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ACCOUNTANT OR ADVISOR?

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ACCOUNTANT OR ADVISOR?

ROLE OF CPAs ON FAMILY SME PERFORMANCE

A Master's Thesis

by

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To Beren

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ROLE OF CPAs ON FAMILY SME PERFORMANCE

The Graduate School of Economics and Social Sciences

of

İhsan Doğramacı Bilkent University

by

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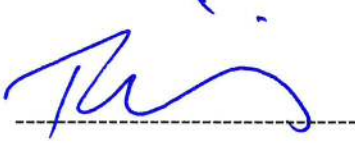
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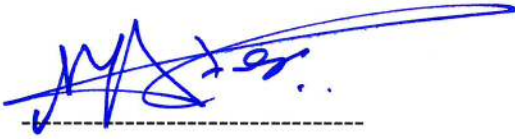
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## **ABSTRACT**

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M.S., Department of Management

Supervisor: Assoc. Prof. Dr. Timothy Scott Kiessling

April 2019

Building on Knowledge Based View (KBV) this thesis investigates the formation and the effect of external Chartered Public Accountants' (CPA) advising services on the performance of family Small and Medium-Sized Enterprises (SME). The results of the study show that family SMEs that utilize internal accounting professionals for basic tasks are more likely to use their external accountant (CPA) for advising tasks, which in turn results in higher performance. The theoretical contributions of this study are first, addressing a research gap in family SME research by signifying the effect of CPA's advising role on family SME performance (Barbera & Hasso, 2013; Dyer & Ross, 2007); second, challenging the view that conceptualizes basic accounting tasks as an enabler for CPAs to provide advising services to family SMEs; and third, offering a way of combining internal and external knowledge resources to enhance the performance, which contributes a managerial implication as well. Future research can build on the results of this study that combines the perspectives of firms and CPAs simultaneously.

Keywords: Accountant, Advising, Family Business, KBV, SME



# ÖZET

## MUHASEBECİ Mİ DANIŞMAN MI?

### SMMM'LERİN KOBİ AİLE İŞLETMELERİNDE PERFORMANSA ETKİSİ

Sırdar, Kağan

Yüksek Lisans., İşletme Bölümü

Tez Danışmanı: Doç. Dr. Timothy Scott Kiessling

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Bilgi Temelli Yaklaşım (BTY) üzerine kurulan bu tez, Serbest Muhasebeci Mali Müşavirlerin (SMMM) danışman rolünün oluşumunu ve Küçük ve Orta Boy (KOBİ) aile işletmelerinin performansına etkisini araştırmaktadır. Çalışmanın sonuçları, şirket içindeki muhasebe çalışanlarını basit muhasebe işleriyle görevlendiren KOBİ aile işletmelerinin SMMM' i daha yüksek olasılıkla danışman olarak kullandığını ve bunun şirket performansını olumlu etkilediğini göstermiştir. Çalışmanın teorik katkıları şunlardır: ilk olarak bu tez, SMMM'lerin danışman rolüne odaklanıp bunun performansa etkisini araştırarak literatürde az araştırılmış olan bir alana (Barbera & Hasso, 2013; Dyer & Ross, 2007) değinmektedir. İkinci olarak bu tez, SMMM'ler için basit muhasebe işlerini görmeyi danışman statüsüne erişmek için ön koşul gören mevcut anlayışı sorgulamaktadır. Üçüncü olarak bu tezde, KOBİ aile işletmelerine muhasebe alanındaki iç ve dış bilgi kaynaklarının daha yüksek şirket performansı için bir arada kullanılmasına dair uygulamaya yönelik bir öneri sunulmaktadır. Gelecekte bu alanda yapılacak çalışmalar, hem KOBİ aile işletmelerinin hem de SMMM'lerin görüşlerini içeren bu tezin çıktılarının üstüne bina edilebilir.



Anahtar kelimeler: SMMM, Danışman, Aile Şirketi, BTY, KOBİ

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## **ABBREVIATIONS**

BIST: Borsa İstanbul

CEO: Chief Executive Officer

CFO: Chief Financial Officer

CPA: Chartered Public Accountant

FIM: Family Involvement in Management

HR: Human Resources

HRM: Human Resources Management

KBV: Knowledge Based View

RBV: Resource Based View

ROA: Return on Assets

ROE: Return on Equity

ROI: Return on Investments

ROS: Return on Sales

SME: Small and Medium-Sized Enterprises

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## **CHAPTER 1**

### **INTRODUCTION**

Past research has focused on external accountants (Chartered Public Accountants, CPAs) as a valuable source of advice for small and medium-sized enterprises (SMEs) (Bennett & Robson, 1999; Gooderham, Tobiassen, Døving & Nordhaug, 2004). Research further suggests SMEs that are operated by family members have differing characteristics that require unique advising practices (Davis, Dibrell, Craig & Green, 2013). However, past research has not explored the intersection of these two literature streams (Barbera & Hasso, 2013). Basic accounting tasks, advising about these basic tasks, and advising related to familiness (i.e. generational transfer) are essentially intertwined and to handle these, family SMEs need knowledge resources. In this study, we explore how the CPA advisor mediates performance in SMEs (affecting family SMEs greater) and how the

