

Strategic and Functional Orientation of Small and Medium Sized Enterprises in Professional Services: An Analysis of Public Accountancy

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This study examines how SMEs in public accountancy remain competitive, promote and deliver their services. The association among strategic planning, functional diversification (services and markets), methods of promotion and delivery is also examined. These SMEs face considerable difficulty in overcoming both in-house and external barriers in accessing clients requiring non-traditional services (e.g. management consulting), and clients involved in international business (broadly defined). The results show that the proactive, functionally diversified, and/or internationally oriented firms outperform the reactive, functionally concentrated, and local market oriented firms. The competitive advantage for the former categories is based on flexible specialisation such as customisation of services for specific groups of clients, speed of delivery, collaboration with other producer service firms, and specialised skills. These firms utilise informal networks to promote their services with minimal investments in sponsorships or media selling. Face-to-face interaction with clients continues to be the preferred mode of service delivery despite the increased adaptation of local area networks and other modes of information technology by the proactive, functionally diversified or internationally oriented firms.

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INTRODUCTION AND PURPOSE

This paper analyses the strategic and functional orientation of small- and medium-sized firms (SMEs) in public accountancy. Specific objectives include examining the sources of competitive advantage, methods of service promotion and delivery, the patterns of collaboration utilised by these SMEs, and the impact of locational characteristics on their business performance. The Buffalo-Niagara Falls metropolitan region, a metropolitan area known to be struggling to adjust to the shifts in manufacturing activities, is the sampling location.

The motivation for this study is based upon the need to understand how SMEs in professional services function as both their client base and client requirements change. In the Buffalo-Niagara Falls metropolitan area, SMEs in professional services have been forced to adapt to the following changes in the local context: (1) the decline in manufacturing due to closures, relocation, mergers and acquisitions, (2) changing demands from existing manufacturing clients led by the increasing demand for management consulting; (3) new requirements for a continually changing service package by emerging sectors (e.g. scientific instruments, medical equipment, and medical related services such as hospitals) and non-manufacturing clients (e.g. retailing and individuals), and (4) firms with cross-border markets seeking management consulting services in the areas of international business/international accounting.

Furthermore, the need for specialised and customised services (flexible specialisation), the need for quick delivery, and the adaptation of information technology in delivering services have precipitated changes in these professional service firms [Kirby *et al.*, 1997]. Bigger firms in the same sector (e.g. the Big Six or other regional firms) or in-house accounting/consulting divisions of large firms are factors that may erode the client base and market share of these professional service SMEs. As a result, competitive strategies are often driven by fee structures; however, non-price-based factors such as quality, response, speed, specialisation, and customisation are becoming increasingly important for both accessing new clients and overall client retention. SMEs often lack the motivation as well as the resources to formulate financial, marketing, and human resource strategies that integrate these competitive strategies for the short- and long-term sustenance and development of present and potential clients. The survey results show that a good percentage of the accounting SMEs in the western New York region (e.g. Buffalo-Niagara Falls metropolitan area) prepare strategic plans that outline their goals and establish their human resources, financial, and marketing agenda, and as a result have better business performance. In addition, the development of a non-traditional client base (e.g. firms requiring a total service package, firms demanding services other

than auditing and accounting, firms with the need of international business expertise) shows the importance of non-price-based factors such as specialisation, adaptation to client's needs, and the speed of delivery.

The interaction of firm-level resources with external stimuli and their impact on the diversification, promotion, and delivery of services forms the basis of this study. The analysis is based upon the formulation of strategic, functional, and international orientations of SMEs in public accountancy in the industrially declining region of Western New York. On the basis of survey responses, SMEs are classified first as *proactive* or *reactive* depending upon the extent of their strategic planning; and second, as functionally *diversified* or *concentrated* based upon the range of services offered; and as *internationally-* or *locally-*oriented based upon their interest in pursuing clients involved in international business activities.

The remainder of the study evaluates the dissimilarities, if any, between the three different classifications of firms (proactive versus reactive, functionally diversified versus concentrated, internationally versus locally oriented) with regards to (1) competitive advantage, (2) collaboration and/or external inputs from other producer service firms, (3) service promotion and delivery, (4) locational impact upon business performance, and (5) barriers to internationalisation. It is expected that the proactive and/or functionally diversified firms will show flexible specialisation (e.g. compete on the basis of non-price-based advantages), promote services through aggressive informal networking, collaborate with other producer services, exploit new information technology, and utilise local context specific agglomeration economies (e.g. proximity to the border, newly emerging medical industry cluster in the Western New York-Southern Ontario corridor) to their advantage.

A critical observation is the importance of face-to-face interaction in service delivery even with the adaptation and acceptance of advanced communications technology in the SMEs. As a result, it is expected that most firms will be local with a few serving clients with international business involvement. Furthermore, management time requirements will limit functional diversification. These firms (functionally diversified and/or with international clients) are expected to be proactive, diversified, aggressive promoters of their services, and will have undertaken special efforts in acquiring knowledge in non-traditional services within the accounting profession.

In order to be competitive through flexible specialisation, these SMEs will be interested in using information and communications technology to enhance service production (e.g. improve processes of service production, networking), but personal touch (personal attention to clients' needs, visiting clients to deliver services), visibility (social networks), and direct

contact will remain the underlying determinants of mode choices in service promotion and delivery, as well as client retention and growth.

RESEARCH CONTEXT: PRODUCER SERVICES AND THE ACCOUNTING PROFESSION

Producer Services

Research on the rapidly growing producer service sector that includes professional and business services is numerous [Bryson *et al.*, 1993a, 1993b; Bryson, 1997; Coffey, 1995; Coffey and Drolet, 1996; Daniels *et al.*, 1992; Daniels, 1995; Edvardsson *et al.*, 1993; Harrington, 1995a and 1995b; Hitchens, 1997; O'Farrell *et al.* 1993, 1996; Vandermerwe and Chadwick, 1989]. The importance of professional and business service inputs to firms has been a major part of this research, followed by a debate as to the role of producer services in economic growth and development [Hansen, 1993]. Service inputs such as accounting, marketing and advertising, industrial design, engineering and management consulting, research and development services, financial and export advisory services, adaptation and use of computer and advanced telecommunications technology for better information access, and data handling are some examples that have systematically enhanced productivity and profitability in both manufacturing and non-manufacturing business organisations [Coffey and Drolet, 1996; Dicken, 1992; Goe, 1990; Harrington, 1995b; Hitchens, 1997; Kleinschmidt and Cooper, 1990; O'Connor, 1994; O'Farrell *et al.*, 1995; Sinkula, 1990].

Professional services such as accounting often form a compulsory component of a service package required by organisations. However, the demand for a combination of professional services is becoming the norm; for example, accountants are often requested to provide management consulting, financial planning, litigation support, information technology and other non-traditional functions in addition to traditional accounting and auditing services [Noyelle, 1990]. SMEs in the accounting sector are not always equipped to provide a wide range of services and increased competition from large firms and multinationals often forces SMEs to lower fees. However, such price-based competitive advantage is short-lived unless SMEs develop some non-price based strategies (e.g. customisation, quick delivery, personal attention to clients). Some entrepreneurs do succeed in diversifying into a wide range of markets, both functional and geographical, despite their scale limitations. Organisational networks and the acceptance of information technology help such diversification efforts by small and medium entrepreneurs. Organisational networks are forums for information exchange, partnering, word-of-mouth promotion; and the use of information

technology improves accessibility, as well as the speed of delivery to clients [Johannisson, 1995]. Group variations within professional service SMEs with regards to market development, service promotion, and delivery is the central focus of this study.

