

The role of trust and competence in the supply of external advice to SMEs in Australia

Dr George Tanewski, Accounting & Finance, Monash University, Senior Lecturer;
Peter Carey, Accounting & Finance, Monash University, Senior Lecturer

1. Background and Aims of Project

This project builds on an Australia-wide study we conducted in 2004 for CPA Australia on the changing nature of independent accounting services provided to small and medium size enterprises (SMEs) and the extent to which these services add value to the SME client. A key finding in our 2004 study is that external accountants are adding value through the provision of business advice to their SME clients and the most common forms of business advice are financial planning and corporate finance (Carey et al., 2005). The primary determinant of business advice is the perceived competence of the external accountant. However, an unexpected finding was that the length of tenure of the relationship between the external accountant and their SME client was negatively associated with the purchase of business advice. In addition, there was evidence that the perceived trustworthiness of the external accountant is negatively associated with reliance on the external accountant as business advisor (i.e., the implication is that advisors with integrity are used for professional advice less frequently by SME clients). These unexpected and anomalous findings raise important questions about the role institutional and professional trust play within a self-regulated professional financial services environment. Results also imply there may be an expectation gap in the provision of financial services between professional advisors and their SME clients (i.e., client needs are not being met).

We still know very little about the nature of financial advisory services provided to SMEs and the notion of trust and competence are more complex constructs than has been captured in prior research. In this study, we propose to conduct a more detailed examination of the complex role that trust and competence play in the supply of financial advisory service to SMEs, not only by external accountants but also by other groups of financial planners. In addition, the management and marketing literature point to the importance of networks in the provision of consulting services, but this factor has not been explored in the context of financial advisory services in the SME environment.

Thus the primary objectives of this proposed research are twofold:

1. To provide a more detailed understanding of the nature of financial services provided to SMEs;
2. To examine the role competence, institutional and professional trust, and networks play in the use of financial service advice by SME clients.

2. Significance and Innovation

The project is a significant extension on our prior research and is part of a wider research agenda investigating advisory services and SMEs. It will create international linkages with small business research centres at the universities of Leeds (UK), Kingston (UK) and the Norwegian School of Economics and Business Administration. The role competence, institutional and professional trust, and networks play in the use of financial service advice by SME clients could have important policy implications with regard to code of conduct, governance and trading standards for professional accounting and financial planning associations and relevant regulatory authorities.

Extant research has not considered the issue of trust (i.e., the willingness to rely on another with confidence and positive expectations, Rousseau et al., 1998, p.394) and competence (i.e., the proper or adequate qualification of a person to provide a professional service) in the context of transactional exchange between the supply of

financial services and SME clients. Related research has considered trust in business relations between large organisations, but evidence of the importance of trust within the SME context is both scant and underdeveloped (e.g., Smith et al., 1995; Sharif et al., 2005; Rousseau et al., 1998; Zaheer et al., 1998). In addition, extant research reveals that considerable ambiguity exists about the precise role of trust in economic exchange as it operates at different levels of analysis, that is, there is ambiguity about extending an inherently individual-level phenomenon to the organizational-level of analysis.

Traditional economic theory of the firm assumes that market participants behave opportunistically (Adam Smith, 1981; Williamson, 1985) and it tends to ignore the importance of trust in relational exchange. However, trust is important and it is argued personal relations generate trust and discourage opportunistic behaviour between firms (Dore, 1983). While a few studies have conjectured the importance of trust in relationships between business advisors and SME clients, they have not measured trust which raises questions about the reliability and validity of their conclusions (e.g., Gooderham et al., 2004 use tenure to proxy trust and Bennett & Robson, 1999 simply argue that accountants and lawyers are the most trustworthy class of advisers because of the institutional trust of their professional designation). This study proposes to address the above-mentioned concerns by using multiple measures of trust which will differentiate between individual and organizational-levels of analysis in the context of transactional exchange between financial service providers and SME clients. Earnings from accounting and other related professional services in Australia amount to over \$7.5 billion or 0.8 per cent of GDP (ABS, 2003). Our 2004 study revealed that while 97 per cent of SMEs purchase some accounting and/or advisory services from external accountants, financial planners and consultants also play a significant role in the supply of advisory services to SME clients (Carey et al., 2005). The type of business advice purchased by SMEs in rank order is financial planning (60%); corporate finance (58%); planning and review of operations (38%) and; systems review (26%).