CPA becomes an advisor. Our research fills research gaps, as past research suggested a causality problem with performance and external advisor of SMEs (Barbera & Hasso, 2013; Dyer & Ross, 2007) and research on accountancy practices to SMEs are limited and we respond to the research call (Salvato & Moores, 2010; Songini, Gnan & Malmi, 2013).

For this research, our theoretical foundations are the Resource Based View and Knowledge Based View. From the Resource Based View (RBV), a firm's superior resources provide competitive advantage (Penrose, 1959; Wernerfelt, 1984; Barney, 1991; Miller, 2004) and from Knowledge Based View (KBV), knowledge is a valuable resource for a firm. Due to liability of smallness (Stamm & Lubinski, 2011), SMEs face larger resource gaps (Carey, 2015) and to achieve higher performance, they need the resources that outsiders bring, such as the knowledge obtained from advisors. Among all SMEs, family SMEs differ in advising needs because of the familiness bundle, that includes specific characteristics of the family SME such as family involvement, generational transfer, traditions and a privacy culture (Davis, Dibrell, Craig & Green, 2013; Tokarczyk, Hansen, Green & Down, 2007). Trust has been elevated in importance in the research regarding consulting to family SMEs (Kaye & Hamilton, 2004). Because of the familiness aspect, advisors can become trusted advisors for family SMEs (Michel & Kammerlander, 2015). Since external accountants are often deeply embedded and have life-long relationships with the family SME, they are likely to be the most frequent and most trusted advisors (Barbera & Hasso, 2013; Berry, Sweeting & Goto, 2006; Strike, 2013). Therefore, family SMEs are likely to have a greater incentive to use their external accountant as advisor, more than non-family SMEs. The practice that enables



external accountants to act as advisors is that, while performing basic accounting tasks such as tax return, preparation of financial statements, bookkeeping and compliance (Carey, Simnett & Tanewski, 2000; Kirby & King, 1997; Marriott & Marriott, 2000) external accountants gain more knowledge about the firm than other outsiders that assist the firm. This knowledge and a successful past history in performing basic accounting tasks increases the likelihood of SMEs to ask for advising services from the external accountant (Gooderham, Tobiassen, Døving & Nordhaug, 2004; Matthews, 1998).

Family business researchers approach the intersection of advising and accounting through the direction of family business advising (Barbera & Hasso, 2013; Strike, 2013; Su & Dou, 2013) and they build their scientific explanation on a priori knowledge that external accountants are the most prominent advisors for the family SME. This results in a gap in the family business domain, which does not explain how external accountants become advisors for family SMEs. The characteristics of accountancy practices that external accountants perform should be addressed to understand how roles of accountants emerge and how they affect performance in SMEs. Another gap in family SME domain is that past research measured solely the perspective of the SME (Barbera & Hasso, 2013; Perry, Ring & Broberg, 2015). Kirby & King (1997) measured external accountants' perspective in addition to that of SMEs, however, the authors did not include the familiness aspect in their research and they did not find a significant positive effect of external accountants on SME performance. This finding has not been investigated in family SME domain since.

In this research, we attempt to address these gaps, first by clarifying the use of external accountant for advising tasks, second by investigating how this use enables family SMEs

to attain higher performance in a mediating role. Allocation of basic accounting tasks between internal resources and external accountant has an expected moderator effect on the relationship between family SME and role of accountant. Through print and online surveys, data for these analyses are obtained from external accountants and SMEs. This approach is expected to enhance trustworthiness through triangulation of both perspectives: provider and client of external-accountants' advisory services.

