is that small business owner-managers have difficulty in trying to identify which accountants provide the quality and type of services they

require. The proprietor of a wool shop succinctly states this dilemma: "Small business people cannot sort out the wheat from the chaff as to which accounting firms are good. Public accountants should advertise areas of industry specialisation if giving other than 'bean-counting' and tax services". The admonition that accountants should market their services more effectively is echoed by a banking respondent: "Marketing of public accountants' services is not of a high standard hence often small business operators are unaware of how accountants can assist or advise them". In a more pointed fashion a business consultants observes that: —

The market is full of "horror" stories of public accountants who gave their clients bad business advice (and overcharged them). What public accountants must do is to market themselves as providers of a range of business advisory services, provided at reasonable cost. The general perception of public accountants is still one of people who shut themselves away in an office, want to see clients only once a year and charge a fortune for their service.

As accountants receive a low rating as experts in marketing (see Figure 38) it is hardly surprising that they are criticised for marketing their own services poorly. Third party and small business respondents are particularly caustic in their comments as to the lack of marketing by public accountants. For example, an enterprise board maintains that public accountants are completely out of touch with their market, while a furniture shop owner remarks that "accountants need to polish their act and to market effective services".

In the opinion of a banker, public accountants need good public relations, a belief which finds ready agreement from a public accountant who states that "our public image (and maybe our self esteem) desperately needs improving".

Other Factors

The remaining 20 issues attracted less than 15 comments (5 percent) each and therefore can generally be deemed to be of relatively minor interest to respondents. Nevertheless, the results of the content analysis are reported as it is considered that the views expressed add insight and understanding to the results of the statistical analysis undertaken in Chapter 12 and, as discussed in Section 8.13, may indicate points of concern which, while not obviously important, may be symptomatic of deeper but as yet unrecognised problems.

13.11 Only minimal use of public accountants' services wanted (10 comments - 3 percent of total)

The means of responses (presented in Figure 49) to the statement *Most small businesses wish to use only the minimum amount of compliance services they can get away with* reveals that there is strong agreement among public accountants and third parties and moderate agreement from small business that small firms wish to use only the minimum of compliance services. It should be noted that the statistical analysis revealed that this issue is perceived as the most prime cause of the small business expert advice gap.

Two themes are evident from the content analysis of comments relating to this issue:

- (1) The main reason for the minimum use of public accountants' services is one of cost
- (2) Some public accountants wish to provide only a minimal compliance service

(1) Cost is the main constraint to further use of services

Cost appears to be the main reason for small business using the minimum of public accountants' services. As one banker states, "With the general decline in the New Zealand economy, small businesses are looking at all means to cut expenditure, of which accountants' fees form a significant part". This view is corroborated by another banker who remarks that small business margins are generally very tight especially for new start-ups so advice is regarded as a luxury not an investment. In the same vein a public accountant comments: "We have surveyed over half of our clients and in general they would like to use more of our time and services but cost is seen as a deterrent."

Some small business owners share the view that high charge-out rates preclude full use of public accountants' services. A service station owner states that "Accountants are basically too expensive to use for more than the absolutely necessary items. If a lower charge-out scale for less important items existed, small businesses would be encouraged to use a wider range of their services". Another garage proprietor points out that a large proportion of small businesses are family owned, work long hours for small returns, as a result the fees for accountants' services are looked at with suspicion.

(2) Some public accountants only wish to supply a minimal compliance service

Another reason for using only the inescapable minimum of accountants' services is the perception that accountants are not interested in supplying other services. For example, a professional engineer observes, "In general you get what you pay for. Most public accountants provide compliance services and have little knowledge or interest in their clients. However, most small business clients either cannot or will not pay for service. Generally it is management accounting information which is lacking".

A business development centre director points out that public accountants provide the level of service for which a client is prepared to pay. Because of the high rate of accountants' fees, clients are wary of using more services than they absolutely need so they use only what is needed to satisfy the Inland Revenue Department. Generally, in the opinion of one banker, small businesses will not pay a lot extra for advice even although it may have a very high payback.

13.12 Quality of public accountants' compliance services (9 comments - 3 percent of total)

The means of responses (presented in Figure 49) to the statement *Public accountants seldom make serious mistakes in the annual financial statements and tax returns they prepare for small business clients* reveal that all survey groups are in general agreement, with public accountants showing the highest support and third parties showing the least.

Two themes become apparent from the content analysis of this issue:

- (1) Mistakes are made in compliance work and may not always be recognised by small business clients
- (2) Public accountants are reluctant to accept responsibility when mistakes are made

(1) Mistakes are made in compliance services

While public accountants' compliance services are generally perceived to be of an adequate standard by respondents (as shown in Figure 38) nevertheless some mistakes do occur even if not always recognised by clients. A small business owner points out that:

Small business owners without any knowledge of accounting and tax are completely unaware of mistakes that are made by public accountants. Having worked in a public accounting practice I have seen it first hand. Juniors' work is not checked; thoroughness seems sadly to have disappeared.

The latter part of the above statement is supported by a banker who alleges that accounting partners delegate work to staff and do not thoroughly check for correctness. Analysis of comments from small business clients indicates concern about mistakes being made especially in tax. A lawyer attributes poor work to cost constraints which puts service quality under pressure.

(2) Public accountants reluctant to admit responsibility for mistakes

However, when mistakes come to light, public accountants are perceived by some to be reluctant to accept responsibility for allegedly defective work. An agricultural machinery dealer complains that when tax advice given by public accountants proved to be incorrect they did not accept responsibility. Another small business client points out that if penalties are incurred (presumably because of accountant error) they are passed on to the client.

In a more cynical vein a business consultant claims that most financial statements are based on fictitious information for which the public accountant denies responsibility in the form of a disclaimer.

13.13 Public accountants should concentrate on business advisory services to a greater extent (8 comments - 2 percent of total)

Comments made in connection with this issue to some extent reinforce those made in Section 13.5 that many public accountants tend to over-concentrate on compliance services.

The means of responses (presented in Figure 49) to the statement *Most public accountants should increase the proportion of their time spent on business advisory services to small business clients and decrease the time spent on compliance services* reveals that all three survey groups agree, on average, with this assertion. Third parties give the highest support which is reflected in the results of the content analysis. In the view of a business consultant, "public accountants focus too much on tax advice instead of 'meaty issues' such as productivity, profitability and marketing". Another business consultant is of the opinion that "public accountants' services are too financially orientated, they need a less blinkered approach".

Comments from small business respondents express the conviction that public accountants should be more than tax advisors who concentrate on tax avoidance rather than giving good business advice. For example, a sawmill proprietor states that there is too much emphasis on compliance services and not enough on assisting with financial growing pains.

13.14 The cost-benefit of public accountants' business advisory services (7 comments - 2 percent of total)

The means of responses (presented in Figure 49) to the statement *The benefits of using public accountants' business advisory services outweigh the costs* reveal that small businesses generally disagree, third parties are marginally in agreement whereas public accountants give fairly strong support.

In line with the statistical findings the main theme evident from the content analysis of comments relating to this issue is that small business commentators perceive accountants' business advisory services to be non cost-beneficial.

As indicated in Section 13.9, the main barrier to greater use of business advisory services is the cost involved. "We are happy with the services of our public

accountant, but it is not cost-effective to use all the services available" (aluminium joinery firm). "The majority of small businesses tend not to make proper use of advisory services because public accountants' fee structure tends to inhibit their use by small business" (management consultants).

The experiences of a public accountant supports the above comments of small businesses: "I have for a number of years attempted to undertake more management advisory services including budgets and cash-flow forecasts but the market in general perceives these to be too expensive". Another accountant states that a major factor restricting public accountants from supplying more business advisory services is the ability to convince small business owners that such services will eventually provide a payback.

Some third parties come to the same conclusion. For example, a banker is of the belief that "the cost-benefit trade-off is a significant factor inhibiting the depth of advice". Similarly, a business development centre states that "public accountants have a low cost-benefit image to small businesses strapped for cash especially where planning, budgeting and financial control are concerned".

13.15 The willingness of public accountants to supply business advisory services (7 comments - 2 percent of total)

The means of responses (presented in Figure 49) to the assertion *Public accountants are aware of the need of small business for more business advisory services but will not supply them* reveal that all three survey groups, on average, disagree with this statement, with public accountants disagreeing more strongly than small business and third parties.

Two themes emerge from the content analysis of comments relating to this issue:

- (1) Public accountants do wish to supply more business advisory services but perceive that small business cannot afford them
- (2) Some public accountants prefer to remain 'bean-counters'

(1) Public accountants do wish to supply more business advisory services

Once again the contentious issue is raised of the high cost of accountants' services relative to small business income. A toy manufacturer is of the opinion that public accountants appear reluctant to get involved in a consultancy role because it is too costly for small business. The connection between affordability of fees and degree of interest is made manifest in the following comment: "Obviously public accountants are not interested in small business because small business cannot afford high fees" (beach hire firm).

(2) Some accountants are only 'bean-counters'

Although respondents agree that, in general, public accountants do wish to supply business advisory services, there are strong perceptions that many only wish to provide compliance services, or, in the more pejorative term used by some respondents, to be 'bean-counters'. An estate agent remarks:

Public accountants appear to be disinterested in becoming more involved in management advice and are preoccupied with tax accounting. We accept that as a small business we can only go so far with a public accountant on all available services, but still feel they appear to prefer 'bean-counting' rather than involvement in current needs.

Just as many small business clients wish only to use the minimum of compliance services, some accountants appear to want to supply only the minimum of compliance services even although clients want more services. For example "My accountant only seems interested in compliance services, not in how the business could be improved" (electrician), and "Public accountants seldom want to offer business advice which is of any real assistance to the client" (business consultant).

Some accountants are made aware of the small business need for services other than compliance services but do not wish to supply the service. For example, a small business in the fishing industry comments that "no business advisory services were offered even when requested". On the other hand another small business owner remarks "Our public accountants would do more if asked, but we manage our own affairs". A trawler owner points out that opportunities not taken up by accountants may be filled by others:

I believe that accountants have left a small business gap as they wish to concentrate on big business and investment. Small business is neglected, brushed off and attended to once a year. This gap can be filled by others which would reduce the high fees.

13.16 Public accountants' training in business advisory services (7 comments - 2 percent of total)

The means of responses (presented in Figure 49) to the statement *Public accountants are not properly educated or trained to provide adequate business advisory services to small business clients* reveal that, on average, public accountants and small business do not feel that this statement is true. On the other hand third parties are of the opposite opinion. This is manifested in the following comment made by a business consultant:

Public accountants exceed the nature of their professional qualifications. Few public accountants know what is really involved in running a small business versus 'counting beans'. Too many public accountants are trying to be 'jacks of all trades' and are masters of few.

Typical of the comments made by small business with regard to this issue is that "public accountants do not have the qualified people or the time to do more than compliance services" (finance company).

Contrary to the general view of public accountants, one maintains that "the formal training of public accountants in relation to business advisory services is inadequate; most training is on the job and in-house".

Some respondents take the view that a combination of high costs and lack of commercial experience deter clients from using public accountants for business advice. "Public accountants do not have sufficient relevant experience to help most small businesses other than in a bookkeeping and annual accounts capacity. Costs and lack of time prohibit their useful further contribution" (hardware retailer). "Public accountants concentrate on 'doing the books'; most do not appear to be qualified to offer business advice, and fee structures make it prohibitive for small business" (banker).

13.17 The threat of public accountants to small business independence (6 comments - 2 percent of total).

The means of responses (presented in Figure 49) to the statement *Using a public accountant for business advice is seen as a threat to the independence of the small business owner-manager* reveal that there is disagreement by all three groups on this point, especially from public accountants. The content analysis of comments relating to this issue reveals that although there is a general feeling

that the small business person's independence is not compromised by using public accountants, nevertheless there is some foundation to the claim.

There is some substance to the notion that the independent stance of the small business person acts against the use of public accountants. In the opinion of a small business consultant "many small business managers feel that it is a sign of weakness to seek help; they often wait until it is receiver time". A small business owner states rather sweepingly that "small business people should not be in business if they need an accountant for the services listed". The ultimate independence of the small firms to decide their own affairs is emphasised by a small business owner who remarks, "I always listen carefully to accountants' opinions but always make the final decisions".

Rather than feeling that their independence is threatened some small business owners maintain that public accountants should be more involved in their clients' affairs. For example, a sawmill owner complains that "there is lack of involvement by public accountants in the day-to-day financial worries of the small business client" while a garage proprietor protests that "they have no financial obligations to the business".

13.18 The cost-benefit of public accountants' compliance services (4 comments - 1 percent of total)

The means of responses (presented in Figure 49) to the assertion *The benefits of using public accountant' compliance services outweigh the costs* reveal that, on average, public accountants agree more strongly with this statement than do third parties and small business.