The geography of the producer service industry shows that there is a lack of any systematic regionalisation within the United States [Esparza and Krmenec, 1993]. Metropolitan clusters of producer services are evident, and these clusters have remained quite stable over time because they provide agglomeration advantages such as high-skilled labour, access to competitors, collaborators and markets, as well as the infrastructural set-up (e.g. transportation and communication). Tradable producer services in the United States and Canada have successfully developed non-local and export markets aided by advances in telecommunications and information technology irrespective of their location within an urban hierarchy [Goe, 1990; Stabler and Howe, 1988]. Although large metropolitan areas host headquarters of large service firms, medium and small metropolitan areas have a significant portion of their economic base devoted to producer services [Beyers, 1991; Coffey and Polese, 1987]. These producer service firms include subsidiaries of large establishments, regional or local market-oriented, multi- or single-establishment organisations, or independent consultants (e.g. small and medium sized firms or SMEs).

In fact, an increasingly important characteristic of the producer service sector is the growth of SMEs [Beyers, 1991; Birch, 1987; Lyons, 1995; see Harrison, 1994 for a discussion of the role of SMEs in regional development]. Clusters of producer service SMEs at different levels of the urban hierarchy are expected to be quite similar in their attributes such as economies of scope, functional capabilities, and internal barriers to market development (service promotion and delivery). A follow-up to the current analysis of SMEs in public accountancy in the Buffalo-Niagara Falls region found no statistically significant variations in company-specific attributes (e.g. international business involvement, service diversification, growth performance) in New York City, Albany, Syracuse, and Buffalo-Niagara Falls [Sen, 1997]. These metropolitan areas not only vary in population size but also were expected to offer varying levels of opportunity. However, the company-specific responses of 180 SMEs from these regions suggested only a minor role for geographical context in the strategic and/or operating characteristics of SMEs in this industry. Apart from a few studies exploring regional variations in producer or business services within the United States [Sen, 1997], most researchers agree that an understanding of the economic viability of these producer services within any metropolitan area, large, medium, or small, is of concern to industrial geographers because without producer service inputs, local businesses suffer and new businesses are

reluctant to consider the area as a potential site [Coffey and McRae, 1990; Esparza and Krmenc, 1993; MacPherson, 1995]. An examination of the determinants of competitive advantage, modes of service promotion and delivery, locational impediments to growth, and barriers to the development of non-local markets within metropolitan agglomerations are the research objectives of this paper.

The Accounting Profession

The place of licensed Certified Public Accounting professionals (CPAs) as one of the most important service providers to organisations was formally established in 1933 with the creation of the Securities and Exchange Commission (SEC) which required independent audits of all publicly held companies. The demand for CPA services was further increased by the growth in manufacturing in the post World War II period. Until the middle of the 1970s, most CPA firms earned their revenues from accounting and auditing without much diversification into other functions. However, mergers and acquisitions, changes in the regulatory and competitive environment, and advancements in computer technology eroded the client base in the 1980s and 1990s. Furthermore, the demand patterns of existing clients changed to include new services such as management consulting. Mergers and acquisitions eliminated accounts; many publicly held companies become private to avoid SEC regulations regarding audit; computer technology somewhat eliminated the need for personal tax preparation; and clients started requiring a package of related services (e.g. tax planning, management consulting, information services). Growing competition resulted from numerous spin-offs from the multinational accounting firms, and negatively affected audit fees forcing CPA firms to diversify clients both functionally and geographically [Beauchemein, 1991; Bagchi-Sen and Sen, 1997]. An example of functional diversification within the accounting profession is the increasing emphasis on management consulting. For example, Arthur Andersen's Andersen Consulting and other CPA firms not only appoint new hires to consulting tasks, but non-CPAs are now allowed to become equity partners in their firms [Bagchi-Sen and Sen, 1997].

More specifically, CPA firms may offer the following activities: audit; tax preparation; planning; representation; management advisory services; securities advice; mergers and acquisitions; business valuations; litigation support; bankruptcy services; market and economic feasibility studies; executive searches; computer hardware and software sales; and computer hardware/software selection and installation (other than sales) [Stolle, 1991]. It should be noted that functional diversification of CPA firms continues to be restrictive because these firms are often exposed to lawsuits, and until the mid 1990s, owner's personal assets were not protected from

such lawsuits. Currently, accounting firms can form limited liability partnerships or limited liability corporations to protect owner's assets from lawsuits, but potential lawsuits may deter owners from getting involved in non-traditional functions.

On the basis of geographic markets, CPA firms are categorised as local, regional, national and international. Traditionally, the multinational firms such as Price Waterhouse, Arthur Andersen, Deloitte & Touche, Coopers & Lybrand, KPMG Peat Marwick, Ernst & Young established subsidiaries in other countries. International involvement, however, is not limited to these large firms. Accounting SMEs are directly or indirectly involved in international business through (1) provision of management consulting services to domestic clients who are involved in internationalising their operations (somewhat similar to client-following internationalisation although the accounting SMEs are not physically relocating their operations to a foreign country), and (2) furnishing tax, auditing, accounting, and other services to foreign clients establishing their businesses within the United States (SMEs are performing basic functions in that they are generating revenues from a foreign source). Several factors influence SMEs to diversify both functionally and geographically. These factors can be combined in a package entitled 'competitive advantage'. Furthermore, firm-level strategic planning is a key determinant of how competitive advantages can be operationalised to better promote and deliver services to a broad range of clients. Geographic location may or may not affect the degree of SME involvement in non-traditional markets. For example, a firm in a large metropolitan area such as New York may have access to a variety of clients but the lack of in-house expertise (limited economies of scope in SMEs) may restrict involvement in non-traditional markets. On the other hand, SMEs in the cross-border region of the Buffalo-Niagara Falls metropolitan area with similar size-related limitations might actively seek non-traditional clients such as Canadian investors in Western New York. Therefore, contextual factors rather than urban size will determine whether or not SMEs in accounting will seek non-traditional clients.

In professional services, direct involvement in a foreign market, including Canada in the post-NAFTA period, is highly restricted. The barriers are (1) non-recognition of credentials and qualification; (2) licensing requirements and pre-conditions for licensing such as local education, revalidation of college degrees, additional education and practical experience in the host country; and (3) the requirements of citizenship or residence in the host country. Accountants (e.g. secondments) may not be allowed to sign audits or serve as management consultant or investment advisors, but may only be allowed to work as bookkeepers or tax consultants. Large firms overcame such barriers through establishing new

offices, acquisitions, and mergers. Daniels *et al.* [1988] suggest that a survival strategy for the smaller firms may involve 'finding niches in the accounting market, such as subcontract work on accounting records for larger firms which prefer to concentrate on more lucrative consultancy and advisory work' [p. 320]. However, practitioners recommend a number of paths for internationalisation, and none of these paths suggest that SMEs should always depend on large firms involved in international business for subcontracting work. One recommendation is to join international associations to network with international lawyers, actuaries, US banks with international clients, and foreign embassies – these networks will allow SMEs to access clients through referrals [The Practicing CPA, 1981-1994; Cordon, 1989; Israeloff, 1992]. Popular anecdotes corroborate such avenues of internationalisation [INC, January 1993]. Harrington and Lombard [1989] show that small and medium professional and business service firms are developing non-local markets that include international clients. The next sections will discuss the sources of competitive advantage for SMEs in professional services, collaborations and the provision of external service inputs, and service promotion and delivery methods.