The characteristics and practices that transform an external accountant to an advisor for the family SME remains under-researched (Strike, 2012). At the intersection of family business and SME research domains, this research will illustrate how family SMEs utilize the resources of an external accountant and if this utilization enables the family SME to attain higher performance. Contributions of this research are the following. First, this research signifies and empirically validates a positive relationship between external accountants' advisory services and family SME performance. Second, this research challenges the view that conceptualizes performing basic accounting tasks as a prerequisite of serving advisory tasks by external accountants to family SMEs. Third, in the accounting and advising contexts, from the KBV perspective, this research describes how family SMEs can utilize internal and external knowledge resources simultaneously. Fourth, we present an example from an emerging economy, where accounting regulations are relatively new (in effect for last 30 years) and very high portion of SMEs are family SMEs.

The trajectory of this thesis is as follows. First, we explore the theoretical foundations of the study, namely RBV and KBV, and discuss their appropriateness for the research framework. Second, we develop hypotheses in regard to the relationships between

family involvement in management, use of internal accountant for basic tasks, use of external accountant (CPA) for advising tasks, and SME performance. In H1, we hypothesize that there is a positive relationship between family involvement in management (familiness) and use of external accountant (CPA) for advising tasks. In H2, we hypothesize that use of an internal accountant for basic tasks strengthens the relationship between family involvement in management and use of an external accountant (CPA) for advising tasks. In H3, we hypothesize that there is a positive relationship between use of external accountant (CPA) for advising tasks and SME performance. In H4, we hypothesize that use of an external accountant (CPA) for advising tasks mediates the relationship between family involvement in management and SME performance – family SMEs likely to have higher performance than non-family SMEs. Figure 1 graphically depicts this conceptual model. Third, in our Methods section, we describe instrumentation, data collection and share contextual information about Certified Public Accountants (CPA) and SMEs. Fourth, we present our results. Finally, we discuss our conclusions.

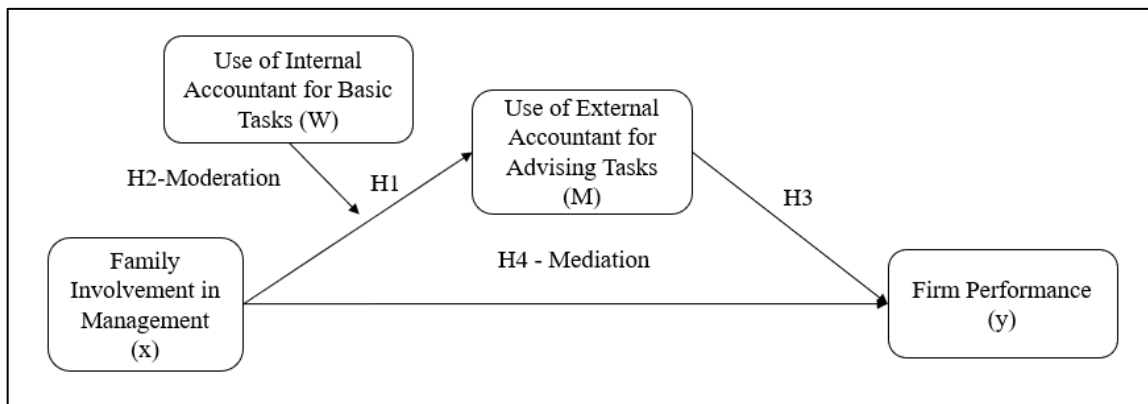


Figure 1. Conceptual Model

## CHAPTER 2

### THEORETICAL FOUNDATION

In this research we use the Knowledge Based View (KBV) that builds on the Resource Based View (RBV) as the theoretical foundation. In the following sections, we present RBV, progression of RBV to KBV and why KBV is instrumental for the family SME domain. Wernerfelt's (1984) foundational research on RBV focused on firms in terms of their resources rather than their products or the industry they are in. This view defines a firm's superior resources as an enabler to spread the products or services to new markets (Miller, 2004). RBV assumes that a firm's competitive advantage builds on available resources and the management of these resources (Barney, 1991; Penrose, 1959; Wernerfelt, 1984).

Resources that are valuable, rare, imperfectly imitable and not substitutable provides sustainable competitive advantage (Barney, 1991) abbreviated as VRIN. Particularly, if a firm possesses and exploits valuable and rare resources, it will gain a competitive advantage and if these resources are imperfectly imitable and not substitutable, it will sustain its competitive advantage (Newbert, 2008). Later, the VRIN model transformed

into VRIO, which abbreviates valuable, rare, imperfectly imitable resources and the organization's ability to capture value (Barney, 1995; Barney & Clark, 2007). In the next section, we present the existing body of research for each component of VRIO model, although each component is interrelated to one another.