Although the efficient supply of compliance services is one of the most important contributions that public accountants make to the small business sector, content analysis reveals that only four comments were made in connection with

this issue. The small number of comments can be interpreted as indicating general satisfaction with public accountants as providers of compliance services. This conclusion is in line with the means of responses results relating to quality presented in Figure 38.

Some small business clients are aware that paying an accountant to fulfil their tax and company reporting requirements probably costs less than doing it themselves (assuming that they had the requisite ability). For example, a jobbing carpenter maintains that "public accountants can save me time and money while I work" and a hairdresser states that "my public accountants probably save my fees in taxation reductions".

A public accountant expresses the difficulty of making clients appreciate the benefit of accountants' services as follows:

A continuing problem in providing service to small business is the barrier of fees when dealing with clients who are 'expense-oriented'. Value for money only becomes obvious with experience and it is hard to make the first breakthrough. The mentality of the very small business owner is also a problem as many have a 'me against the world' approach.

13.19 The provision of non-accounting business advisory services by public accountants (3 comments - 1 percent of total)

The means of responses (presented in Figure 49) to the statement *Providing they have competent, specialised staff, public accounting firms should offer such non-accounting services as marketing and personnel selection to provide a full range of business services to clients* reveal that third parties give the strongest support of the three survey groups for this issue. This finding is surprising in view of third parties' lukewarm support for public accountants in other areas,

Contrary to the findings of the statistical analysis, the three comments made on this issue tended to be against accountants supplying specialist services. For example a real estate agent remarks that "Public accountants should be confined to their field of expertise, 'bean-counting', and should not be allowed to become involved with other functions unless they have extensive experience in these fields". On a more specific basis a sawmill owner states that "marketing should be left to marketing experts".

13.20 Small business lacks the time to organise the use of accountants' services (3 comments - 1 percent of total)

The means of responses (presented in Figure 49) to the statement *Lack of time prevents most small firms from making greater use of the services of public accountants* reveal that small business respondents agree (very marginally) on this matter whereas public accountants and third parties disagree.

The few comments made on this issue by small business support the small business opinion that lack of time is a problem. For example, a carpet layer observes that many small business people do not make time to see their accountants then blame their accountants for problems and a consulting engineer comments that shortage of time does restrict the relationship and communications with public accountants.

13.21 The ability of small business to utilise business advisory services (3 comments - 1 percent of total)

The means of responses (presented in Figure 49) to the assertion *Most small firms do not have the ability to make effective use of business advisory services available from public accountants* reveal that opinions of respondents are, on average, evenly divided on this issue. For example small business owners

marginally agree that they do not have the ability to make effective use of accountants' business advisory services whereas public accountants and third parties marginally believe that they do have the requisite ability. These results indicate that small business owners may slightly under-rate their own ability or that, conversely, their abilities may be slightly over-rated by public accountants and third parties.

The issue of whether small business clients have the ability to make full use of accountants' business advisory services is summarised by a banker thus: "In a large majority of cases the annual financial statements are not explained by public accountants to clients. However, too many small business people do not have sufficient financial knowledge and are the victims of their own ignorance".

13.22 The implementation of advice received by small business (3 comments - 1 percent of total)

The means of responses (presented in Figure 49) to the statement *Small firms often do not implement the advice they receive from their public accountants* reveal that, on average, third parties and public accountants agree with this statement while the views of small business are almost evenly divided.

As third parties agree more strongly than accountants that advice received from public accountants is often not implemented by small business clients, it is worthwhile examining the reasons contained in respondent comments for this view. In the opinion of a banker "there is a wide range of willingness on the part of small business to accept advice". Somewhat more explicitly another banker points out that receiving advice is one thing, but having the necessary resources or willpower to put it into action is another:

In my experience many small businesses do not have a lot of management expertise but only have a specific skill. Small businesses

often seek advice when it is too late but also require continuing support. Such support is often not forthcoming so that the advice is not fully implemented.

Advice may not be acceptable because it is unpalatable to the small business owner. An industrial machinery dealer comments that "a person's nature cannot be easily changed, therefore the small business individual will find it hard to accept changes suggested by public accountants".

13.23 The recognition by public accountants of the small business need for business advisory services (3 comments - 1 percent of total)

The means of responses (presented in Figure 49) to the statement *Most public accountants do not appreciate the small business need for business advisory services* reveal that, on balance, public accountants disagree with this assertion whereas small business and third parties agree with it.

Business consultants criticise public accountants for not referring clients to other experts in cases where public accountants cannot provide assistance themselves. One business consultant states that "Public accountants generally approach businesses from a financial and numbers point of view which can be expected, but they do not appreciate the significance of other business parameters".

Another business consultant is of the opinion that public accountants are not sufficiently aware of the small business need for non-accounting services, and asserts that, as accountants are not qualified to advise on wider business issues, they must recognise the need to advise their clients to seek specialist assistance from other appropriate experts.

13.24 Remaining expert advice gap factors

Only eight comments (2 percent of the total) relate to the seven remaining expert advice gap factors (items 22 to 28 in Figure 13.1). The small number of comments is interpreted as indicating that these issues are non-controversial. However, three comments are worthy of note.

With respect to the assertion that small business does not acknowledge the need for more business advisory services, a small business owner remarks, "Most small businesses need to use public accountants for more business advice but find their costs too expensive."

The suggestion that small business owners do not communicate well with their public accountants evoked only one comment (in contrast to the large number of comments made in Section 13.6 on the ability of accountants to communicate with their clients). A garage owner stated that "most small business clients are not direct enough with their accountants." It appears that the expectation is on the accountant, as the professional expert, to communicate with the layperson, who, by the very nature of the professional-client relationship, will be relatively ignorant (regardless of what other skills they may have) in the accountant's area of expertise and thus not always able to articulate needs. In many cases all that is known by the layperson is that a problem exists, or is suspected, and that a public accountant may be able to help.

On the issue of whether small firms tend to seek help from their public accountants when it is too late to solve the problem a banker remarks:

The problem with a lot of small businesses is that they have a negative attitude to accountants, regarding them as a necessary evil and resenting their fees. Therefore they ask for only the basics. In many cases advice is asked for too late, further compounding the negativity.

13.25 Summary and Conclusions

Respondent comments were content analysed for each expert advice gap factor in the light of the means of response results discussed in Chapter 12.

The content analysis of respondent comments indicates that the main issues causing concern are public accountants' fees, the range and quality of their business advisory services and their communications skills.

Fees

The high level of fees is one of the most intractable obstacles to reducing the expert advice gap between public accountants and small business clients. Public accountants regard their fees as reasonable while small business and third parties see them as unreasonable and even, in some cases, exorbitant. Ironically, public accountants are accused of a lack of accountability for not itemising their bills to clients which further compounds the perception of excessive charging.

This situation provides an obvious challenge for public accountants to find ways of lowering fees through greater productivity probably by greater use of technology. Public accountants must also be more open about the way in which they arrive at fees amount by itemising their bills.

A cause and effect syndrome is apparent in the comments relating to the degree to which accountants are enthusiastic about supplying business advisory services. Because of the inability of many small businesses to afford the high level of accountants' fees, accountants are perceived as being uninterested in small business. This raises the question of the extent to which the practice of public accountancy is an altruistic vocation which puts service above reward, or merely a business which seeks to make a profit whenever and wherever it can.

Range and quality of business advisory services

Public accountants are sometimes criticised for over-concentrating on compliance services. In particular, attempts to minimise tax can have a detrimental effect on other aspects of the business. Some commentators perceive public accountants as doing well to keep up with tax legislation but often at the cost of being too busy to supply business advisory services. There are some indications that preparation of financial statements is not as prompt as it should be and of some practices being badly organised. Although only 40 percent of small business respondents use public accountants to analyse their financial statements, public accountants are censured for not supplying this service and for failing to warn clients of deteriorating trends. Some commentators feel that public accountants cannot provide good quality business advice because they lack practical business experience. Running an accounting practice is obviously not regarded by many commentators as providing the requisite degree of business experience. On a more specific basis some bankers comment on the poor quality of financing proposals prepared by public accountants.

Communication skills

All three groups of respondents, including public accountants themselves, believe that public accountants could improve their communications skills. Respondent comments indicate that public accountants should make greater use of language comprehensible to laypeople and ensure that clients understand what is being said to them. Some small business clients would appreciate at least an occasional visit from their accountant at their place of work. The perception of some small business clients is that their public accountants are not interested in them simply because they are small. This problem can worsen as accounting practices grow in size. Public accountants therefore must make their small business clients feel just as valued to the practice as larger clients.

There are indications that public accountants should differentiate and market their services more effectively as some small business clients who wish to use more business advisory services find it difficult to identify those public accountants who wish to supply such services.

The next chapter examines the content analysis of general issues relating to the interface between public accountants and their small business clients.

CHAPTER 14

CONTENT ANALYSIS OF GENERAL ISSUES RELATING TO THE INTERFACE BETWEEN PUBLIC ACCOUNTANTS AND SMALL BUSINESS CLIENTS

14.1 Introduction

As discussed in Chapter 11 respondent comments derived from the two open-ended sections of the questionnaires were, in the first instance, content analysed into one of the eleven 'role' categories or one of the 28 'expert advice gap' categories. For those issues which were relevant to the relationship between public accountants and small business clients, but which did not fit into either of these two pre-established frameworks, a third category was introduced entitled 'general issues'. In this chapter content analysis is used to examine these general issues relating to the interface between public accountants and their small business clients.

14.2 Content Analysis of Respondents' Comments Relating to General Issues

Research Objective 22

To content analyse respondent comments relating to general issues affecting the interface between small business and public accountants

A total of 83 comments were made on general issues concerning the public accountants and small business clients. These comments were content analysed into nine categories presented in Figure 55 overleaf. These categories are not ranked in order of frequency but are arranged so as to progress in a logical way from the mutual dependence of public accountants and small business clients to events causing small business clients to change their public accountants.

14.3 The interdependence of public accountants and small business clients (5 comments - 6 percent of total)

Public accountants exist as an occupational group by serving the needs of a clientele. It is therefore axiomatic that, just as clients depend on public accountants to help them solve problems of moment, then public accountants depend on clients for problems to solve and thus earn their livelihood. A public accountant states:

I am a small practice but am deeply aware that if my clients are successful then my practice will grow. Most of my clients come to me almost in dire straits and most problems would have been avoided if a professional advisor had rolled up his sleeves and got involved in the business; there is an obsession to recover fees at exorbitant rates.

Some small business owners believe that accountants do not pay sufficient attention to the interdependent nature of their relationship. A specialised waste firm operator declares:

Many public accountants treat you as a means to an end (increasing their income) not as a business they should get

involved in and nurture, but only by doing so will you and they be around at the end of the day.

Similarly, a dentist states that "public accountants could become more involved in clients' businesses with mutual benefits".

Figure 55

Content Analysis of Comments Relating to General Issues

		No of Comments	%
1	The mutual dependence of public accountants and small business clients	5	6
2	Public accounting practice issues affecting small business clients	26	32
3	The variability of public accountant's competence	11	13
4	The potential legal liability of public accountants for wrongful advice	4	5
5	Public accountants should provide only compliance services	9	11
6	Public accountants should provide both compliance and business advisory services	6	7
7	Factors causing small business to retain their public accountants	6	7
8	Factors causing small business to change their public accountants	12	14
9	General comments	4	5
		83	100%

14.4 Public accounting practice issues affecting small business clients (26 comments - 32 percent of total)

Two themes emerge from the content analysis of comments relating to the nature of public accounting practices in relation to small business clients:

- (1) The question as to whether small or large accounting practices provide the better service to small business
- (2) The relationship between accounting practice staff and small business clients

(1) Small versus large accounting practices

The term public accounting practice encompasses a wide range of firm sizes, from sole practitioners to large multi-branch international firms. Analysis of comments reveals a variety of views as to whether small business clients are better served by small or large public accounting practices.

An enterprise board comments that accounting practices are not single entities with common characteristics. There are differences between large and small accountancy firms which makes generalisation dangerous. The main problem is to get small businesses to find the right accountant for their particular type of business regardless of the size of the accounting practice.

A small business owner remarks that large international firms are not interested in small business and that small local accounting practices provide a much better service. The level of fees of large international firms is often regarded as very high by small business operators. One reason for this is that some small business clients believe that they deal with junior staff at the same

high rate as for partners. One way that public accountants can avoid this problem is to itemise their bills showing the grade of the staff member doing the work and the charge out rate.

Some small business clients find difficulty in obtaining direct personal contact when dealing with large accountancy firms. Another concern is that the small business client may just become a number after a time with the same firm, especially if the firm is large. The concentration of accounting firms into larger units is not always perceived as being beneficial to small business clients. "As accounting firms have merged, costs seem to have increased, but the service and availability of public accountants has declined" (computer consultant). One reason for increased fees is the cost of office premises. Some small business clients take exception to the up-market nature of the premises which many of the bigger accounting firms now occupy. "Our present accountants are good, but the offices of the previous ones became more palatial and the work was handled by ever-changing junior staff" (sporting goods retailer). A business consultant in one of the main urban centres warns that public accountants in expensive premises may be off-putting to small business clients.