Competitive advantage. Competitive advantage is based on certain organisational and regional characteristics: factor and demand conditions, related and supporting industry, and firm strategy, structure, and rivalry (Table 1). Two supply side factors are important – skilled personnel and information technology. In most producer services, proximity close to the customer and/or access to clients is crucial [Caruana *et al.* 1995] because word-of-mouth marketing is particularly relevant among users e.g. smaller, privately held firms or small accountancy firms [File *et al.*, 1994]. In fact, face-to-face contact is still deemed as one of the most important factors in service promotion and delivery. Industry support structure provides both clients and networking opportunities but at the same time may hinder business for CPA firms. For example, age of firm/established reputation is as important in accounting as brand names are in manufacturing. However, a proactive stance in seeking out clients may negate the effect of a lack of established reputation. Firm-level strategies may include long- and short-term planning, decisions regarding marketing, personnel policies, and financial planning. Another level of decision making may encompass all aspects of strategic planning: competition based on price versus non-price factors. Competitive pressures from a proliferation of SMEs in the profession have negatively affected accounting fees. Therefore, small firms are always concerned about losing their clients to competitors with more reasonable rates. Firms providing traditional standardised services are expected to put more emphasis on fees. Non-price-based factors focus upon

quality, range, customisation, and delivery of services or in the accumulation of know-how [Nachum, 1996]. Specific factors examined in this study include quality, creativity, specialisation, range, ability to adapt to client's needs (i.e. customisation), speed of delivery, and the need to provide personal attention to clients. Two other factors are geographic proximity to clients and marketing activities (service promotion and delivery). Some of the nonporous-based advantages are rooted in scope economies and flexibility.

TABLE 1
COMPETITIVE ADVANTAGE IN PROFESSIONAL SERVICES

Factor Conditions	Demand Conditions	Related and supporting Industries	Firm Strategy, Structure, and Rivalry
Skilled Personnel	Geographical Proximity to clients	Composition	Price of services rendered
Information Technology		Networking opportunities	Range of expertise
		Industry mix in the area	Service quality and design
		Speed of initial entry – age/longevity	Strategic Planning
		Barriers	
		Internationalization	

Source: Based on Porter, 1990.

Networks/collaborations. Lipparini and Sobrero [1994] believe that competitiveness in SMEs emerges as a network-embedded capability. The co-ordination among firms maximises firm-specific competencies, and represents a strategic leverage in accomplishing and maintaining a sustainable competitive advantage. As orchestrators of inter-firm linkages, entrepreneurs are able to identify possible sources of knowledge. As coordinators of such innovative ties, they combine a wide set of diverse competencies not only to overcome size constraints through cost reduction, but also to recoup ideas and creativity for the realisation of more complex typologies for innovation. These elements reduce the levels of uncertainty, while enhancing early co-operation between firms. Aharoni [1995] views

the use of networking in professional business services as a means to use scarce managerial talents effectively. Although networking originally was used as a means of overcoming obstacles to international operations (e.g. technical and cultural barriers), it has become a major tool for functional and geographic diversification increasing productivity and profitability. Networks provide producer service firms with increased visibility to potential clients. These networks are also sources of client referrals and repeat business, thereby ensuring client stability and growth [Bryson *et al.*, 1993].

The networks utilised in this study are composed of other producer services such as advertising and marketing, other accounting SMEs, clerical/bookkeeping, banking, financial planners, insurance, management consulting, legal, information technology and computer hardware as well as software companies. Some relationships are essential such as banking, insurance, and legal services; these contacts are key sources of client referrals. Other accounting SMEs and clerical/bookkeeping firms are often utilised to subcontract out routine work, or to expand the range of services offered to clients. Collaborations with management consultants may remain flexible, job-by-job, and short run ventures to meet specific client needs. Similarly, information technology and computer companies are either sources of external services needed for permanent improvements in service delivery or are collaborators to satisfy specific client needs. Advertising and marketing, management consulting, information technology and computer companies are expected to provide access to non-traditional clients and improve core competencies based on flexibility (e.g. speed of delivery). In sum, producer service firms network formally and informally to expand their range of expertise, develop specialist services, access new domestic and foreign clients (new referrals), retain existing clients repeat business, improve credibility and reputation, and personnel development. These networks are therefore a forum for enhancing production processes (e.g. specialist services), service promotion (e.g. marketing and advertising) and delivery (e.g. technology infrastructure through LANS/WANS [local area networks/wide area networks]), as well as client referrals/repeat business (e.g. banks, legal services).

Service promotion and delivery. The five main elements of marketing are product, pricing, promotion, delivery, and customer service. Accounting firms may provide traditional services such as audit or tax preparation, or customise their services such as management consulting or financial planning. Pricing is a major concern and is determined by competitive pressures within the market served, and non-price-based factors often take precedence over pricing decisions in accessing non-traditional clients.

Promotion and delivery of services are an integral part of the producer services. Advertising is a recent (past 20 years) method for the public accounting firm to publicise their services, and numerous articles in the professional literature encourage the accountant to utilise promotional tools such as media advertising and sponsorships [see The Practicing CPA, 1987, 1988, 1992]. The firms that have actively promoted their services through advertising or networking (e.g. person selling, community service, social activities, association memberships, board memberships) are expected to have a competitive advantage over those firms which are not active promoters. It should be noted that promotion through networking could be formal or informal; formal promotion will involve some form of expenditure in dollar terms whereas informal promotion may not. Informal promotion focuses upon personal contacts, the development of trust, word-of-mouth advertising, client referrals, and repeat business. Such social networking is crucial to the entrepreneurial process both at initial stages when capital is essential but also at other stages of development as noted above [Aldrich and Zimmer, 1986; Butler and Hansen 1991; Dokopolou, 1986; Hitchens and O'Farrell, 1987; Johannisson 1988; Scase and Goffee, 1985]. Face-to-face interaction with potential clients is the most important method of delivery because it allows accountants to provide personal attention to clients [Bryson *et al.*, 1993]. In recent years, computer and information technology such as local area networks (LANS) and wide area networks (WANS) are being used to increase the speed of delivery, to minimise the effect of physical distance, and to increase flexibility. Customer service is integral to the delivery of a professional service, and accountant-client interaction provides customer feedback and a medium for understanding shifts in client needs.