From the RBV perspective, a firm's resources might add *value* to enable the firm to exploit opportunities and/or neutralize threats. Assessing value enables firms to link analysis of internal resources and capabilities with analysis of external opportunities and threats (Barney, 1995). The firms with resources and capabilities that have marginal value can attain marginal competitive advantage, whereas firms whose resources and capabilities are of superior value can attain a sizable competitive advantage (Newbert, 2008).

Although having a valuable resource is strategically significant, the resource must also be *rare*, as if other firms also have the same resource than a firm will not have a competitive advantage (Barney, 1995). Competitive advantage derives from the use of resources that are either rare or possessed by only a few firms in an industry to prohibit perfect competition (Barney, 1991). Hart (1995) defined rare resources as the ones specific to a firm. Specificity also refers to a commitment of skills and resources to specific customers and this helps generating competitive advantage (Reed & DeFillippi, 1990).

A firm with valuable and rare resources can only gain a competitive advantage temporarily (Barney, 1995). For a sustainable competitive advantage however, the firm's competitors should face a significant cost disadvantage to *imitate*; either through

duplication or substitution. There are three reasons generating the high cost to imitate: the importance of history, the importance of numerous small decisions and the importance of socially complex resources. Unique historical circumstances such as doing lots of little things right and the organizational phenomena such as reputation, trust, friendship, teamwork and culture contribute to the state of being imperfectly imitable (Barney, 1995).

A firm must be organized to exploit the full competitive potential of its valuable, rare and imperfectly imitable resources (Barney, 1995). Complementary resources such as formal reporting structure, explicit management control systems and compensation policies have competitive implications and organization of these resources provide sustainable competitive advantage. In addition, *organizational and strategic processes* of firms facilitate the manipulation of resources into value creating strategies (Eisenhardt and Martin, 2000).

In the family business research stream, RBV has been used extensively as a theoretical foundation. The family (or termed “familiness”) was used as the focal construct to describe the unique bundle of resources that family businesses have because of their unique systems, interactions amongst the family, individuals, and the business itself (Habbershon & Williams, 1999; Tokarczyk, Hansen and Green, 2007). Family businesses have unique sets of resources that allow them to obtain strategic assets such as flexibility and survival ability, however; they face challenges such as difficulty in attracting highly qualified employees (Hiebl, 2013). The research further illustrates that family businesses show different resource needs than non-family businesses to achieve competitive advantage.

As family SMEs have limited resources, advice from a competent board of directors can compensate for weaknesses in managerial resources (Bammers, Voordeckers and Van Gils, 2011). Due to a family SME's liability of smallness (Revilla, Pérez-Luño & Nieto, 2016; Stamm & Lubinski, 2011) outsiders can bring new resources and capabilities into the SME that will assist it to link the family SME to its external environment (Gordini, 2012) as external resources are a potential source for competitive advantage, if they are embedded into family SME and internalized (Barbera & Hasso, 2013). Therefore, family SMEs tend to outsource expertise to fill internal resource gaps, such as legal, accounting, human resources, etc.

Accordingly, the RBV is used extensively in the Small – Medium Sized Enterprises (SME) research as well. Barney, Wright and Ketchen (2001) called for research of RBV in SMEs as they also need to acquire critical resources to create sustainable competitive advantage analogous to larger firms. The RBV is particularly effective in SME research as SMEs have their own characteristics that restricts applicability of theories derived from studies of larger businesses (Kelliher & Reinl, 2009) due to the lack of many of the resources that large firms have; such as limited number of staff and time constraints, that results in information deficits within the company.

Through the lens of the resource-based view regarding an SME's competitive advantage, there are three basic capabilities: innovation capability, production capability and market management capability that were required for success (Rangone, 1999). Requisite skills and know-how establishes a resource base for a company, which enables it to extend its current business activity through a natural progression (i.e. domestic sales to exports) (Wolf and Pett, 2000).

Recent research exploring SMEs with the RBV theoretical foundation defined human and technological capital and reputation as intangible resources, since they cannot be transferred easily or without cost (Mariz-Pérez & Garcia-Álvarez, 2009). Their research suggests that intangible resources are the basic determinant of firm success and growth, as intangible resources (i.e. organizational orientations) are deeply embedded within the company and difficult to imitate (Lonial & Carter, 2015). Knowledge assets are also vital intangible resources for small businesses to develop competences (i.e. innovation distinctive competences) (Palacios, Gil & Garrigos, 2009).