In defence, the partner of a large accounting practice states that in general the national and international accountancy firms are better placed to provide a more accurate and comprehensive service to small, medium and large clients alike.

On the other hand, the partner of a small accounting firm maintains that small practices relate better to small clients, both in compliance and business advisory services. This is corroborated by a garage owner who states that "Our public accountants' performance has increased greatly since they demerged from an international firm and much more genuine interest is now shown". Other respondents criticise small accounting practices for having a low level of business awareness.

In relation to the debate on small versus large practices, a business consultant perceives that a paradoxical state exists whereby "small accounting firms are too busy with tax, but large firms are too expensive". Similarly an enterprise board alludes to a problematical situation where large accountancy firms are seen as being too specialised and too expensive for small business while small accountancy firms are perceived as bookkeepers rather than financial advisors.

(2) The relationship between accounting practice staff and small business clients

High staff turnover of accounting staff sometimes presents problems for small business clients. For example, a storage firm complains that "junior staff are constantly changing and new staff are relearning my business in my time at my expense". Questions as to the quality of staff also arise. A consultant surgeon remarks that "there are no problems if partners handle matters, however, if work is delegated problems increase exponentially in relation to experience". Availability of partners is also important. A secondhand dealer comments that "you do not always get the partner you want" while a dentist complains of being shunted between staff members as partners move up the firm.

4.5 The variability of public accountants' competence (11 comments - 13 percent of total)

The purpose of having professional examinations, standards and guidelines is to try to ensure that, at a minimum, all members of the profession provide an adequate quality of service. Within any profession there will always be a range of abilities and specialisations, but the essential point is that the minimum standard of service should be an acceptable standard. If this

standard cannot be reached, then the practitioner should decline the service or, better still, refer the client to another expert.

Bankers are in a useful position to assess the quality of certain aspects of public accountants' work such as financial statements, loan proposals and business plans. According to one banker, some public accountants are good performers but many are bad. Bankers' comments indicate that there is a wide variance in the quality of public accountants' services, for example, "like most areas there are the good and the bad"; "the abilities of public accountants vary so much"; "there is a wide range of competence in professional advisors" and "standards differ from accountant to accountant". The polarisation of public accountants' perceived performance is clearly revealed by a banker who admits to having a list of 'duds' but also a list of first class public accountants.

It is important for small business people to find the accounting firm that best suits their needs. Bankers can be influential in helping small businesses differentiate traditional compliance accountants from ones with a proactive business approach, for example:

Having been in business myself I originally approached a large firm and felt that they were too interested in the big client companies to be bothered with a sole trader. I then approached a small one-man practice and received excellent support. As a banker you weed out who the number accountants are and who the reliable practical ones are.

A public accountant agrees with bankers that the quality of some accountants' services is not of an acceptable professional standard:

My practice specialises in small business clients and in my opinion most accounting firms abuse small clients. They not only cause

damage to this firm and often stop clients prospering but they also miss out on a way to significantly increase their fee base. Large and small public accounting firms have either badly treated clients or totally ignored clients with great potential. What is worse is that often such public accounting firms think that they are doing a good job.

A top dressing aviation firm believes that the ability of public accountants varies considerably. "Public accountants are like all other professional people - hopeless 10 percent, beancounters 89 percent, and worth paying 1 percent, in other words some are hopeless, most do their jobs and a very few are excellent".

14.6 Potential legal liability for wrongful advice (4 comments - 5 percent of total)

A possible reason for public accountants devoting more attention to compliance services than to business advisory services is the risk of legal liability if the business advice fails to live up to expectations. No comments were made by public accountants on this issue which implies that, unlike the litigation-prone auditing sector of public accounting, legal liability is not yet seen as a major deterrent to the provision of business advisory services. However, several comments were made by small business owners which indicated a lack of appreciation of the duty of care public accountants have as professional people. For example, the owner of an engineering firm states:

After ten years trading and constant growth I feel that I am still desperately short of cost-effective advice and directorship. Public accountants withhold advice because they fear retribution should

it fail. I have been making my mistakes for ages and would welcome someone to help me make a few more.

A roofing contractor complains, somewhat ingenuously, that "public accountants' service should be less costly as it is only advice and no risk to the public accountant".

Public accountants' liability disclaimers on financial statements are resented by some small business clients who see it as an abrogation of responsibility and accountability. In defence, an accountant points out that "public accountants suffer from the age old problem of being the scapegoats when things go wrong".

14.7 Public accountants should provide only compliance services (9 comments - 11 percent of total)

Some commentators believe that public accountants should not go beyond the provision of compliance services. While public accountants are good at their traditional tasks, they are not regarded by some as having the requisite skills to provide business advisory services. A food manufacturer comments that "Public accountants have little appreciation of the dynamics of business but are good at managing the numbers relating to the tax returns and financial statements". A printer tersely dismisses accountants with the comment that "they are bookkeepers and must always remain so". Other opinions are equally negative, for example, "I have no confidence in accountants to do more than compliance work" (jeweller), and "my only praise for accountants is their ability to absorb tax changes" (take-away operator).

Warnings are given that accountants run into difficulties when they move beyond their traditional core area of expertise. A lawyer points out that:

The accounting analysis and advice of public accountants is adequate. It is when accountants try to do things other than accounting that mistakes are made. Historical record keeping is more than adequate, speculating on future happenings in business has often been found to be totally inadequate. Nobody is perfect, but accountants should not try to hold themselves out as having *dual* expertise.

This raises the question as to the extent to which accountants should provide both compliance and business advisory services. A business consultant draws an analogy with the medical profession:

Just as medical general practitioners are not specialists so too accountants are not business advisors. They are trying to enter what they believe is a lucrative market which could in the longer term give them more clients and in turn greater influence and income. They do not seem to have learned that they should stick to their core activities.

Business consultants compete with public accountants for small business clients, so their remarks should be treated with a certain degree of caution. It must also be appreciated that some business consultants may themselves be minimally qualified to provide advice to small business clients, a weakness which is appreciated by at least one of their number:

To ever suggest that a public accountant is competent to provide general business advice other than compliance services and accounting advice is ludicrous. Most accountants are spread too thinly already and there is more than a fair share of minimally qualified 'cowboys' passing themselves as experts and consultants. In short, accountants should stick to their knitting.

A caution is given that acting as business advisors may demand inter-personal skills which some public accountants may lack. Not unexpectedly, some business consultants advocate that accountants who lack the expertise to provide an adequate standard of business advisory services should refer clients to other people who do have such skills, for example:

The basic difficulty is that not everybody is suited to provide all the business advisory needs that a small business requires. Many accountants accept a brief to assist clients without having the personality, training or experience to complete the project with excellence. Sometimes accountants would serve their clients better if they were always truly impartial and refer clients elsewhere if they do not have the ability to provide excellence of service.

A business advisor remarks that public accountants and business consultants should work in tandem to ensure that small business receives the best advice possible:

Accountants as business advisors are out of their field just as business advisors are when trying to be accountants. Each to their own. Competent business advisors and accountants should work together for the benefit of clients.

14.8 Public accountants should provide both compliance and business advisory services (6 comments - 7 percent of total)

Content analysis reveals that public accountants are perceived as falling into two categories, (1) traditional number crunchers or 'bean counters' and (2) proactive business advisors. A public accountants states:

Those accountants who take an active interest in their clients and provide a competent advisory service will inherit many clients from traditional practitioners who do not provide the service many clients are seeking.

There are some indications that traditional accountants are no longer fulfilling the role expected of accountants. For example a banker remarks "I would generally classify public accountants as bookkeepers who provide a set of financial statements with little additional assistance given". An enterprise board sees the public accountants' work falling into two spheres:

The accounting profession is in need of a massive shake-up. They should introduce a two-tier system of qualification if they are serious about their professional standing; tier one, bookkeeping (99 percent of public accountants are qualified only to this level) and tier two, business advisors.

Another banker goes so far as to say, "I do not feel that the majority deserve to use the term 'accountant'. They are adequate for bookkeeping and filing tax returns but are happy to finish at that point without explaining and discussing results with the client".

14.9 The reasons for small business clients retaining their public accountants (6 comments - 7 percent of total)

Some small business commentators were explicit as to why they retained their accountants. Two themes emerge from the content analysis of comments:

1. A personal interest is taken in the client by the public accountant

2. There is good communication between public accountant and client

Personal interest on the part of the public accountant appears to be an important ingredient in ensuring client loyalty. "My accountant gave me help and encouragement when the business started and has taken the trouble to get to know me" (musical instrument dealer). "I am quite happy with my accountant; personal interest and involvement are good" (metal joinery firm). "We have had an excellent accountant with a strong interest in our business; that is why we stay with him" (specialised waste firm).

Good communication is another valuable element in retaining clients. "My accountant is a sole operator whom I believe provides my company with excellent service. He communicates well and is always available; other services are always offered" (vehicle parts dealer). "I have a top man for an accountant and we relate extremely well on all business and financial matters. Although expensive I find value for money" (butcher).

Sometimes custom is retained only because certain advantages are seen to outweigh such disadvantages as high fees and tardy service:

My accountants' services are too expensive for me to use as often as I may wish. I have often found the end of year returns much too slow for the state of accounts I present. I do not like changing professional advisors. I have two companies and a farm so I stay with the practice because they have specialists in all areas (hairdresser).

In some instances only long-established links bind clients to a particular accounting practice. "Our accounting firm has enlarged through a merger with overseas interests and now provides more services than we need or want.

Personal loyalty keeps us with them although we would prefer to be associated with a smaller local firm" (dentist).

Occasionally small business clients do appreciate the difficult nature of the public accountants' work. "Overall I am satisfied with my public accountant taking into account the dramatic tax changes in the past six years and the increased number of tax deadlines" (floorsanding firm).

14.10

Factors causing small business clients to change their public accountants (12 comments - 14 percent)

In giving reasons for dissatisfaction with public accountants' services respondents give instances of the point being reached where clients decide to change their public accountants.

Not unsurprisingly, in view of the difficult economic conditions confronting small business, high fees is one of the principal reasons stated by small business clients for changing accountants. For example, "We have changed accountants, now fees are halved for the same service" (yacht charter firm); and "We were dissatisfied with the high level of charges, especially with 'Big 5' firms so we moved to a smaller firm with lower overheads" (personnel agency).

In other cases the issue of high fees is only one of a number of factors which combine to precipitate the decision to change accountants. "We are pleased with our present accountant but have been disappointed with several in the past due to slowness, lack of attention to detail, excessive charging and general lack of interest" (electrician).

The issue of the degree of interest in the client's business is regarded as highly important and can be a deciding factor in retaining an accountant. "I

changed my accountant because he showed no interest in my business apart from tax preparation" (panel beater).

Accounting firms sometimes go through stages of growth which may have a significant effect on the client base they wish to attract or retain. As a bricklayer points out:

From experience a public accountant whose practice has grown becomes less interested in small business clients and in forming personal relationships and starts to prefer dealing with larger businesses. Fees also increase at the same time that the practice expands. I now use the services of an accountant working on his own.

Some clients feel that they have to change accountants to obtain the business advisory services needed for survival: "We have changed accountants to get more frequent statements to combat the rapidly changing business world" (service station).

Some small business operators take the rather extreme view that no accountant can provide a service suitable to their needs. "Public accountants are not helpful, but there is no point in changing as they are all the same" (sawmill owner). Even more scathingly a printer comments that:

Accountants are barnacles on the backside of progress. If we treated our customers the way accountants treated theirs we would have been history years ago. They do not know the meaning of service. The problem is if you try to change accountants you find the next one is as bad.

This view appears to be ill-founded because, as Figure 36 (p.202) shows, there are a range of accounting practices with different skills just as there are

a range of small businesses with different needs. The quality of public accountants' compliance and accounting related business advisory services are perceived, on average, to be adequate (as presented in Figure 38, p.208). It should therefore be possible, at least in the larger centres, for small business clients to change accountants if they believe that they are receiving a poor services or if the 'personal chemistry' between client and accountant is not good.

14.11 Final Points (4 comments - 5 percent of total)

One small business retailer astutely remarked "The questions indicate the seeking of a perfect service in an imperfect world". To a certain extent this is true as the ultimate goal of any profession is to completely meet the needs of society in those areas where its expertise can be of service. However, as pointed out by the above small business commentator, that whatever the ideal aim, the perfect matching of needs (or problems) with resources (or solutions) can never take place in practice because needs are not always recognised, resources are not infinite and human knowledge imperfect. The aim of the research study has therefore been to identify those areas where the performance of public accountants falls short of role-sender expectations so that corrective action can be taken to narrow the gap between small business needs and public accountants' services.