DATA AND RESULTS

Data and Firm Profile

A mail survey sent to 195 CPA firms in the Buffalo-Niagara Falls metropolitan area was used to collect the data used in this study. These firms were identified from the membership roster of the Buffalo Chapter of the New York Society of Certified Public Accountants (NYSSCPA). The NYSSCPA has 12 chapters in the state of New York as of November 1998. Local telephone directories were also used to verify the names and addresses of the CPA firms. The questionnaire was mailed in December 1995; 11 were returned due to incorrect address and 3 were returned with notes stating that the firm was not a public accounting firm. Therefore, the corrected sample size became 181 (195 – 14). Fifty-five completed surveys were received by February 1996 yielding a response rate of 30 per cent (55

out of 181). Due to the anonymity of the survey, it is difficult to estimate the non-response bias (a comparison of firm characteristics of early and late respondents show that the late respondents have larger employment size and revenues). However, the average responding firm is comparable to a national survey of local and regional public accounting firms in a number of characteristics such as size distribution of firms, types of services offered, and average employment size (Table 2). If a firm had more than one office in the area, only the headquarters received the questionnaire.

TABLE 2
THE NATIONAL SURVEY VERSUS THE BUFFALO SAMPLE – SIZE DISTRIBUTION

Firm Group	National Survey	Buffalo-Niagara Falls Survey
Individual practitioners	51%	51%
Small multi-owner firms Revenues < \$350,000	9%	4%
Medium-sized multi-owner firms \$350,000–\$900,000	20%	24%
Large multi-owner firms > \$900,000	20%	21%
Total Firms	100%	100%

The questionnaire was designed to solicit information in seven categories: firm demographics and organisational structure; client base and types of services offered; sources of competitive advantages (including the development of strategic plans); the utilisation of collaborative networks; the effect of location factors; methods utilised for service promotion and delivery; and the firm's internationalisation status and barriers to internationalisation. Although anonymity was guaranteed, the conservatism of the profession restricted accountants from divulging proprietary data such as total net fees and net income. As a result, the data on fees and income are available only for a partial list of the respondents.

Firm profile. The average firm started business in 1975 with the oldest starting in 1915 and newest in 1994. Most firms considered themselves local (87.3 per cent) followed by regional (10.9 per cent); none were national and the list of 195 did not include local subsidiaries of the Big Six. Partnerships (25.5 per cent), professional corporations (34.5 per cent), and sole proprietorships (34.5 per cent) were the main organisational forms.

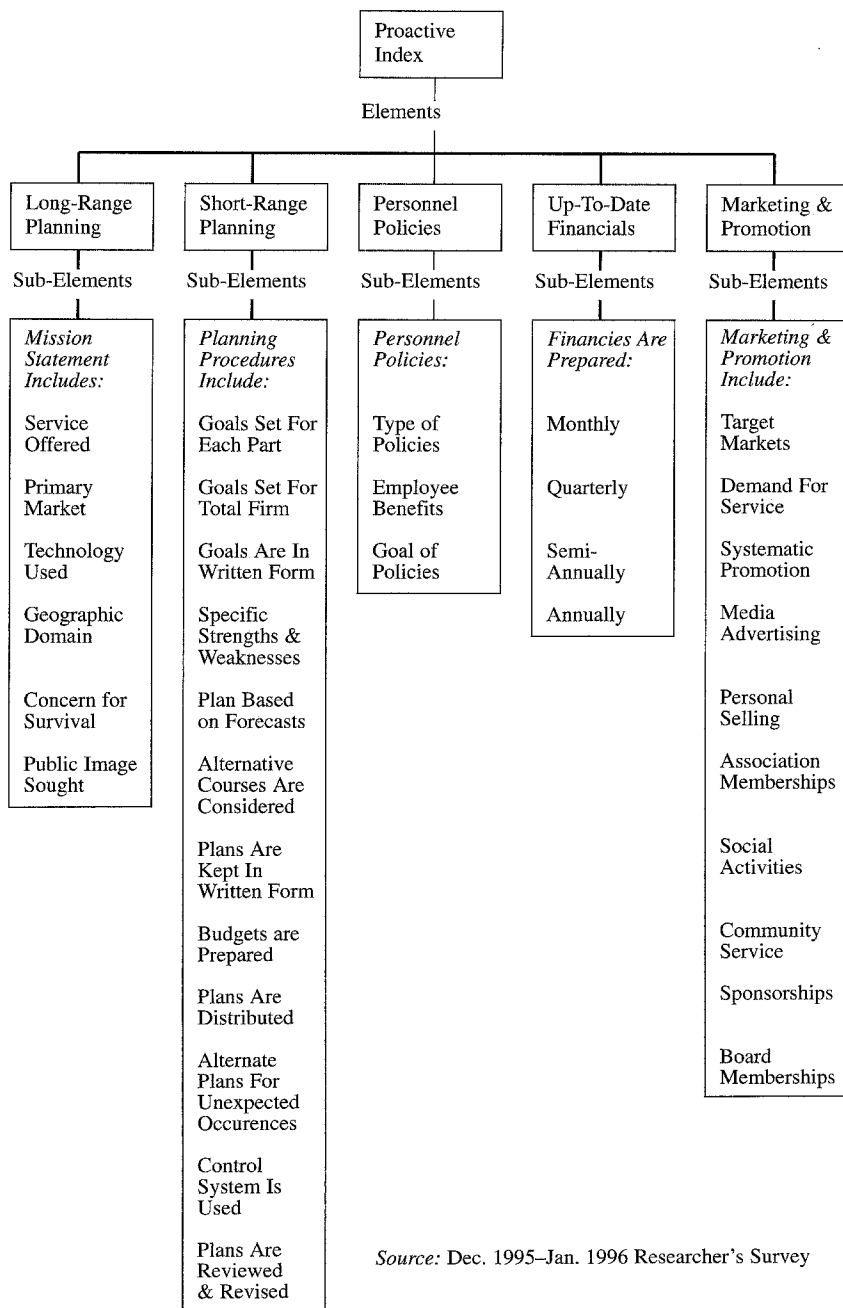
Others included limited liability partnerships or LLPs (5.5 per cent) and limited liability corporations. The size distribution shows that the majority of these firms (55 per cent) earned total revenue in the range of \$50,000 to \$500,000. The size distribution of the firms in the sample closely matched the size distribution from a national survey reported by the Texas Society of CPAs [1994] with individual practitioners forming the largest category (51 per cent) among all respondents.

In this study, firms are categorised based on their strategic (*proactive versus reactive*), functional (*diversified versus concentrated*), and international (*international versus local*) orientation as discussed in the following sections.

Strategic orientation. The strategic orientation (*proactive versus reactive*) is based on a proactivity index that was calculated by aggregating the Likert scale response of the firms to a series of questions on strategic management/planning (Table 3). The questions were answered on a 5 point Likert scale (1=not important, 5=critically important). Dodd *et al.* [1995] show that proactive firms are more likely to enjoy overall success than the less proactive firms. The proactivity score ranged from 43 to 153 with the median proactivity index equalling 95. The median value is utilised to classify firms as proactive (score>95) or (reactive score <=95). The reactive firms are defined as firms that 'typically respond to actions which competitors initiate; seldom are first to introduce new products, administrative techniques, operating technologies, etc.; and typically seek to avoid competitive clashes' [Covin and Covin, 1990: 36]. In contrast, proactive firms are described as having a general willingness to innovate and compete [Torrence, 1987: 23]. 'Proactive firms can be characterised as growing rather than maintaining, being receptive to hearing problems, seeking a new niche rather than entering an existing niche, using financial ratios, having up-to-date financial records rather than using the "shoe-box" method, having personnel policies rather than waiting for problems to arise, and having goals and objectives and following through rather than failing to plan and not following through on goals' [Dodd *et al.*, 1995: 203]. It should be noted that the mean proactivity score for successful firms (success based on net income per owner and calibrated to a national study) was 104 compared to 82.7 for less successful firms. The mean values are significantly different at the 95 per cent confidence level, and as a result, proactivity is used as a surrogate for success in this study.