Thus this project is a priority under the financial regulation and policy criteria of the MCFS for several reasons: First, results from this study will increase understanding of the extent to which level of trust and competence explains usage of external business advice by SME clients. Indeed, SMEs are a large (approximately 97 per cent of all private sector firms in Australia are classified as SMEs, ABS 2001) and important segment of the economy which is frequently overlooked by regulatory authorities. Second, professional and regulatory guidance has tended to focus on large organisations. However, there is evidence that SMEs have different needs to large organisations and there is a lack of appropriate guidance. Results from this study might provide a basis for the development of appropriate regulatory and professional guidance in the provision of professional financial services to SMEs. Third, understanding the nature and role that trust and competence plays between SME clients and financial service suppliers will enable professional organisations such as CPA Australia, the ICAA, the Financial Planning Association of Australia, the Australian Prudential Regulation Authority and other relevant regulatory authorities to provide leadership and training in this important area.

3. Description of Approach

The project will be conducted in two stages:

Stage 1. To provide context for the questionnaire based survey proposed in stage 2 below, we propose to conduct in-depth interviews with relevant officers from 5 financial service suppliers and 5 SME owner-managers in Victoria. The in-depth interviews will focus on trust, competence and networks and the choice of financial service supplier and level of use of financial service advice.

Interviews will be semi-structured, free-flowing in nature, and will provide a forum that encourages interviewees to discuss and divulge relevant information on the nature of trust and competence. While semi-structured interviews are rich in heuristic potential, they are nonetheless subject to interviewer bias. Interviewer bias will be reduced by designing the interviews: (1) To ensure complete and consistent coverage of relevant

themes; (2) to minimize researcher intrusion through the pre-specification of neutral questions and probes; and (3) to maintain a systematic auditable process that develops relevant insights from the qualitative data (i.e., tape record, transcribe and cross validate conclusions drawn from interviews).

Stage 2. Based on information provided in context in stage 1 above, a self-report questionnaire will be prepared for SME owners to enable data collection on the role of trust and competence in the use of external financial advice by SME clients. The questionnaire will be pre-tested with staff working at the small business research centres at Kingston, Norway and Leeds. Questionnaires will be mailed to a sample frame of 2200 SMEs nationally stratified by state, size and industry. A sampling frame will be purchased from Dun and Bradstreet. Cross-sectional multiple regression techniques will be used to gauge the impact of trust on level of use of financial service advice between supplier and SME owner. The proposed models will take into account interactions between trust and competence, trust and networks and will control for a number of factors such as industry, size of firm and type of supplier. In addition, factor analyses will be used to examine unidimensionality and reliability of the trust construct.

References

Australian Bureau of Statistics. (2003). *Accounting Practices Australia*, Catalogue No. 8668.0. Canberra: Australian Government Printers.

Australian Bureau of Statistics. (2001). *Small Business in Australia*, Catalogue No. 1321.0. Canberra: Australian Government Printers.

Bennett, R. & Robson, P. (1999). The use of external business advice by SMEs in Britain. *Entrepreneurship & Regional Development*, 11, 155-180.

Carey, P., Simnett, R., & Tanewski, G. (2005). *Providing Business Advice for Small to Medium Enterprises*. A report prepared for CPA Australia, 285 Bourke Street, Melbourne, Victoria 3000.

Dore, R. (1983). Goodwill and the spirit of market capitalism. *British Journal of Sociology*, 34, 459-482.

Gooderham, P. Tobiassen, A., Doving, E., & Nordhaug, O. (2004). Accountants as sources of business advice for small firms. *International Small Business Journal*, 22(1), 5-22.

Rousseau, D., Sitkin, M., Burt, R., & Camerer, C. (1998). Not so different after all: A cross-discipline view of trust. *Academy of Management Review*, 23(3), 393-404.

Sharif, K. Kalafatis, S., & Samouel, P. (2005). Cognitive and behavioural determinants of trust and small and medium-sized enterprises. *Journal of Small Business and Enterprise Development*, 12(3), 409-421.

Smith, A, 1981. *An Inquiry in to the Nature and Causes of the Wealth of Nations*. Indianapolis, Indiana: Liberty Press.

Smith, K., Carroll, S., & Ashford, S. (1995). Intra- and inter-organizational cooperation: Towards a research agenda. *Academy of Management Journal*, 38, 7-23.

Williamson, O.E. (1985). *The Economic Institutions of Capitalism*, New York: The Free Press.

Zaheer, A., McEvily, B., & Perrone, V. (1998). Does trust matter? Exploring the effects of interorganizational and interpersonal trust on performance. *Organizational Science*, 9(2), 141-159.