The aim of the accounting profession is to meet the needs of small business as effectively and efficiently as possible by continually seeking to improve its service to clients. This research attempts to identify areas where the performance of accountants could be improved by seeking the perceptions of not only small business clients and public accountants but also third parties. The precaution of eliciting a wide range of views was considered necessary for the following reason pointed out by a public accountant:

It is very difficult to get a balanced view of the accountant's actual and perceived role [from a questionnaire] being answered by an accountant or business advisor. *Many questions will be answered in defence rather than truth* [emphasis added]. I trust that you are getting other people such as bankers to complete the questionnaire that might enable a balanced view to be obtained.

By obtaining the views of small business, bankers and business consultants in addition to public accountants, a comprehensive picture of the relationship between public accountants and their small business clients has been constructed.

14.12 Summary and Conclusions

Content analysis was undertaken of respondent comments relating to general issues affecting the interface between public accountants and small business clients. The most important issues were identified as the interdependence of public accountants and small business clients, potential legal liability, small versus large practice size, the variability of accountants' expertise, their ability to provide business advisory services and reasons for changing or retaining accountants.

Of particular importance is the perception that accountants fall into two categories, (1) traditional reactive 'beancounters' and (2) proactive business advisors. There are signs that, while most small businesses still require traditional compliance services, there is a growing expectation that public accountants should advise on a wider range of general business matters to help small business clients cope with an increasingly competitive economic environment. As most small business clients are very fee sensitive, such an enhanced service can probably only be made possible by public accountants

becoming more productive and by small business being more convinced of the cost-benefit of using business advisory services.

With respect to the variability of public accountants' performance, the New Zealand Society of Accountants has over the last few years instituted a system of compulsory practice reviews for chartered accountants in public practice in order to try to reduce the more blatant cases of poor quality work.

The next chapter contains the overall summary and conclusions of the research study.

CHAPTER 15

SUMMARY AND CONCLUSIONS

15.1 Introduction

In this final chapter the contents of the study are summarised, the unique attributes of the research stated, the research findings reviewed and opportunities for further research identified.

15.2 Summary of the Research Study

In Chapter 1 an overview of the research study is given and the rationale for the existence of the study presented. This is followed by a statement of the research aims and specific objectives. Scope limitations set the parameters of the study.

The small business need for external expert advice especially in the area of tax compliance and financial control is examined in Chapter 2. The world in general, and New Zealand in particular, is in a state of rapid economic change with greater emphasis on competition and entrepreneurship. The small business sector typically has a very high failure rate. Small firms therefore must have effective business management to enhance the chances of survival.

Small firm owner-managers tend to be skilled in only one or two of the many functional skills needed to run a business. They therefore often require assistance from external experts. This is especially true in the area of compliance services and, to a lesser extent, of business advisory services.

The role of public accountants as expert advisors to small business is dealt with in Chapter 3. Public accountants' services are determined by the role which role-senders expect them to perform and by how accurately and quickly they adapt to society's changing demands. Public accountants have developed expertise to supply compliance services in response to the small business need to meet legally demanded company reporting and tax requirements. Mainly because of this contact, public accountants are well placed to also provide a range of business advisory services needed by small business clients to improve the management efficiency of their business. However, public accountants have been criticised for continuing to over-concentrate on traditional compliance services and for neglecting the growing need of small business for business advisory services.

In Chapter 4 the possibility of a gap between small business expert advice needs and public accountants' services is explored. There is little indication in the literature that public accountants are failing to meet the needs of small business in the area of compliance services. However, many small firms appear to be unwilling or unable to use public accountants' business advisory services in spite of an apparent need. That public accountants' business advisory services are less used than compliance services appears to be due to two reasons. Firstly, small business owner-managers only use public accountants' compliance services in the first instance because they have virtually no choice. Where there is an element of choice, public accountants' services are used less frequently. Secondly, public accountants are not generally perceived as providers of business advisory services. It appears that the further public accountants go from their core areas of accounting and tax services, the more they have to persuade small firms that they truly have the

competence to supply these services. This raises the issue of whether the gap between supply and demand for public accountants' business advisory services arises because public accountants do not want to, or cannot, supply these services or because small firms do not need them, do not want them, cannot afford them, cannot ask for them or do not understand the benefits of using them.

Based on deductive reasoning a tentative conceptual framework was devised in Chapter 5 which identifies the most probable factors which prevent public accountants from meeting the needs of small business, the result of which is a small business expert advice gap. The existence of such a gap appears to be due to factors attributable to both accountants and to small business.

In Chapters 6 and 7 the results of a literature review are presented which sought evidence supporting or opposing the potential expert advice gap factors attributable to small business and public accountants, as set out in the conceptual framework. This review revealed that there is a lack of empirical research in New Zealand on the role of public accountants in relation to small business and on factors inhibiting the discharge of that role. To correct this omission it was therefore decided to undertake this empirical research study.

In Chapter 8 the empirical research methodology is presented. The selection of the population to be sampled, namely small business, public accountants and third parties, is discussed. The mail questionnaire data collection method was chosen because of its advantage of low cost in relation to extent of geographical coverage. The questionnaire design for each of the three sample groups is outlined and the pilot study to test its acceptability explained. Questionnaires were dispatched in February 1991 and were followed by up to two reminder letters where necessary. The survey achieved very high usable response rates for this type of research, being 79 percent for third parties, 68 percent for public accountants and 63 percent for small business.

The data abstracted from the questionnaires were analysed using statistical procedures and content analysis.

In Chapter 9 the demographic and other descriptive data relating to the three sample groups is presented. This is followed in Chapter 10 by the statistical analysis of sample group responses on the role of public accountants in relation to small business. Eleven role-functions were specified in the questionnaire. Perceptions of role-sender groups of the actual and expected role-functions of public accountants were ascertained by calculating means of responses. Kruskal-Wallis tests were used to indicate the existence of significant differences in perceptions between, and within, role-sender groups. The Scheffé test was used to locate between which pairs of role-sender groups significant differences occurred. The paired sample *t* test was used to compare responses relating to the actual and expected role-functions of public accountants.

The content analysis of respondents' comments relating to the role of public accountants in relation to small business is discussed in Chapter 11. The 97 statements concerning role were content-analysed using the framework of eleven role-functions developed in the questionnaire. The salient point revealed by the content analysis of role issues is the expectation that public accountants should be more proactive in their dealings with small business clients.

Chapter 12 deals with the statistical analysis of sample group responses relating to the services provided by public accountants, the extent to which these services are used by small business, the quality of these services, the strengths, weaknesses and small business expectations of public accountants as business advisors and the factors causing an expert advice gap. The data were analysed using means of responses, frequency percentages, the Kruskal-Wallis test, the Scheffé test and factor analysis. The main gap factor is the

small business wish to use only the minimum of public accountants' services, a position caused principally by lack of funds.

In Chapter 13 the content analysis of the 322 respondent comments relating to the expert advice gap is presented. These 322 statements were classified according to the 28 expert advice gap factors established in the conceptual framework and incorporated in the questionnaire. The principal areas of respondent concern revealed by the content analysis relate to fees, the quality and range of business advisory services and the effectiveness of public accountants' communications with small business clients.

Respondent comments which did not directly relate to role-functions or expert advice gap factors were assigned to a third category, namely, general issues. The content analysis of the 83 respondent comments on general issues is presented in Chapter 14. The main issues revealed by the content analysis of general issues relate to the interdependence of public accountants and small business clients, the effect of changes in accounting practice size on small business clients, the ability of public accountants to supply business advisory services, the variability of accountants' competence and reasons for clients retaining or changing their public accountants.

15.3 Unique Features of the Research Study

The following factors are considered to make this research study unique:

1. No major research has previously been attempted in New Zealand on the nature of the relationship between public accountants and their small business clients.

2. No conceptualisation of the small business expert advice gap in relation to public accountants has previously been devised or empirically tested.
3. No other major study on the relationship between public accountants and small business has canvassed the views of third parties, such as bankers, enterprise agencies and small business consultants.
4. No major empirical research study on small business and public accountants has encompassed an entire nation's small business and public accounting sectors. Similar overseas studies have tended to concentrate on main urban centres or on specific regional areas.
5. An extremely high response rate was achieved for all three sample groups. The usable response rate 63 percent for small business, 68 percent for public accountants and 79 percent for third parties.
6. By attributing the source of small business respondent comments in the content analysis chapters the extreme heterogeneity of the small business sector with which public accountants have to cope is emphasised.

15.4 Main Findings of the Research Study

The findings of the research study can be divided into four main components, (1) the major importance of small business clients to public accountants, (2) areas where no important gaps are evident between small business needs and public accountants' services, (3) areas where significant gaps do occur, and (4) attitudes towards public accountants as business advisors. The main areas where no major gaps are evident are in public accountants' traditional

compliance services and in the range of services provided by public accountants in general. On the other hand, five gaps are found to exist which adversely affect the meeting of small business needs by public accountants, namely, a perception gap, a proactivity gap, an expectations gap, a performance gap and last, but not least, a small business expert advice gap.

Small Business Clients are of Major Importance to Public Accountants

Small business clients account for 88 percent of local practice and 60 percent of large national/international practice income and are therefore of major importance to the public accounting profession in New Zealand. Compliance and tax consultancy services are the predominant services provided to small business clients, comprising 62 percent of local practice income and 36 percent of national/international practice income compared to 14 percent and 11 percent respectively for business advisory services and management consultancy.

No Major Gap in Public Accountants' Traditional Role in Relation to Small Business Clients

It is postulated that the role of public accountants in relation to small business is to solve, through application of their expertise, problems which small business owner-managers cannot, or do not wish to, deal with themselves.

Public accountants perform the role expected of them in the traditional core areas of providing compliance services, giving accounting-related advice, being concerned for clients' financial health, acting as counsellors and giving general business advice.

Ninety-eight percent of the public accounting practices in the sample group offer compliance services and 95 percent of small business respondents use public accountants' compliance services. The quality of the preparation of

financial statements and tax returns is, on average, perceived to be high by role-senders, being rated the highest in quality of all services provided by public accountants.

The Vital Role of Public Accountants as Providers of Compliance Services

Public accountants play a vital role in two ways as intermediaries between government and small business in the financial reporting and taxation process. Firstly, the primary role of public accountants in relation to small business is the provision of compliance services. This finding is supported by the content analysis which reveals that one of the most intractable problems facing small business is that of complying with company and tax legislation. The onus is on the taxpayer to compute the amount of tax owed based on accurate financial records. Many small business owners find it difficult to cope with preparation of financial statements and tax returns so seek outside help from public accountants. The ability of public accountants to minimise tax in order to preserve scarce cash resources is seen as particularly important. However, some accountants are perceived as over-concentrating on tax minimisation to the extent of distorting other aspects of the client's business.

Secondly, the vast majority of small businesses in New Zealand are not audited, therefore the state has no way of checking the accuracy of their financial statements and hence their tax liability. Most small business owners are not subject to PAYE tax but pay through the provisional tax system. By preparing financial statements and tax returns on behalf of small business, of a standard acceptable to the tax and company authorities, public accountants facilitate, in a relatively economical way, the tax collection process of a section of society which is otherwise relatively unmonitored. This is perhaps why public accountants are perceived as acting as agents of the tax authorities, a function which they are not expected to perform by role-senders.

No Major Gap in Public Accountants' Range of Services to Small Business

As previously discussed, the primary role expected of public accountants is as suppliers of compliance services. However, there is an expectation that public accountants should use the products of the compliance service process as a basis for the provision of business advisory services. While some public accountants will continue to provide only compliance services, and a very few will specialise solely in business advisory services, a majority offer both types of service to clients. The main barrier to the provision of more business advisory services appears to be the inability on the part of small business clients to afford the cost of such services rather than reluctance on the part of public accountants to supply such services.

Approximately 90 percent of surveyed accounting practices provide a basic range of accounting-related business advisory services while about 70 percent provide a full range. About 25 percent provide a full range of both accounting-related and non-accounting business advisory services (such as marketing, production and personnel).

About one third to one half of small business respondents use public accountants' accounting-related business advisory services frequently or sometimes (except for costing and pricing which is used by only nine percent of small business respondents). Public accountants' non-accounting business advisory services are only used by approximately ten percent of small business respondents.

The sample of public accounting practices appears to provide a reasonable range of compliance, accounting-related and non-accounting business advisory services to meet the needs of small business clients. It can be therefore be concluded that there is no major gap in the range of services provided by public accountants to small business clients in New Zealand.

Perception Gap Between Role-Sender Groups

The opinions of the three role-sender groups differ significantly on 10 of the 11 actual role-functions, on 6 of the 11 expected role-functions, on all 22 cases in relation to service quality and on 26 of the 28 expert advice gap factors. The lack of congruence of opinions in these areas points to a perception gap on the part of role-senders which should be of particular concern to the accounting profession as public accountants, on balance, perceive their role and performance in a more favourable light than do either — small business or third parties.