Functional orientation. Functional orientation is based on the calculation of a diversification index [Medvedkov, 1970]. Absolute entropy is defined as follows: $A = -\sum p_i \ln p_i$ where p_i is the proportion of revenue attributed to

TABLE 3
ELEMENTS OF PROACTIVITY



Source: Dec. 1995–Jan. 1996 Researcher's Survey

function i. In this study, 15 functional categories are considered (audit; tax preparation, planning, representation; management advisory services; securities advice; mergers and acquisitions; business valuations; litigation support; bankruptcy services; market and economic feasibility studies; executive searches; computer hardware sales; computer software sales; computer hardware selection and installation; computer software selection and installation; and other). Relative entropy is defined as follows: $R = \{A/\ln k\} * 100$ where k is the number of functional categories used in the study. The value of R will range between 0 and 100. A value of 0 suggests that 100 per cent of the activities will be concentrated in one function. In the sample, 3 firms fully concentrated in tax preparation. A value of 100 suggests relative diversification. The range of values for the respondents ranged between 0 and 65.2 with a median value of 40.3. Firms are therefore classified as relatively concentrated ($R \leq 40$) or relatively diversified ($R > 40$).

International orientation. International orientation includes three categories based on the firm's response to a specific question in the survey: the firm is not interested in internationalising (24 firms were not interested), the firm is interested but not yet successful (19 firms were interested but not yet successful), and the firm has successfully internationalised (9 firms had successfully internationalised). The 9 firms mentioned above were classified as 'internationalised' and the others ($n=43$) were classified as 'not internationalised' (see the definition of internationalisation in the previous section). Three firms did not select any orientation. In the survey, the respondents were also asked to describe their own criteria for determining the degree of internationalisation. Some of these criteria are as follows: the firm is able to provide a full range of services for entities crossing the border to Canada or the United States; ongoing services are provided whenever required by clients; 5 per cent of total revenues are earned from international sources; and the firms joined a world-wide accounting association. The survey revealed that the 'internationalised' SMEs are quite interested in planning to increase their revenue from international activities. The planning options provided to the firms were: integrate goals into firms' mission and planning procedures; quantify the position of business desired from the international arena; identify the type of service to offer in the international arena; identify the foreign origination of entities to offer these services; establish an international division; join an international association of accountants; and formally assign personnel to develop international revenues. Most firms identified the type of services they were comfortable in offering to clients with international involvement and formally assigned personnel to develop skills in handling these clients.

TABLE 4A
GENERAL RELATIONSHIPS: STRATEGIC ORIENTATION

Strategic Orientation	1 Functional Orientation Concentrated	2 International Orientation		3 Size		4 Revenue		5 No. of Owners		6 Growth Orientation		7 Age (in years)		8 Collab- oration		
		No		a		Low		Single		Low		>20		No		
		Yes		b		High		Multi		High		<20		Yes		
Reactive	14	14	26	2	20	8	22	6	18	10	9	19	15	13	18	9
Proactive	12	15	20	7	12	15	14	13	11	16	3	24	15	12	15	10

(2) Chi square value = 4.114 ($P = .04$) (Note: $a = 1-7$ employees; $b = >7$ employees)

(3) Chi square value = 3.56 ($P = .05$)

(4) Chi square value = 3.06 ($P = .08$) (Note: Low = < \$500,000; High = > \$500,000)

(7) Chi square value = 4.34 ($P = .03$)

TABLE 4B
GENERAL RELATIONSHIPS: FUNCTIONAL ORIENTATION

Functional Orientation	1 International Orientation		2 Size		3 Revenue		4 No. of Owners		5 Growth Orientation		6 Age (in years)		7 Collab- oration	
	No	Yes	a	b	Low	High	Single	Multi	Low	High	>20	<20	No	Yes
Concentrated	24	2	19	7	21	5	18	8	8	18	12	14	20	5
Diversified	22	7	13	16	15	14	11	18	4	25	18	11	13	14

(1) Chi square value = 4.496 ($P = .03$)

(3) Chi square value = 3.38 ($P = .02$)

(6) Chi square value = 5.11 ($P = .02$)

(7) Chi square value = 5.68 ($P = .01$)

The average firm successful at international business employed 25 people on a full time basis and had 4 owners. None of the sole proprietorships characterised themselves as internationalised. The top three clients were manufacturing firms, individuals, and retailers. The breakdown of revenue reveals a greater emphasis on audit and management advisory services, and a relatively smaller emphasis on tax and review and compilation. The internationalised firms earn 37.22 per cent of revenue from audit, and 17.44 per cent from management advisory services while the others (not interested and interested but not successful groups) earn 16.08 per cent and 21.05 per cent from audits and 7.12 per cent and 11.74 per cent from management advisory services, respectively. The internationalised firms are larger in terms of employees and have a greater range of expertise on their staff to perform audits and provide management services. Review and compilation are services offered to smaller clients in lieu of an audit. This explains why only 13.4 per cent and 11.44 per cent of the revenue for the 'not interested' and 'not successful' firms are from review and compilation compared to only 2.2 per cent for the 'internationalised' firms.

Results

General relationships. General relationships among the strategic, functional, and international groups as well as their size, ownership structures, age, growth orientation, total revenue, net fee structure, and net income are discussed in this section (Tables 4a, 4b, and 5). Only a selected number of firms listed their fees and net income. Highly proactive firms are not necessarily concentrated or diversified (note: there is no significant difference in the mean level of proactivity for functionally concentrated versus functionally diversified firms). However, firms with international activities are proactive (mean proactivity score being 120.66 for firms with international activities compared to 89.34 for firms with no involvement in international activities; the t-value is -3.84 with $p=.003$) and functionally diversified (relative entropy is 46.7 versus 35.32 and the t-value is -2.05 with $p=.001$).

Cross-tabulation of respondents reveal that reactive firms generally have less than 7 employees but proactive firms are more or less evenly distributed across employee size categories. A similar distribution pattern is observed for revenue size with most (79 per cent) of reactive firms earning less than \$500,000 whereas the proactive firms are more or less evenly distributed across revenue categories. Proactive firms are generally multi-owner and growth-oriented. A large and significant difference in the mean value of net fee and net income for the two groups exist. Functionally concentrated firms are clustered in low employment and low revenue categories, whereas functionally diversified firms are more or less equally distributed across

TABLE 5

GROUP DIFFERENCES: NET FEE, NET INCOME, AND NET INCOME PER OWNER

	Strategic Orientation		Functional Orientation		International Orientation	
	Reactive	Proactive	Concentrated	Diversified	No	Yes
Net Fee ¹	\$333,008	\$885,917	\$227,400	\$905,240	\$397,476	\$2,366,917
Net Income ²	53,357	161,364	52,214	162,818	93,250	284,000
Income per owner	48,916	73,181	50,607	71,030	60,597	35,500

¹ Strategic orientation $t = -1.97(P=.06)$, Functional orientation $t = -2.85(P=.01)$ ² Strategic orientation $t = -2.34(P=.03)$, Functional orientation $t = -2.41(P=.03)$

size and revenue categories. Ownership and growth orientation differentiate between the two functional categories as well. Both net fee and income are significantly higher for the diversified firms. It should be noted that not all proactive and/or diversified firms are relatively larger than their counterparts; therefore, size is not necessarily the determinant of differences in their business performance. The study shows that proactive and/or diversified firms (and to some extent the internationally oriented firms) are doing better in terms of net fee and income. Further analysis of survey data in the subsequent section will offer some analysis of other key characteristics of these SMEs in professional services, specifically focusing upon group differences in competitive advantage, collaboration, modes of service promotion and delivery, barriers to internationalisation, and locational impact upon net income per owner.