Two conclusions can be drawn from these differences of opinion. Firstly, public accountants are not meeting the needs of small business (in which case respondents' perceptions are accurate). If this is the case it behoves the accounting profession to take corrective action to actually meet the needs of clients. Secondly, public accountants are meeting the needs of small business but are not perceived as doing so (in which case respondents' perceptions are inaccurate). If this is the case the accounting profession should educate small business and third parties in order to correct their mistaken perceptions. On weighing up both conclusions, on balance, the first case is probably the most likely situation, that is, that the public accountants are not adequately meeting the changing needs of small business clients.

Proactivity Gap - Public Accountants are not Sufficiently Proactive in Dealing with Small Business Clients

There is one very important area where public accountants are not perceived by role-senders as doing what they are expected to do, namely, actively seeking out client problems. All three role-sender groups (including public accountants themselves) are of the opinion that public accountants should be more proactive rather than waiting for clients to point out problems. The problem is exemplified by the paradoxical situation whereby small business

clients often do not know what questions to ask and accountants do not take the initiative to find out what help they need. This issue is of particular importance in view of the definition of public accountants as problem solvers.

Expectation Gap with Respect to Business Advisory Services

On average, with the notable exception of provision of compliance services, role-senders' expectations of the functions that public accountants should perform are significantly higher than their perceptions of the functions accountants actually do perform. This finding indicates the existence of an expectation gap in relation to public accountants' role as suppliers of business advisory services. The implications of this are:

1. that role-senders have unreasonable expectations of the role that accountants can perform, or
2. that role-senders have reasonable expectations, but that accountants cannot, or do not, perform to this level.

If role-senders have unreasonable expectations of public accountants' services, these expectations have to be modified by education of small business and third parties and by better marketing of services by public accountants.

If public accountants are performing at an unreasonably low level then it behoves the accounting profession to improve its standards of performance.

Performance Gap in Business Advisory Services

In contrast to compliance services, the quality of most accounting-related business advisory services is perceived as barely adequate by the survey group as a whole. In particular, public accountants' non-accounting business advisory services receive low ratings for quality, especially from third parties

but also from public accountants themselves. These findings indicate the existence of a performance gap in relation to public accountants' business advisory services.

Small Business Expert Advice Gap in Relation to Public Accountants - Causal Factors

The main factor found to cause a gap between small business needs and public accountants' services is the small business wish to use only the minimum of public accountants' compliance services. There are two probable causes for this; firstly, lack of funds on the part of small business to pay for more services, and secondly, compliance services are seen to benefit the government rather than the business.

Respondents indicate that small business would use more business advisory services if they had the funds to do so. This indicates at least a willingness on the part of small business to consider using business advisory services to a greater extent. However, it is not just a question of money as respondents also perceive that small business owners do not acknowledge the need for business advisory services, do not clearly see the benefit of using business advisory services and do not communicate well with public accountants. These last three factors help to explain why small business is perceived by public accountants and third parties as seeking help from public accountants when it is too late to solve the problem.

The main expert advice gap factor attributable to public accountants is their lack of effective communication with small business clients. Content analysis indicates that public accountants do not use language comprehensible to laypersons (who may be other professionals such as doctors, dentists and engineers). Other aspects of the communications problem are public accountants' lack of contact with clients and their failure to make all small business clients sufficiently aware of their business advisory services.

Public accountants are perceived as being too busy with tax compliance work to be able to spend much time on business advisory services for small business. This finding agrees with the view expressed by public accountant respondents that the main difficulty in supplying compliance services is keeping up with changes in tax legislation. All three sample groups agree that public accountants should supply more business advisory services. However, this contrasts with public accountants' assertion that the second most difficult area in supplying business advisory services is lack of demand by small business and the fact that over 70 percent of public accountants already offer a relatively wide range of business advisory services. Possible explanations for this apparent contradiction are that public accountants do not actively try to seek out client needs and that some public accountants are only interested (or have time for) compliance services.

Among those factors perceived as causing a gap, there are three areas where public accountants' opinions differ significantly from those of small business and third parties. These differences relate to (1) fees, (2) professional standards for business advisory services and (3) acknowledgement by public accountants of the small business need for business advisory services. Three tentative conclusions which are intuitively reasonable can be drawn regarding each of these differences.

- (1) The question of public accountants' fees is a contentious one, with small business and third party respondents indicating that fees are unreasonably high whereas public accountants take the opposite view. The content analysis reveals that the issue of fees is the area of most concern to respondents. Some commentators perceive public accountants' fees to be expensive, while others believe that public accountants are overcharging their small business clients. The lack of itemised bills compounds the fee sensitivity issue as clients are unable to see how time has been charged. However, some inconsistency is evident in the small business view that

public accountants' fees are unreasonable as small business respondents, on average, indicate that compliance services are cost-beneficial while opinion is almost equally split as to whether or not business advisory services are cost-beneficial.

2. Small business and third party respondents, but not public accountants, believe that the accounting profession should have standards and guidelines with respect to business advisory services. This could be a reflection of the perception that many business advisory services supplied by public accountants are generally perceived to be of barely adequate quality.
3. Small business and third parties believe that most public accountants do not recognise the need for small business advisory services while public accountants take the opposite view. This may be due to the apparent disinterest by some public accountants in supplying business advisory services to small business clients. Such lack of interest may be because public accountants are too busy coping with the taxation system or because they believe that small business clients simply cannot afford any further services.

Factors Not Perceived as Causing an Expert Advice Gap

Some factors postulated in the tentative conceptual framework were not perceived as causing an expert advice gap. Using public accountants is not perceived as a threat to small business owners' independence nor do they generally feel overawed or intimidated when dealing with public accountants. Conversely public accountants are generally perceived as forming good personal relationships with their small business clients (in spite of problems of communication and lack of proactivity).

Public accountants are perceived as competent providers of compliance services which are regarded as cost-beneficial. With respect to business advisory services public accountants are perceived as being adequately trained, competent, willing to supply such services and as providing a good range of services (even if the quality is not as high as it might be). All three survey groups are of the opinion that public accountants should provide non-accounting business advisory services. However, the opinion of the sample group as a whole is divided as to whether such business advisory services are cost-beneficial.

Public Accountants as Business Advisors

The view of the survey group as a whole is that the main strength of public accountants as business advisors is their ability to give an objective viewpoint. However, the three individual sample groups have significantly different perceptions of the main strength of public accountants as business advisors. Public accountant respondents believe that their main strength is their wide experience of small business problems. This is an apparent contradiction to the general perception that they are not sufficiently proactive in seeking out client problems. A possible explanation is that they have sufficient exposure to small business problems without actively seeking them out. Small business sees public accountants' main strength as being able to provide an objective viewpoint (which supports the concept of the accountant as counsellor) while the opinion of third parties is evenly divided between these two areas.

The main weakness of public accountants as business advisors is perceived to lie almost equally in two areas, firstly, their lack of time to give in-depth advice and secondly, their remoteness from the client's business. The first point supports the public accountant respondents' assertion that the main difficulty associated with supplying business advisory services is lack of time (which in turn is most probably a consequence of the effort spent in keeping

up with tax legislation). The second most important difficulty associated with supplying business advisory services is lack of demand. For example, whereas 59 percent of total accountant respondents' income from small business is derived from compliance services and tax planning combined, only 14 percent comes from business advisory services and management consultancy combined.

All three sample groups agree that public accountants are reasonably good at solving some small business problems. This confirms the adequacy of public accountants' main professional role as problem-solvers. However, whereas only 4 percent of public accountant respondents believe that public accountants are of little value in solving any small business problems, 20 percent of small business respondents, and 24 percent of third party respondents are of this opinion. Public accountants may therefore overestimate their own ability.

15.5 Implications for Practice

The factors perceived as causing an expert advice gap are those to which the accounting profession and the small business sector should devote most attention as these are the most likely areas where improvements can be effected to enhance the relationship between the two parties.

Public accountants need to adopt a more proactive approach in dealing with small business clients in order to identify their problems and concerns, both actual and potential. In addition to being more proactive there are three other areas where public accountants could improve their services. These opportunities occur where role-senders perceive, on average, that functions are not being performed which should be performed, namely, in supplying non-accounting business advisory services, providing accounting training and being a member of the small business management team.

Public accountants need to reduce their fees to small business clients, most probably through better use of technology. In addition bills should be itemised to show clients how fees have been calculated.

Better communication is required especially in the areas of interpretation of financial results, effective marketing of business advisory services and contact with clients.

Over 80 percent of public accountant respondents state that their training should include more emphasis on small business. More specific small business education is therefore required for accountants. Public accountants need to become more aware of the commercial aspect of their small business clients' operations. This includes being more aware of the business implications of the figures produced for compliance purposes and of the ramifications of tax minimisation schemes on other aspects of the business.

Small business owners need to be better trained to appreciate the benefits of using business advisory services through business clubs, management courses and publications. At the same time, public accountants have to ensure their business advisory services are cost-beneficial and be more successful in demonstrating this to small business and third parties. Possible ways of achieving this are by the use of actual case studies which clearly illustrate the benefits of using public accountants' business advisory services (as suggested by a small business respondent), or by presenting seminars at which small business clients can describe ways in which they have benefited from public accountants' advisory services.

If small business and third party respondents' perceptions are correct, public accountants need to improve the quality of their business advisory services especially financing proposals, business plans and costing and pricing. Introduction of standards and guidelines in the area of business advisory

services by the accounting profession such as has happened in the United States could help in this regard.

Public accountants should aim at achieving the same perceived level of performance in business advisory services as in compliance services where actual performance is in line with expected performance.

15.6 Identification of Future Research Areas

Research is required to determine to what extent public accountants' business advisory services are actually of a low quality or whether they are of an adequate professional quality but merely not perceived as being so. As small business and third parties are not convinced that public accountants' business advisory services are cost-beneficial, research is needed to identify how cost-effective such services actually are.

The high cost of public accountants' fees is of major concern to small business. Research needs to be carried out on ways of reducing fees and on methods of improving the way in which fees are presented to clients.

Small business has difficulty differentiating proactive business-orientated public accountants from traditional compliance ones. Research is required on how the market perceives the overall quality of public accountants' services and on how public accountants can best differentiate their services to small business.

Public accountants' communication with small business clients is perceived, even by public accountants themselves, to be an area capable of improvement. Some of the main problems, such as use of incomprehensible language and insufficient contact with clients, have been identified in this research but more research needs to be carried out on this issue.

At a time when public accounting firms are attempting to expand their client base and add value to their services, research is required on the reasons which cause small business clients to retain or change their public accountants.

15.7 Concluding Remarks

The small business sector is of major economic and social significance to New Zealand and forms an important client base for the majority of public accounting firms in New Zealand.

The primary role expected of public accountants by role-senders in relation to small business is as suppliers of compliance services, accounting-related advice and guardians of the client's financial health (which involves identifying problems and acting as counsellors). A secondary, but increasingly important role, is as suppliers of general and specific business advice. Most public accountant respondents offer a reasonably wide range of accounting and business services with some of the larger practices offering a complete range of services. Small business owner-managers must be prepared to seek out, where feasible, accounting practices offering the services that they particularly require. Public accounting practices can assist small business clients in this respect by differentiating their services and marketing them effectively.

There are indications of a small business expert advice gap in relation to public accountants in the areas of business advisory services. The gap is principally caused by the limited ability of many small firms to afford anything other than legally necessary compliance services but is also due to a lack of conviction on the part of owner-managers that they need public accountants' services or would benefit from using them. While public accountants are well-regarded as cost-efficient suppliers of compliance services they have some way to go to achieve the same standing in the areas

of concern for the financial well-being of the client and of business advisory services. Of particular concern is the finding that public accountants are not sufficiently proactive in seeking out small business problems which is in conflict with public accountants' fundamental professional role as problem solvers.

APPENDICES

Appendix A

Summary of Research Objectives

Research Objective		Procedure/Test	Figure no.
No.	Chapter 10		
1	To identify role-senders' opinions of the <i>actual</i> role of public accountants in relation to small business clients	Means	25
2	To identify (a) existence and (b) location of significant differences of opinion between role-sender groups as to the <i>actual</i> role of public accountants	(a) Kruskal-Wallis (b) Scheffé	26 27
3	To identify significant differences of opinion between major sub-groups within role-sender groups as to the <i>actual</i> role of public accountants	Kruskal-Wallis	28
4	To identify role-senders' opinions of the <i>expected</i> role of public accountants in relation to small business clients	Means	29
5	To identify (a) the existence and (b) the location of significant differences of opinion between role-sender groups as to the <i>expected</i> role of public accountants	(a) Kruskal-Wallis (b) Scheffé	30 31
6	To identify significant differences of opinion between major sub-groups within role-sender groups as to the <i>expected</i> role of public accountants	Kruskal-Wallis	32
7	To identify whether there are significant differences of opinion between role-sender groups as to the <i>actual</i> and <i>expected</i> role of public accountants in relation to small business	t Test	33
	Chapter 11		
8	To content analyse respondent comments pertaining to the role of public accountants in relation to small business	Content Analysis	35
	Chapter 12		
9	To identify the range of services provided by public accountants to small business clients	Frequencies Crosstabulation	36 37
10	To identify the extent to which public accountants' services are used by small business	Frequencies	36
11	To identify role senders' opinions of the quality of public accountants' services to small business clients	Means	38 39

Appendix A
Summary of Research Objectives

Research Objective		Procedure/Test	Figure no.
12	To identify (a) the existence and (b) the location of significant differences of opinion between role-sender groups regarding the quality of public accountants' services	(a) Kruskal Wallis (b) Scheffé	40 41
13	To identify significant differences of opinion between major sub-groups within the role-sender groups regarding the quality of public accountants' services	Kruskal-Wallis	42
14	To ascertain role-senders' opinions of public accountants acting as business advisors to small business clients	Frequencies	43 44 45
15	To identify (a) the existence and (b) the location of significant differences between role-senders' opinions of public accountants acting as business advisors	(a) Kruskal-Wallis (b) Scheffé	46 47
16	To identify significant differences of opinion between major sub-groups within the role-sender groups regarding public accountants as business advisors	Kruskal-Wallis	48
17	To identify the factors which cause a small business expert advice gap in relation to public accountants	Means	49
18	To identify (a) the existence and (b) the location of significant differences of opinion between role-sender groups with respect to the small business expert advice gap in relation to public accountants	(a) Kruskal-Wallis (b) Scheffé test	50 51
19	To identify significant differences of opinion between major sub-groups within role-sender groups regarding the small business expert advice gap in relation to public accountants	Kruskal-Wallis	52
20	To undertake a factor analysis of the small business advice gap in relation to public accountants	Factor Analysis	53
	Chapter 13		
21	To content analyse respondent comments relating to the factors which inhibit the discharge of the public accountant's role causing a small business expert advice gap	Content Analysis	54
	Chapter 14		
22	To content analyse respondent comments relating to general issues affecting the interface between small business and public accountants	Content Analysis	55

Appendix B

Questionnaires

THE USEFULNESS OF PUBLIC ACCOUNTANTS TO SMALL BUSINESS

Questionnaire for Public Accountants



MASSEY
UNIVERSITY

Department of Management Accounting

HOW TO FILL IN THIS QUESTIONNAIRE

All your answers will be treated as completely confidential.

The questionnaire should preferably be filled-in by the partner in charge of business services.

All you have to do is either circle the number of the answer you want to give or fill in the appropriate details in the space provided.

Some examples of how to fill in this questionnaire are set out below:

Q1. Did your formal accountancy education include any small business courses?

- (a) Yes 1
 (b) No 2

Q2. What factor would be most likely to make small business clients change public accountants?

Please circle one number only.

- (a) Decrease in service? 1
 (b) Not being able to make contact easily? 2
 (c) Increase in fees? 3
 (d) Other (please specify) 4
-

DEFINITIONS

SMALL BUSINESS

Firms which are generally managed by the owner, are not part of a larger group and do not employ an internal accountant. Such firms generally have less than twenty employees.

COMPLIANCE SERVICES

Compliance services are those services such as preparation of annual financial statements and tax returns which public accountants provide to help clients comply with company and tax law.

BUSINESS ADVISORY SERVICES

Business advisory services consist of a range of services such as budgeting, costing and business planning which public accountants provide to help small firms operate more effectively.

SECTION A: YOUR ACCOUNTING PRACTICE

N.B. If you are part of a national or international firm, please answer questions in relation to your own branch of the partnership.
Where accurate figures are not available, approximations will suffice.

1. Into which category does your firm fall?

- Local 1
- National 2
- International 3

2. How many partners does the practice have?

3. How many staff in total are employed in the practice (including partners)?

4. How many non-farming small business clients do you have?

5. How many farming small business clients do you have?

6. What is the approximate percentage split of fee income between the various services provided by your firm and what percentage of each service is accounted for by small business (both non-farming and farming)?

- (a) write-up and secretarial work
- (b) compliance services (annual accounts and tax returns)
- (c) business advisory services (e.g. budgets, cash flows, etc.)
- (d) auditing
- (e) insolvency
- (f) tax consultancy
- (g) management consultancy
- (h) non-accounting services (e.g. personnel, marketing)

TOTAL

Column (a) % of Total Fees	Column (b) % of Column (a) Derived from Small Business
100%	

5

6-7

8-9

10-11

12-13

14-15

16-17

18-19

20-21

22-23

24-25

26-27

28-29

30-31

7. How often do your small business clients have financial reports prepared by you?

	% of Small Business Clients Requesting This Service
(a) Monthly	%
(b) Two Monthly	%
(c) Quarterly	%
(d) Half-yearly	%
(e) Annually	%
(f) Other (please specify)	%

8. What name do you give to the section of your practice which deals with compliance and business advisory services?

- Accounting Services 1
- Business Services 2
- Business Advisory Services 3
- Management Advisory Services 4
- Other (please specify) 5

9. Does your practice have a separate division which deals only with business advisory services?

- Yes 1
- No 2

If yes, what name is given to this separate division?

.....

10. Did your polytechnic or university accountancy education include any specific small business courses?

- Yes 1
- No 2

11. Has your practical training included any specific courses on providing business advisory services to small business clients?

- Yes 1
- No 2

12. Should the education and training of public accountants include more small business courses?

- Yes 1
- No 2

SECTION B: EVALUATION OF PUBLIC ACCOUNTANTS' SERVICES

The following services are provided by accounting practices in general. Which of these services does your practice provide or refer to another practice? What is the quality of public accountants' services in general?

Please circle one number for each statement in both columns.

	Service Provided			<u>2</u>	Quality of Public Accountants' Services				
	Yes	No	Referred		Low	Adequate	High	Don't Know	
<u>Bookkeeping and secretarial services</u>									
Write-up/processing of transactions	1	2	3	1	1	2	3	4	23
Secretarial and administration	1	2	3		1	2	3	4	
<u>Compliance Services</u>									
Preparation of annual accounts	1	2	3		1	2	3	4	
Taxation returns	1	2	3		1	2	3	4	
<u>Business advisory services</u>									
Analysis of financial results	1	2	3		1	2	3	4	
Operating budgets	1	2	3		1	2	3	4	
Cash-flow budgets	1	2	3		1	2	3	4	
Costing and pricing	1	2	3		1	2	3	4	
Credit Control	1	2	3		1	2	3	4	
Capital expenditure evaluation	1	2	3		1	2	3	4	
Retirement of owner and succession	1	2	3		1	2	3	4	
Computerised accounting systems	1	2	3		1	2	3	4	
Business plans	1	2	3		1	2	3	4	
Financing proposals	1	2	3		1	2	3	4	
Buying and selling a business	1	2	3		1	2	3	4	
Business valuation	1	2	3		1	2	3	4	
Tax and estate planning	1	2	3		1	2	3	4	
Personal investment advice	1	2	3		1	2	3	4	
Production	1	2	3		1	2	3	4	
Marketing	1	2	3		1	2	3	4	
Personnel management	1	2	3		1	2	3	4	
General management	1	2	3	22	1	2	3	4	44

2. To what extent do you think that small business clients are aware of the range of services shown in Section B Question 1 (on the opposite page) provided by the accountancy profession?
Please circle one number only

- Totally Unaware 1
- Slightly Aware 2
- Moderately Aware 3
- Very Aware 4

3. What is the main difficulty associated with supplying compliance services?

- Difficulty in keeping up with tax legislation 1
- Difficulty in recruiting competent staff 2
- Difficulty in producing accurate statements
and returns 3
- Other (please specify) 4

4. What is the main difficulty associated with supplying business advisory services?

- Lack of time to provide an adequate service 1
- Difficulty in recruiting competent staff 2
- Insufficient training to provide a
good service 3
- Lack of demand 4
- Other (please specify) 5

5. What do you see as the major strength of public accountants as business advisers to small business?
Please circle one number only.

- In-depth knowledge of client's business 1
- Wide experience of small firms' problems 2
- Able to provide an objective viewpoint 3
- Other (please specify) 4

6. What do you see as the major weakness of public accountants as business advisers to small business?
Please circle one number only.

- Lack of time to give in-depth advice 1
- Over-conservative 2
- Too remote from the client's business 3
- Lack of business awareness 4
- Other (please specify) 5

7. What expectations do small business clients have of public accountants as business advisers?
Please circle one number only.

- Public accountants are able to solve most small business
problems 1
- Public accountants are of little value in solving any small
business problems 2
- Public accountants are reasonably good at solving some small
business problems 3

SECTION C: ARE PUBLIC ACCOUNTANTS MEETING SMALL BUSINESS NEEDS?

Is there a gap between the services needed by small businesses and those provided by public accountants? The following questions are designed to find out whether or not this is the case and, if so, what is causing the problem. (For examples of compliance services and business advisory services, see page 4).

Please circle one number only for each statement.

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1 Most small businesses wish to use only the minimum amount of compliance services they can get away with.	1	2	3	4	5
2 Most small businesses really need to make more use of public accountants' business advisory services but generally will not acknowledge the fact.	1	2	3	4	5
3 Most small business owner-managers feel emotionally uncomfortable (for example, overawed or intimidated) when dealing with public accountants.	1	2	3	4	5
4 Most small business owner-managers do not make a sufficient effort to communicate effectively with their public accountants.	1	2	3	4	5
5 Using a public accountant for business advice is seen as a threat to the independence of the small business owner-manager.	1	2	3	4	5
6 Public accountants' fees are reasonable in relation to the level of expertise and competence they bring to small business clients.	1	2	3	4	5
7 If small firms could afford it they would use public accountants' business advisory services to a greater extent.	1	2	3	4	5
8 The benefits of using public accountants' compliance services outweigh the costs.	1	2	3	4	5
9 The benefits of using public accountants' business advisory services outweigh the costs.	1	2	3	4	5
10 Public accountants are competent to provide accounting-related business advisory services to small businesses.	1	2	3	4	5
11 Providing they have competent, specialised staff, public accounting firms should offer non-accounting services such as marketing and personnel selection in order to provide a full range of business services to clients.	1	2	3	4	5
12 Lack of time prevents most small firms from making greater use of the services of public accountants.	1	2	3	4	5
13 Most small firms do not have the ability to make effective use of business advisory services available from public accountants.	1	2	3	4	5

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
14	Most small businesses do not have a clear picture of the benefits to be gained from using accountants' business advisory services.	1	2	3	4	5
15	Small firms tend to seek help from their public accountants when it is too late to solve the problem.	1	2	3	4	5
16	Small firms often do not implement the advice they receive from their public accountants.	1	2	3	4	5
17	Most public accountants do not appreciate the small business need for business advisory services.	1	2	3	4	5
18	Public accountants are aware of the need of small business for more business advisory services but will not supply them.	1	2	3	4	5
19	Public accountants do not make a sufficient effort to make small businesses aware of the full range of business advisory services that they are able to supply.	1	2	3	4	5
20	Most public accountants could do a lot more to communicate properly with their small business clients.	1	2	3	4	5
21	Public accountants generally form good personal relationships with their small business clients.	1	2	3	4	5
22	Most public accountants are too busy with tax compliance work to be able to spend much time on business advisory services for small business.	1	2	3	4	5
23	Public accountants are not properly educated or trained to provide adequate business advisory services to small business clients.	1	2	3	4	5
24	Most public accountants provide an adequate range of business advisory services to suit the needs of their small business clients.	1	2	3	4	5
25	Most public accountants should increase the proportion of their time spent on business advisory services to small business clients and decrease the time spent on compliance services.	1	2	3	4	5
26	Public accountants seldom make serious mistakes in the annual financial statements and tax returns they prepare for small business clients.	1	2	3	4	5
27	Public accountants generally provide high quality business advisory services to small businesses.	1	2	3	4	5
28	The accounting profession should introduce set standards to control the quality of business advisory services provided by public accountants.	1	2	3	4	5

SECTION D: THE ROLE OF PUBLIC ACCOUNTANTS IN RELATION TO SMALL BUSINESS

What role are public accountants actually performing when serving small business clients? Does this differ from the role that you think public accountant should be performing?

Please circle one number only for each statement both columns.