Competitive advantage. Table 6 shows the relative importance of the determinants of competitive advantage based on a 5 point Likert scale (1=not important, 5=critically important). Firms with a proactive orientation place significantly more importance on non-price-based factors that offer firms flexibility in terms of quality, range, speed of delivery, creativity, and customisation/adaptability. Proactive firms are actively seeking out clients as shown by their focus on marketing activities. Both groups place similar importance upon the need to provide personal attention to clients, proximity, and established reputation.

Firms offering traditional services (functionally concentrated firms) consider price or fee structure to be of more importance than functionally diversified firms. The mean values are higher for diversified firms for all other factors except the following four: reputation, personal attention to clients, proximity, and marketing activities. The mean difference is significant for reputation and personal attention suggesting that functionally

TABLE 6
ORIENTATION AND COMPETITIVE ADVANTAGE^a

Competitive Advantage	Strategic Orientation		Functional Orientation		International Orientation	
	Reactive	Proactive	Concentrated	Diversified	No	Yes
Price	3.54	3.67	3.84 ²	3.37 ²	3.69 ³	3.11 ³
Quality	3.74 ³	4.19 ³	3.84	4.07	3.93	4.11
Range of Services	3.57 ³	3.88 ³	3.53 ³	3.89 ³	3.65 ³	4.11 ³
Speed of Delivery	3.64 ¹	4.18 ¹	3.88	3.93	3.89	4.0
Creativity	3.64 ²	4.15 ³	3.76	4.0	3.89	3.88
Adaptability	3.75 ¹	4.33	3.92	4.13	4.02	4.11
Established Reputation	4.32	4.33 ¹	4.5 ²	4.17 ²	4.32	4.33
Specialization	3.57	3.81	3.53	3.82	3.65	3.88
Personal Attention to Clients	4.82	4.81	4.92 ²	4.72 ²	4.82	4.77
Geographical Proximity	2.89	2.85	3.0	2.75	2.89	2.77
Marketing Activities	2.42 ²	3.00 ²	2.76	2.65	2.63	3.11

a Mean values based on a 1-5 Likert scale where 1=not important and 5=critically important
Significance (two-tailed) of t-value: ¹.01 or less ².05 or less ³.10 or less

concentrated firms are held back by their belief that without established reputation they will fail to attract non-traditional clients. Furthermore, they may believe that personal attention can only be provided through face-to-face interaction at a client's location or at the firm. These firms may have limited exposure to networking activities through information technology. The firms that responded that they were successfully internationalised do not compete on the basis of price, but on the range of services they can provide to their clients. Mean values are higher for speed of delivery, adaptability, specialisation, and marketing for these firms. As in the section on general relationships, functionally diversified firms are able to seek out a wide variety of clients. The importance of geographic proximity, established reputation, and the need to provide personal attention to clients (that is, face-to-face interaction) for both proactive and reactive, as well as locally oriented and internationally oriented firms, indicates that SMEs in professional services are location bound whereas location boundedness is not characteristic of multinationals in professional services [Boddewyn, et. al. 1986; Daniels, 1982]. Therefore, in most cases the business performance of SMEs in professional services will be tied to the ups and downs in their immediate geographic surrounding as opposed to innovative manufacturing SMEs who are quite successful in generating export revenues and reducing their dependence upon local market fluctuations [MacPherson, 1995].

Collaboration. Collaboration or external partnering for specific service inputs is an essential determinant of competitive advantage in manufacturing as well as service firms [Porter, 1990]. In the survey, a collaboration was defined to include alliances with other entities. Such alliances could be formal (fee payment or some other form of contractual agreement) or informal (suggestions or advice from a service provider), stable (regular interaction) or one-time only. Collaborators help retain existing client base; provide an expanded range of expertise, as well as specialised services, access to new clients, improved financial and marketing credibility; and assist in personnel development. One other motivation considered in this study is the role of a collaborator in sharing overhead costs.

In this study, functionally diversified firms and firms with international clients collaborated with other service providers for a combination of reasons listed above (Table 4b) (note: cross-tabulation by international orientation and collaboration is not shown in Table 4b; chi-square value for the cross-tabulation was 2.75, $p=.09$). The choice of collaborators was limited to legal, banking, insurance, other accounting SMEs, management consulting, financial planners, advertising and marketing, management consulting, information technology, computer hardware/software companies/consultants. External inputs from legal, banking, and insurance for example are always considered as essential linkages. Firms may have in-house divisions of other services such as management consulting or information technology; however, SMEs with low overheads and limited resources are reluctant to establish in-house provisions of such services but may prefer to join with a management consulting firm or a computer company in serving specific client needs. These SMEs often develop a stable relationship with such service collaborators to avoid losing clients to competitors. It should be noted that all participants in the network are potential sources of client referral and provide word-of-mouth advertising of professionals.

The results show that the most important group of collaborators for proactive firms are other accounting SMEs – these SMEs are often utilised to subcontract out standardised services such as bookkeeping services or tax return preparation. The main reason for collaboration is the expertise of the external partner. Also, service subcontractors often charge a low hourly rate compared to the principal involved. The reactive firms do not have a dominant group of collaborators or a dominant reason for developing such links. The most common groups for reactive firms are legal, insurance, and banking services. The reasons range from accessing clients to obtaining a range of expertise and/or specialised services. Most collaborations are deemed as moderate to very important (Likert scale values of 3 or 4) except

for insurance and financial planning for the proactive group and advertising and financial planning for the reactive group. Both groups rated the impact of computerisation on business performance as very important.

Functionally diversified firms collaborated mostly with other accounting SMEs to expand their expertise and retain existing client base. Other important links in their service networks comprised of legal, banking, and insurance services. Few functionally concentrated firms collaborate – their main partners were other accounting SMEs. The functionally concentrated firms rated the impact of management consulting collaborators as the most important service from an external partner followed by other accountants. The diversified firms rated the impact of computer companies as critically important – computerisation improved efficiency (e.g. speed of delivery) and access to non-traditional clients (e.g. clients requiring non-traditional services). Diversified firms listing banking and legal services as major links (average impact calculated as 4 or very important on a Likert scale) also noted client referrals as their main reason for rating such external partners as very important.