		What Public Accountants Actually Do			1	What Public Accountants Should Do			
		YES	NO	DON'T KNOW		YES	NO	DON'T KNOW	
(a)	Be concerned about the financial well-being of the client's business.	1	2	3	1	1	2	3	12
(b)	Help small business to comply with company and tax legislation by preparing annual financial statements and tax returns.	1	2	3		1	2	3	
(c)	Help small firms manage their operations more effectively by providing								
	i advice on the accounting, finance and tax aspects of the business	1	2	3		1	2	3	
	ii advice on general business matters	1	2	3		1	2	3	
	iii advice on specific business matters such as marketing, production, retailing or personnel (providing there is specialist staff to provide this service).	1	2	3		1	2	3	
(d)	Act as a counsellor when small business clients have ideas or problems they wish to discuss.	1	2	3		1	2	3	
(e)	Wait for the small business client to mention a problem before taking action to try to solve it.	1	2	3		1	2	3	
(f)	Take active steps to find out what problems are confronting the small business client and suggest ways of resolving the problem.	1	2	3		1	2	3	
(g)	Give strong support to the small business by becoming an active member of the management team.	1	2	3		1	2	3	
(h)	Provide training in accountancy skills to small business clients.	1	2	3		1	2	3	
(i)	Act as an agent of the Inland Revenue Department.	1	2	3	11	1	2	3	22

SECTION E: ADDITIONAL COMMENTS

Please indicate the question(s) to which your comments apply

.....

.....

.....

.....

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.....

.....

THANK YOU VERY MUCH FOR YOUR HELP

Please return the questionnaire in the reply paid envelope to me as soon as possible.

ALAN CAMERON
DEPARTMENT OF MANAGEMENT ACCOUNTING
MASSEY UNIVERSITY
PALMERSTON NORTH

If you would like a copy of the results of the survey please fill in your particulars below or write requesting the results of the survey in a separate letter. Remember your answers are completely confidential.

Name:

Address:

.....

.....

THE USEFULNESS OF PUBLIC ACCOUNTANTS TO SMALL BUSINESS

Questionnaire for Small Business



MASSEY
UNIVERSITY

Department of Management Accounting

HOW TO FILL IN THIS QUESTIONNAIRE

All your answers will be treated as completely **confidential**.

The questionnaire should preferably be filled-in by the owner or manager of the business.

All you have to do is either circle the number of the answer you want to give or fill in the appropriate details in the space provided. If a question does not apply to you there are instructions pointing out which question you should proceed to next.

Some examples of how to fill in this questionnaire are set out below:

=====

Q1. Have you changed public accountants in the last 5 years?

- (a) Yes 1
 (b) No 2

Q2. What factor would be most likely to make you change public accountants?
 Please circle one number only.

- (a) Decrease in service? 1
 (b) Not being able to make contact easily? 2
 (c) Increase in fees? 3
 (d) Other (please specify) 4
- =====

DEFINITIONS

Some terms may not be familiar to you so a brief explanation is provided below.

PUBLIC ACCOUNTANT

A public accountant is one who provides a service to the public in general in return for a fee rather than being employed by any one organisation and being paid a salary. Public accountants are sometimes called external accountants.

COMPLIANCE SERVICES

Compliance services are those services such as preparation of annual financial statements and tax returns which public accountants provide to help clients comply with company and tax law.

BUSINESS ADVISORY SERVICES

Business advisory services consist of a range of services such as budgeting, costing and business planning which public accountants provide to help small firms operate more effectively.

SECTION A: WHERE DO YOU TURN FOR HELP?

In this increasingly competitive environment nearly all businesses face problems, especially small businesses.

1. Who do you turn to when you need help to solve a business problem?
Please circle one number only for each statement.

	Never	Seldom	Sometimes	Frequently	Always
Spouse	1	2	3	4	5
A member of your staff	1	2	3	4	5
Another business person	1	2	3	4	5
Bank manager	1	2	3	4	5
Public accountant	1	2	3	4	5
Consultant	1	2	3	4	5
Lawyer	1	2	3	4	5
Enterprise board	1	2	3	4	5
Business development centre	1	2	3	4	5
Nobody	1	2	3	4	5
Other (please specify)	1	2	3	4	5

2. Do you use the services of an public accountant?

Yes 1
No 2

IF NO, PLEASE GO DIRECTLY TO SECTION B (PAGE 3)

3. Is the public accountant that you use a Chartered Accountant (i.e. a member of the New Zealand Society of Accountants)?

Please circle one number only.

Yes 1
No 2
Don't know 3

4. Is the accounting person or practice that you use
Please circle one number only.

A local person or firm? 1
A national firm (one that has other offices in New Zealand)? 2
An international firm (one that operates in New Zealand
and overseas)? 3

SECTION B: ARE ACCOUNTANTS DOING WHAT THEY SHOULD BE DOING?

What role are public accountants actually performing when serving small business clients? Does this differ from the role that you think public accountant should be performing?

Please circle one number for each statement, in both columns.

		What Public Accountants Actually Do				What Public Accountants Should Do			
		YES	NO	DON'T KNOW		YES	NO	DON'T KNOW	
(a)	Be concerned about the financial well-being of the client's business.	1	2	3	19	1	2	3	30
(b)	Help small business to comply with company and tax legislation by preparing annual financial statements and tax returns.	1	2	3		1	2	3	
(c)	Help small firms manage their operations more effectively by providing								
i	advice on the accounting, finance and tax aspects of the business	1	2	3		1	2	3	
ii	advice on general business matters	1	2	3		1	2	3	
iii	advice on specific business matters such as marketing, production, retailing or personnel (providing there is specialist staff to provide this service).	1	2	3		1	2	3	
(d)	Act as a counsellor when small business clients have ideas or problems they wish to discuss.	1	2	3		1	2	3	
(e)	Wait for the small business client to mention a problem before taking action to try to solve it.	1	2	3		1	2	3	
(f)	Take active steps to find out what problems are confronting the small business client and suggest ways of resolving the problem.	1	2	3		1	2	3	
(g)	Give strong support to the small business by becoming an active member of the management team.	1	2	3		1	2	3	
(h)	Provide training in accountancy skills to small business clients.	1	2	3		1	2	3	
(i)	Act as an agent of the Inland Revenue Department.	1	2	3	29	1	2	3	40

SECTION C: HOW SATISFIED ARE YOU WITH YOUR PUBLIC ACCOUNTANT'S SERVICES?

The following services are provided by the accounting profession in general. Most small accounting practices will provide only a few of these services while very large practices will usually provide all of them.

Which of these services do you obtain from your public accountant and how often do you use them?
What is the quality of public accountants' services in general?

Please circle one number only for each statement in both columns.

	Extent Service Used				Quality of Public Accountants' Services					
	Never	Sometimes	Frequently		Low	Adequate	High	Don't Know		
<u>Bookkeeping and secretarial services</u>										2
Write-up/processing of transactions	1	2	3	41	1	2	3	4	1	
Secretarial and administration	1	2	3		1	2	3	4		
<u>Compliance Services</u>										
Preparation of annual accounts	1	2	3		1	2	3	4		
Taxation returns	1	2	3		1	2	3	4		
<u>Business advisory services</u>										
Analysis of financial results	1	2	3		1	2	3	4		
Operating budgets	1	2	3		1	2	3	4		
Cash-flow budgets	1	2	3		1	2	3	4		
Costing and pricing	1	2	3		1	2	3	4		
Credit Control	1	2	3		1	2	3	4		
Capital expenditure evaluation	1	2	3		1	2	3	4		
Retirement of owner and succession	1	2	3		1	2	3	4		
Computerised accounting systems	1	2	3		1	2	3	4		
Business plans	1	2	3		1	2	3	4		
Financing proposals	1	2	3		1	2	3	4		
Buying and selling a business	1	2	3		1	2	3	4		
Business valuation	1	2	3		1	2	3	4		
Tax and estate planning	1	2	3		1	2	3	4		
Personal investment advice	1	2	3		1	2	3	4		
Production	1	2	3		1	2	3	4		
Marketing	1	2	3		1	2	3	4		
Personnel management	1	2	3		1	2	3	4		
General management	1	2	3	62	1	2	3	4	22	

2. Before you read the list of services shown in Section C Question 1 (on the opposite page), to what extent were you aware of the range of services provided by public accountants?
Please circle one number only.

Totally Unaware 1
Slightly Aware 2
Moderately Aware 3
Very Aware 4

3. If you feel dissatisfied with public accountants' services to small business, what is the main reason?

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SECTION D: WHAT DO YOU THINK OF PUBLIC ACCOUNTANTS AS BUSINESS ADVISERS?

In addition to specialised accounting and tax services, public accountants are increasingly offering their services as business advisors to help small firms improve their financial and operational efficiency.

1. What do you see as the major strength of public accountants as business advisers to small business?
Please circle one number only.

In-depth knowledge of client's business 1
Wide experience of small firms' problems 2
Able to provide an objective viewpoint 3
Other (please specify) 4

2. What do you see as the major weakness of public accountants as business advisers to small business?
Please circle one number only.

Lack of time to give in-depth advice 1
Over-conservative 2
Too remote from the client's business 3
Lack of business awareness 4
Other (please specify) 5

3. What expectations do small business clients have of public accountants as business advisers?
Please circle one number only.

Public accountants are able to solve most
small business problems 1
Public accountants are of little value
in solving any small business problems 2
Public accountants are reasonably good at solving
some small business problems 3

SECTION E: ARE PUBLIC ACCOUNTANTS MEETING SMALL BUSINESS NEEDS?

Is there a gap between the services needed by small businesses and those provided by public accountants? The following questions are designed to find out whether or not this is the case and, if so, what is causing the problem. For examples of compliance services and business advisory services, see page 4).

Please circle one number only for each statement.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
1	Most small businesses wish to use only the minimum amount of compliance services they can get away with.	1	2	3	4	5	29
2	Most small businesses really need to make more use of public accountants' business advisory services but generally will not acknowledge the fact.	1	2	3	4	5	
3	Most small business owner-managers feel emotionally uncomfortable (for example, overawed or intimidated) when dealing with public accountants.	1	2	3	4	5	
4	Most small business owner-managers do not make a sufficient effort to communicate effectively with their public accountants.	1	2	3	4	5	
5	Using a public accountant for business advice is seen as a threat to the independence of the small business owner-manager.	1	2	3	4	5	
6	Public accountants' fees are reasonable in relation to the level of expertise and competence they bring to small business clients.	1	2	3	4	5	
7	If small firms could afford it they would use public accountants' business advisory services to a greater extent.	1	2	3	4	5	
8	The benefits of using public accountants' compliance services outweigh the costs.	1	2	3	4	5	
9	The benefits of using public accountants' business advisory services outweigh the costs.	1	2	3	4	5	
10	Public accountants are competent to provide accounting-related business advisory services to small businesses.	1	2	3	4	5	
11	Providing they have competent, specialised staff, public accounting firms should offer such non-accounting services as marketing and personnel selection in order to provide a full range of business services to clients.	1	2	3	4	5	
12	Lack of time prevents most small firms from making greater use of the services of public accountants.	1	2	3	4	5	
13	Most small firms do not have the ability to make effective use of business advisory services available from public accountants.	1	2	3	4	5	41

Strongly Disagree Disagree Neutral Agree Strongly Agree

14	Most small businesses do not have a clear picture of the benefits to be gained from using accountants' business advisory services.	1	2	3	4	5	43
15	Small firms tend to seek help from their public accountants when it is too late to solve the problem.	1	2	3	4	5	
16	Small firms often do not implement the advice they receive from their public accountants.	1	2	3	4	5	
17	Most public accountants do not appreciate the small business need for business advisory services.	1	2	3	4	5	
18	Public accountants are aware of the need of small business for more business advisory services but will not supply them.	1	2	3	4	5	
19	Public accountants do not make a sufficient effort to make small businesses aware of the full range of business advisory services that they are able to supply.	1	2	3	4	5	
20	Most public accountants could do a lot more to communicate properly with their small business clients.	1	2	3	4	5	
21	Public accountants generally form good personal relationships with their small business clients.	1	2	3	4	5	
22	Most public accountants are too busy with tax compliance work to be able to spend much time on business advisory services for small business.	1	2	3	4	5	
23	Public accountants are not properly educated or trained to provide adequate business advisory services to small business clients.	1	2	3	4	5	
24	Most public accountants provide an adequate range of business advisory services to suit the needs of their small business clients.	1	2	3	4	5	
25	Most public accountants should increase the proportion of their time spent on business advisory services to small business clients and decrease the time spent on compliance services.	1	2	3	4	5	
26	Public accountants seldom make serious mistakes in the annual financial statements and tax returns they prepare for small business clients.	1	2	3	4	5	
27	Public accountants generally provide high quality business advisory services to small businesses.	1	2	3	4	5	
28	The accounting profession should introduce set standards to control the quality of business advisory services provided by public accountants.	1	2	3	4	5	56

SECTION F: YOU AND YOUR BUSINESS

1. Do you own the business?

Yes 1
No 2

57

2. Do you manage the business?

Yes 1
No 2

58

3. If you are not the owner or the manager of the business, what is your association with the business?

59-60

4. What is your age (to the nearest year)? Years

61-62

5. What is your gender?

Male 1
Female 2

63

6. Which of the following best describes your education?

Please circle one number only.

Less than four years at high school 1
Four years or more at high school 2
Polytechnic or trade qualification 3
University qualification 4

64

7. Which of the following terms describes what you do best?

Please circle one number only.

Making the product or supplying the service 1
Managing the business 2
Being entrepreneurial 3

65

8. How many years have you been self-employed (in total, not just in your present business)?

..... Years

66-67

9. What is the nature of your business? (e.g. hairdressing, cabinet making)

68-69

10. What is the legal form of the business?

Sole Trader 1
Partnership 2
Private Company 3

70

11. How many full-time and part-time people are employed in the business (including yourself)?

..... Employees

71-72

2. What is the approximate level of your sales turnover per annum?

Please circle one number only.

- (a) under \$250,000 a year 1
 (b) \$250,000 - \$500,000 2
 (c) \$500,0001 - \$1 million 3
 (d) Over \$1 million 4

73

13. At what stage of development is your business?

Please circle one number only.

- (a) Start-up 1
 (b) Growing 2
 (c) Maturity 3
 (d) Declining 4

74

14. How often do you have financial statements prepared?

Please circle one number only.

- (a) Monthly 1
 (b) Every two months 2
 (c) Quarterly 3
 (d) Half-yearly 4
 (e) Annually 5
 (f) Other (please specify) 6

75

15. Is your bookkeeping/accounting system

Please circle one number only.

- (a) Manual? 1
 (b) Partly computerised? 2
 (c) Fully computerised? 3

76

No more questions - thank you for your cooperation

I would appreciate any comments you may care to make
 about any subject mentioned in the questionnaire.
 You may use the space provided on the back page.

Please return the questionnaire in the reply paid envelope to me as soon as possible.

ALAN CAMERON

DEPARTMENT OF MANAGEMENT ACCOUNTING

MASSEY UNIVERSITY

PALMERSTON NORTH

ADDITIONAL COMMENTS

Please indicate the question(s) to which your comments apply.

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If you would like a copy of the results of the survey please fill in your particulars below or write requesting the results of the survey in a separate letter. Remember your answers are completely confidential.

Name:

Address:

.....

.....

THE USEFULNESS OF PUBLIC ACCOUNTANTS TO SMALL BUSINESS

Questionnaire for Third Parties



Department of Management Accounting

HOW TO FILL IN THIS QUESTIONNAIRE

All your answers will be treated as completely confidential.

All you have to do is either circle the number of the answer you want to give or fill in the appropriate details in the space provided.

Some examples of how to fill in this questionnaire are set out below:

=====

Q1. Have you regularly dealt with small businesses?

- (a) Yes 1
 (b) No 2

Q2. What factor would be most likely to make a small firm change public accountants?
 Please circle one number only.

- (a) Decrease in service? 1
 (b) Not being able to make contact easily? 2
 (c) Increase in fees? 3
 (d) Other (please specify) 4
- =====

DEFINITIONS

Some terms may not be familiar to you so a brief explanation is provided below.

SMALL BUSINESS

Firms which are generally managed by the owner, are not part of a larger group and do not employ an internal accountant. Such firms generally have less than twenty employees.

PUBLIC ACCOUNTANT

A public accountant is one who provides a service to the public in general in return for a fee rather than being employed by any one organisation and being paid a salary. Public accountants are sometimes called external accountants.

COMPLIANCE SERVICES

Compliance services are those services such as preparation of annual financial statements and tax returns which public accountants provide to help clients comply with company and tax law.

BUSINESS ADVISORY SERVICES

Business advisory services consist of a range of services such as budgeting, costing and business planning which public accountants provide to help small firms operate more effectively.

SECTION A: YOUR RELATIONSHIP WITH SMALL BUSINESS AND PUBLIC ACCOUNTANTS

1. In what capacity do you deal with small business and public accountants?

Banker 1
 Small Business Consultant 2
 Enterprise Board 3
 Business Development Centre 4

2. What is the main nature of the work or service you provide in connection with small business and/or public accountants?

.....

3. In this increasingly competitive environment nearly all businesses face problems, especially small businesses.

Who do small business owner-managers turn to when they need help to solve a business problem?
 Please circle one number only for each statement.

	Never	Seldom	Sometimes	Frequently	Always
Spouse	1	2	3	4	5
A member of your staff	1	2	3	4	5
Another business person	1	2	3	4	5
Bank manager	1	2	3	4	5
Public accountant	1	2	3	4	5
Small business consultant	1	2	3	4	5
Lawyer	1	2	3	4	5
Enterprise board	1	2	3	4	5
Business development centre	1	2	3	4	5
Nobody	1	2	3	4	5
Other (please specify)	1	2	3	4	5

SECTION B: ARE ACCOUNTANTS DOING WHAT THEY SHOULD BE DOING?

What role are public accountants actually performing when serving small business clients? Does this differ from the role that you think public accountant should be performing?

Please circle one number only for each statement, in both columns.

		What Public Accountants Actually Do				What Public Accountants Should Do			
		YES	NO	DON'T KNOW		YES	NO	DON'T KNOW	
(a)	Be concerned about the financial well-being of the client's business.	1	2	3	19	1	2	3	30
(b)	Help small business to comply with company and tax legislation by preparing annual financial statements and tax returns.	1	2	3		1	2	3	
(c)	Help small firms manage their operations more effectively by providing								
i	advice on the accounting, finance and tax aspects of the business	1	2	3		1	2	3	
ii	advice on general business matters	1	2	3		1	2	3	
iii	advice on specific business matters such as marketing, production, retailing or personnel (providing there is specialist staff to provide this service).	1	2	3		1	2	3	
(d)	Act as a counsellor when small business clients have ideas or problems they wish to discuss.	1	2	3		1	2	3	
(e)	Wait for the small business client to mention a problem before taking action to try to solve it.	1	2	3		1	2	3	
(f)	Take active steps to find out what problems are confronting the small business client and suggest ways of resolving the problem.	1	2	3		1	2	3	
(g)	Give strong support to the small business by becoming an active member of the management team.	1	2	3		1	2	3	
(h)	Provide training in accountancy skills to small business clients.	1	2	3		1	2	3	
(i)	Act as an agent of the Inland Revenue Department.	1	2	3	29	1	2	3	40

SECTION C: HOW SATISFIED ARE YOU WITH PUBLIC ACCOUNTANT'S SERVICES?

1. The following services are provided by the accounting profession in general. Most small accounting practices will provide only a few of these services while very large practices will usually provide all of them.

To what extent do you encounter the services provided by public accountants to small business?

What is your opinion of the quality of the services provided by public accountants?

Please circle one number only for each statement in both columns.

	Extent Service Encountered			2	Quality of Public Accountants' Services				
	Never	Sometimes	Frequently		Low	Adequate	High	Don't Know	
<u>Bookkeeping and secretarial services</u>									
Write-up/processing of transactions	1	2	3	1	1	2	3	4	23
Secretarial and administration	1	2	3		1	2	3	4	
<u>Compliance Services</u>									
Preparation of annual accounts	1	2	3		1	2	3	4	
Taxation returns	1	2	3		1	2	3	4	
<u>Business advisory services</u>									
Analysis of financial results	1	2	3		1	2	3	4	
Operating budgets	1	2	3		1	2	3	4	
Cash-flow budgets	1	2	3		1	2	3	4	
Costing and pricing	1	2	3		1	2	3	4	
Credit Control	1	2	3		1	2	3	4	
Capital expenditure evaluation	1	2	3		1	2	3	4	
Retirement of owner and succession	1	2	3		1	2	3	4	
Computerised accounting systems	1	2	3		1	2	3	4	
Business plans	1	2	3		1	2	3	4	
Financing proposals	1	2	3		1	2	3	4	
Buying and selling a business	1	2	3		1	2	3	4	
Business valuation	1	2	3		1	2	3	4	
Tax and estate planning	1	2	3		1	2	3	4	
Personal investment advice	1	2	3		1	2	3	4	
Production	1	2	3		1	2	3	4	
Marketing	1	2	3		1	2	3	4	
Personnel management	1	2	3		1	2	3	4	
General management	1	2	3	22	1	2	3	4	44

2. Before you read the list of services shown in Section C Question 1 (on the opposite page), to what extent were you aware of the range of services provided by public accountants?

Please circle one number only.

Totally Unaware 1
 Slightly Aware 2
 Moderately Aware 3
 Very Aware 4

45

3. If you feel dissatisfied with public accountants' services to small businesses, what is the main reason?

.....

46-47

SECTION D: WHAT DO YOU THINK OF PUBLIC ACCOUNTANTS AS BUSINESS ADVISERS?

Public accountants are increasingly offering their services as business advisors to help small firms improve their financial and operational efficiency.

1. What do you see as the major strength of public accountants as business advisers to small business?
 Please circle one number only.

In-depth knowledge of client's business 1
 Wide experience of small firms' problems 2
 Able to provide an objective viewpoint 3
 Other (please specify) 4

48

2. What do you see as the major weakness of public accountants as business advisers to small business?
 Please circle one number only.

Lack of time to give in-depth advice 1
 Over-conservative 2
 Too remote from the client's business 3
 Lack of business awareness 4
 Other (please specify) 5

49

3. What expectations do small business clients have of public accountants as business advisers?
 Please circle one number only.

Public accountants are able to solve most
 small business problems 1
 Public accountants are of little value
 in solving any small business problems 2
 Public accountants are reasonably good at solving
 some small business problems 3

50

SECTION E: ARE PUBLIC ACCOUNTANTS MEETING SMALL BUSINESS NEEDS?

Is there a gap between the services needed by small businesses and those provided by public accountants? The following questions are designed to find out whether or not this is the case and, if so, what is causing the problem. (For examples of compliance services and business advisory services, see page 4).

Please circle one number only for each statement.

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	Most small businesses wish to use only the minimum amount of compliance services they can get away with.	1	2	3	4	5
2	Most small businesses really need to make more use of public accountants' business advisory services but generally will not acknowledge the fact.	1	2	3	4	5
3	Most small business owner-managers feel emotionally uncomfortable (for example, overawed or intimidated) when dealing with public accountants.	1	2	3	4	5
4	Most small business owner-managers do not make a sufficient effort to communicate effectively with their public accountants.	1	2	3	4	5
5	Using a public accountant for business advice is seen as a threat to the independence of the small business owner-manager.	1	2	3	4	5
6	Public accountants' fees are reasonable in relation to the level of expertise and competence they bring to small business clients.	1	2	3	4	5
7	If small firms could afford it they would use public accountants' business advisory services to a greater extent.	1	2	3	4	5
8	The benefits of using public accountants' compliance services outweigh the costs.	1	2	3	4	5
9	The benefits of using public accountants' business advisory services outweigh the costs.	1	2	3	4	5
10	Public accountants are competent to provide accounting-related business advisory services to small businesses.	1	2	3	4	5
11	Providing they have competent, specialised staff, public accounting firms should offer such non-accounting services as marketing and personnel selection in order to provide a full range of business services to clients.	1	2	3	4	5
12	Lack of time prevents most small firms from making greater use of the services of public accountants.	1	2	3	4	5
13	Most small firms do not have the ability to make effective use of business advisory services available from public accountants.	1	2	3	4	5

		Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
14	Most small businesses do not have a clear picture of the benefits to be gained from using accountants' business advisory services.	1	2	3	4	5
15	Small firms tend to seek help from their public accountants when it is too late to solve the problem.	1	2	3	4	5
16	Small firms often do not implement the advice they receive from their public accountants.	1	2	3	4	5
17	Most public accountants do not appreciate the small business need for business advisory services.	1	2	3	4	5
18	Public accountants are aware of the need of small business for more business advisory services but will not supply them.	1	2	3	4	5
19	Public accountants do not make a sufficient effort to make small businesses aware of the full range of business advisory services that they are able to supply.	1	2	3	4	5
20	Most public accountants could do a lot more to communicate properly with their small business clients.	1	2	3	4	5
21	Public accountants generally form good personal relationships with their small business clients.	1	2	3	4	5
22	Most public accountants are too busy with tax compliance work to be able to spend much time on business advisory services for small business.	1	2	3	4	5
23	Public accountants are not properly educated or trained to provide adequate business advisory services to small business clients.	1	2	3	4	5
24	Most public accountants provide an adequate range of business advisory services to suit the needs of their small business clients.	1	2	3	4	5
25	Most public accountants should increase the proportion of their time spent on business advisory services to small business clients and decrease the time spent on compliance services.	1	2	3	4	5
26	Public accountants seldom make serious mistakes in the annual financial statements and tax returns they prepare for small business clients.	1	2	3	4	5
27	Public accountants generally provide high quality business advisory services to small businesses.	1	2	3	4	5
28	The accounting profession should introduce set standards to control the quality of business advisory services provided by public accountants.	1	2	3	4	5

SECTION F: ADDITIONAL COMMENTS

Please indicate the question to which your comments apply

THANK YOU VERY MUCH FOR YOUR HELP

If you would like a copy of the results of the survey please fill in your particulars below or write requesting the results of the survey in a separate letter. Remember your answers are completely confidential.

Name:

Address:

.....

.....

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