The internationally oriented firms listed banks, insurance companies and information technology companies as their top collaborators. The average impact of the collaboration with banks was very important (4.0) while the average impact with insurance and information technology companies was less (2.6 and 3.0, respectively). All of the collaborations with information technology companies are done by internationalised firms. In contrast, the top ranked collaborations of the locally oriented companies are with other accounting firms and legal firms. However, the role of legal firms in enhancing business performance of CPAs is much higher (average impact 3.38 on a 1-5 Likert scale) compared to other accounting firms (1.9). Legal firms are sources of clients (new revenues) whereas other accounting firms are utilised to subcontract out traditional services (cost saving opportunities).

Promotion and delivery of services. For reactive firms, the top ranked mode of service promotion is personal selling (Tables 7 and 8). Mean values show that service promotion for reactive firms is of moderate importance (mean values less than 3 for all modes of promotion). The proactive firms rank the options slightly higher than reactive firms do; yet media selling and sponsorships are ranked low. These two modes of promotion require a budget for formal advertisement of their services and SMEs with already limited financial resources are not as enthusiastic about advertising expenditures. Furthermore, accounting SMEs have relied upon client referrals, informal networks, and word-of-mouth promotion because media selling was not permitted until 1978 when the AICPA amended Rule 502 of

the Code of Professional Ethics to allow advertising that is not false, misleading, or deceptive. However, proactive firms are significantly more involved in media advertising, sponsorships, and board memberships. Informal promotion such as personal selling and community service are also significantly more important for proactive firms.

TABLE 7
ORIENTATION AND SERVICE PROMOTION^a

Promotion of Services	Strategic Orientation		Functional Orientation		International Orientation	
	Reactive	Proactive	Concentrated	Diversified	No	Yes
Media Advertising	1.57 ²	2.14 ²	1.92	1.81	1.77	2.37
Personal Selling	3.11 ²	3.77 ²	3.03 ²	3.82 ²	3.22 ¹	4.55 ¹
Association						
Memberships	2.61	3.03	2.64	3.00	2.70 ²	3.44 ²
Social Activities	2.85	3.25	2.96	3.14	2.93 ²	3.66 ²
Community Service	2.92 ³	3.44 ³	3.11	3.25	3.06 ³	3.77 ³
Sponsorships	1.64 ¹	2.55 ¹	1.88	2.34	1.97 ³	2.87 ³
Board Memberships	2.33 ²	3.07 ²	2.61	2.78	2.55 ²	3.44 ²

^a Mean values based on a 1-5 Likert scale where 1=not important and 5=critically important
Significance (two-tailed) of t-value: ¹.01 or less ².05 or less ³.10 or less

The results are somewhat similar for functionally diversified firms. Again, formal modes of promotion involving payment of fees such as media selling or sponsorships are far less important compared to informal promotion. Functionally diversified firms are significantly more involved in personal selling. The mean value is higher for all other modes suggesting that service promotion is an integral tool for diversifying into non-traditional markets. Although the number of firms with internationally oriented clients is small, the importance of promotional modes (mean values for all types) are much higher than any other group. Personal selling is the most important mode, and all values (except media advertising) are significantly higher for the internationally oriented firms. The lack of reliance on formal promotion through media and sponsorships reflects how business is conducted by SMEs in accounting. In the previous section, it has been noted that all groups ranked 'personal attention to clients' as a major source of competitive advantage. Exposure to client networks in accounting is provided by informal modes of service promotion such as social activities, community service and personal selling. These informal modes of service promotion also allow for trust-based relationships where personal contacts are valued.

The methods utilised for delivery of services once again confirm the importance of personal attention and close contacts with clients (Table 8).

TABLE 8
ORIENTATION AND SERVICE DELIVERY^a

Delivery of Services	strategic Orientation		Functional Orientation		International Orientation	
	Reactive	Proactive	Concentrated	Diversified	No	Yes
Person-to-person interaction:						
face-to-face (at Client's office)	3.94	3.96	3.84	4.06	3.88 ²	4.33 ²
face-to-face (at the firm)	3.88	4.0	3.80	4.07	3.95	3.88
telephone conversation	4.10	4.0	4.0	4.10	4.02	4.22
video conferencing	1.01	1.19	1.01	1.17	1.06	1.11
Computer file transfer:						
via modem (direct to client)	1.19 ¹	1.76 ¹	1.21 ²	1.68 ²	1.48	1.44
via information network	1.03 ³	1.34 ³	1.12	1.27	1.22	1.11
local area network	1.85 ³	2.53 ³	1.79 ³	2.51 ³	1.90 ¹	3.55 ¹
wide area network	1.01	1.32	1.12	1.17	1.09	1.44
via mail/courier	2.33	2.58	2.69	2.25	2.30	3.11
Written/Graphical Documents:						
face-to-face (at Client's office)	3.85	3.88	3.72	4.0	3.77 ³	4.33 ³
face-to-face (at the firm)	3.82	4.12	3.88	4.03	3.93	4.11
via mail/courier	3.07 ²	3.69 ²	3.04 ²	3.65 ²	3.26	3.88
via fax	3.25	3.61	3.12 ³	3.68 ³	3.37	3.66

^a Mean values based on a 1-5 Likert scale where 1=not important and 5=critically important
Significance (two-tailed) of t-value: ¹.01 or less ².05 or less ³.10 or less

Face-to-face contacts are far more important (mean values) than information technology (IT) based delivery. Proactive firms are significant users of local area networks, and functionally diversified and internationally oriented firms show similar results. The importance of local area networks is significantly higher for firms offering a wider range of services and serving internationally oriented clients. Face-to-face interaction is extremely important for all groups especially internationally oriented firms. For this group, the mean level of importance (4.33) of face-to-face meeting with clients (at client's office) is significantly higher than firms without any international orientation.

Locational impediments. Table 9 evaluates how the local context impacts the business performance of accounting SMEs. The economic environment of Western New York, industrial/manufacturing decline, agglomeration of medical industry and related services, network of financial institutions, local educational infrastructure, trade policies, proximity to a world city (Toronto), and the cross border location are selected factors used to evaluate

location or context-specific effects upon business performance. The results are not encouraging because only a few contextual variables show a positive impact upon net fees. For proactive firms, proximity to the Canadian border is important. The medical cluster has a somewhat positive effect. Southern Ontario has a similar cluster in medical and related products as well as services; as a result, the potential exists for business relationships across the border in the medical industry to positively affect the earnings pattern of local professional services both in Canada and the United States. It seems that the major barrier to performance is the local economic context. For a long time, accounting services have been dependent upon manufacturing, and the educational system has focused upon training CPAs in the professional model adopted by the Big Six. New challenges for the SMEs in professional services (such as accounting) has arisen as a result of drastic changes in the local environment with the decline in big manufacturing; proliferation of service firms especially in consumer-oriented services; newer demand for related devices such as financial, IT, and management consulting; and trade liberalisation.

TABLE 9
LOCATIONAL IMPACT^a ON NET FEES

Locational Impact	Strategic Orientation		Functional Orientation		International Orientation	
	Reactive	Proactive	Concentrated	Diversified	No	Yes
Western New York	1.44	1.59	1.57	1.46	1.51	1.55
Toronto	2.22	2.40	2.23	2.39	2.20 ¹	2.88 ¹
Border	2.14 ¹	2.44 ¹	2.19	2.37	2.19 ¹	2.77 ¹
FTA	2.14	2.29	2.11 ³	2.31 ³	2.13 ¹	2.66 ¹
NAFTA	2.03	2.14	2.00 ³	2.17 ²	2.02 ²	2.44 ²
Manufacturing	1.50	1.59	1.69 ³	1.41 ³	1.58	1.33
Medical	2.14	2.11	2.07	2.17	2.04 ²	2.55 ²
Financial	1.92	2.03	1.88	2.06	1.93	2.22
Education	2.19	2.18	2.08	2.28	2.17	2.25

^a Mean values based on the following scale: 1=negative impact, 2=no impact, 3=positive impact.

Significance (two-tailed) of t-value: ¹.01 or less ².05 or less ³.10 or less

Although SMEs understand the importance of non-traditional clients, little support is provided within the local environment to allow these firms to reorient themselves within a short time period. For example, firms ranked in-house barriers toward obtaining clients requiring internationally oriented services much higher than external barriers such as licensing requirements, right of establishment, immigration, and psychic distance/cultural barriers (Table 10) (note: scale 1-9; 1=largest barrier, 9=smallest barrier). Most

internal barriers are a function of the lack of scale economies. For example, the lack of in-house expertise is the toughest barrier for the internationally oriented firms. Reactive firms are not only risk averse, but consider the lack of expertise as a significantly larger barrier than the proactive firms. In-house expertise and risk along with the lack of finance/capital and size show up as significantly larger barriers for firms with internationally oriented clients. Functionally concentrated firms also consider the right of establishment as a significant barrier compared to the diversified firms. Often times, SMEs only think of internationalisation through the establishment of a subsidiary thereby underestimating their own potential for delivering a wide range of services to clients across the border through other modes, i.e. both direct and indirect exports.

TABLE 10
INTERNAL AND EXTERNAL BARRIERS TO INTERNATIONALIZATION

Barriers	Strategic Orientation		Functional Orientation		International Orientation	
	Reactive	Proactive	Concentrated	Diversified	No	Yes
<u>Internal Barriers</u>						
Size	2.90	4.14	2.35 ¹	4.66 ¹	2.82 ¹	7.01
Finance	3.90	5.04	4.0	4.95	3.94 ¹	7.14 ¹
In-house expertise	1.84 ¹	3.71 ¹	2.31	3.28	2.39 ³	4.85 ³
Risk	3.52 ¹	5.26 ¹	4.6	4.90	4.23 ²	7.28 ²
Management time	3.84	4.04	3.68	4.19	3.78	4.71
<u>External Barriers</u>						
Licensing	5.1	4.2	4.6	4.66	4.58	4.85
Right of establishment	5.52	5.85	4.68 ²	6.61 ²	5.58	6.33
Immigration	6.55	5.95	5.65	6.8	6.02	7.50
Culture	6.36	6.09	6.35	6.10	6.44	5.0

Scale: 9=smallest barrier, 1=largest barrier

Significance (two-tailed) of t-value: ¹.01 or less ².05 or less ³.10 or less

When asked how they obtain expertise to service non-traditional clients such as clients with internationally oriented business, the most preferred avenues were in-house training through exposure to international work and professional development seminars elsewhere. Courses and seminars from local educational institutions were not ranked as important and some noted that the current accounting curricula in local colleges and universities were not geared toward specialised training and professional development. The firms with international clients systematically ranked the hiring of personnel with previous international experience as very important.

CONCLUSIONS

SMEs in accounting are disadvantaged in industrially declining metropolitan areas such as the Buffalo-Niagara Falls metropolitan area despite the growth of new high-tech agglomerations in medical and related industries and the liberalisation of service trade between Canada and the United States. These SMEs were geared toward serving manufacturing clients, and have yet to fully diversify their client base – newer groups of clients demand newer functions and most SMEs are risk averse and not proactive enough to target non-traditional clients. However, even within these small accounting firms, a group of firms are proactive or functionally diversified and/or internationally oriented. This paper sought to explain how these various groups in accounting SMEs differ in terms of competitive advantage, service promotion and delivery, collaborative relationships, and their assessment of the role of the local context upon business performance. As noted earlier in the paper, the local context is not encouraging in positively impacting the earnings patterns of these SMEs. As a result, the SMEs exhibit a variety of survival strategies: some are proactively seeking new clients, some are capitalising on scope economies by offering a variety of services, and some are seeking out clients involved in international business. Proactive firms compete on the basis of quality, specialisation, customisation, speed, and range of services. These firms are more flexible than the reactive firms. Both groups exhibit inherent location boundedness; they both perceive that without an established reputation they cannot reach out to non-traditional clients. Furthermore, all value spatial proximity to clients and direct interaction with clients. Their modes of service promotion highlight the importance of informal networks in accessing clients; most firms pay more attention to informal networks and social contacts than to formal channels such as media advertising and sponsorships. In delivering their services, accounting professionals rank face-to-face interaction as the most important avenue indicating the importance of trust-based relationships. The use of local area networks is quite significant among proactive, functionally diversified, and internationally oriented firms; furthermore, these firms rated the impact of information technology and computerisation on net fees as extremely important compared to other service inputs/collaborations in the past few years. In sum, an interconnection between competitive advantage, promotion and delivery, business performance is observed with the key characteristics of the proactive, diversified, and internationally oriented firms being flexibility, their networking abilities, and to some extent their acceptance of IT.

SMEs face both in-house and external barriers to growth and development. For example, in-house barriers to international orientation are

risks and the lack of in-house expertise. Very few have the resources to hire additional personnel with international experience and at the same time very little opportunities exist in the local educational infrastructure to retool professionals and upgrade their skills. There is a mismatch between what is offered in the local institutions and the functional needs of the clientele. It seems that most external barriers are considered as a hindrance because of the lack of knowledge of alternative modes of service promotion and delivery to clients with international orientation. For example, the right of establishment is considered a major barrier to internationalisation by firms with low levels of functional diversification. Information regarding direct and indirect exports to Canada is not readily available; therefore, the establishment of a subsidiary is the only choice available to these SMEs. And, it is well documented that SMEs in general cannot afford to establish subsidiaries in another country let alone in another city in the United States. Both geographical and functional diversification are viable strategic options for SMEs in accounting as demonstrated by the proactive SMEs. In conclusion, an interrelationship among economies of scale, scope, and strategic direction is observed. Size-related barriers are overcome through entrepreneurial skills such as a proactive stance in marketing, promotion, and delivery. Non-price based factors or knowledge advantage rather than size-related advantages form the basis of competitive advantage within professional service SMEs. Most respondents recognise the gap between educational inputs and the practitioner's needs; and the lack of networking opportunities to facilitate the acquisition and processing of information regarding the structure of demand, as well as service promotion, and delivery. Policy makers may facilitate training for mid-career professionals or sponsor forums for organisational networking and information exchange. However, at this point it will be premature to conclude that policy interventions alone can eradicate market imperfections based on non-price-based factors such as knowledge advantage and/or the quality of skill of service professionals. The interrelationship among entrepreneurial skills and efforts, organisational structure, market forces, technology, geographical context, and policy is complex and this study has only provided a first cut toward understanding some aspects of such relationships within professional service SMEs. Future research needs to focus upon the evolving relationship between firm-level and contextual factors in further understanding the functioning of SMEs in professional services.

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