From a RBV perspective, SMEs use knowledge as a resource to cope with liability of smallness (Roxas & Chadee, 2011) as breadth of knowledge diminishes the likelihood of failure (Thornhill & Amit, 2003). Liability of smallness is that the smallest organizations have the highest failure rates regardless of firm age due to the difficulty of raising capital, coping with tax laws, government regulations and disadvantages in obtaining the best human resources which are attracted by the larger firms (Aldrich & Auster, 1986; Ranger-Moore, 1997). In Turkey, family SMEs inherently cope with the liability of smallness, as virtually all SMEs are founded as family businesses and traditionally 95% of them continue to be family businesses as their size changes (İlter, 2001).

RBV highlights knowledge as a resource that delivers competitive advantage and potential for sustainability (West III & Noel, 2009). Thus, building on RBV, the Knowledge Based View (KBV) defines a firm's main role as transforming the specialist knowledge that resides in individuals to goods and services (Grant, 1996) and competitive advantage is founded on the primary resource of knowledge (Spender & Grant, 1996). For SMEs, their knowledge base is comprised of two main elements:



existing internal knowledge and exposure to external knowledge (Clercq & Arenius, 2006). From KBV perspective, outsider assistance is a form of knowledge resource that is used to generate tacit and explicit knowledge for SMEs (i.e. start-ups) (Chrisman & McMullan, 2004).

In the family business research stream, KBV signifies tacit knowledge as it enables family SMEs to utilize its resources and capabilities (familiness bundle) in a strategic process (Cabrera-Suárez, Saá-Pérez & García-Almeida, 2001). Besides having tacit knowledge, absorbing knowledge from outside the SME is vital for family SMEs, as one cannot expect family members to develop all knowledge and expertise required for family SME success (Chirico & Salvato, 2008). Familiness includes a knowledge-specific dynamic capability of absorptive capacity that governs the process of obtaining knowledge and making internal changes accordingly (Daspit, Long & Pearson, 2018).

RBV designates knowledge as an intangible resource for all firms. Due to the liability of smallness, knowledge is a vital resource especially for SMEs. KBV puts much emphasis on knowledge among all resources and capabilities of firms and from the KBV perspective, SMEs can fill their knowledge gap from external resources (large firms also must have a knowledge management capability, but normally can fulfill this gap internally). The family business and SME research streams define advisors as sources of unique knowledge (Bennett & Robson, 2005; Su & Dou, 2013). Therefore, KBV provides theoretical foundation to investigate effects of external knowledge resources on family SMEs.

## **CHAPTER 3**

### **HYPOTHESES DEVELOPMENT**

#### 3.1. Family Involvement in Management and use of External Accountant (CPA) for Advising Tasks

Family SMEs have characteristics that differ from nonfamily SMEs. The values and interests of the controlling family have dominant importance on strategic decisions, goals, objectives and performance, as compared to publicly held and professionally managed nonfamily SMEs (Sharma, Chrisman & Chua, 1997). In addition to these managerial aspects, family SMEs differ from nonfamily SMEs in advising services they receive as well (Reay, Pearson & Gibb Dyer, 2013; Strike, 2012).

Past research has had difficulty demarcating family SMEs from non-family SMEs as there has been little agreement on a clear definition (Astrachan, Klein & Smyrnios,

2002; Bird, Welsch, Astrachan & Pistrui, 2002; Littunen & Hyrsky, 2000). Widely used components of a family business definition have been ownership, management (involvement) and succession (Astrachan et.al., 2002; Chrisman, Chua & Sharma, 2003). A comprehensive definition from past research that combines these components with behavioral aspect is: family SMEs are businesses run by a coalition controlled by family members, who develop, shape and pursue a vision and aspire to sustain their dominance across generations (Chua, Chrisman & Sharma, 1999). To ascertain whether a SME is a family SME, researchers have focused on the number of family members occupying managerial posts of the board (Gibb Dyer Jr, 2006).

Family involvement in management (FIM) is either directly or indirectly related with SME performance and this is primarily due to the human capital that family members contribute to the management of the SME (Kowalewski, Talavera and Stetsyuk, 2010; Sciascia & Mazzola, 2008). Knowledge is one of the antecedents of family SME's human capital, as family employees of a family SME are likely to have in-depth tacit, firm-specific knowledge as compared to employees of nonfamily SMEs (Danes, Stafford, Haynes & Amarapurkar, 2009). The KBV theoretical foundation suggests the familiness-bundle will include tacit knowledge in the utilization of resources and capabilities (Cabrera-Suárez et.al., 2001). In other words, FIM is a valid indicator to differentiate family and nonfamily SMEs from the KBV perspective, as family members are in control of the company and bring their tacit knowledge to the family SME.

The effects of the usage of outside professionals are also visible on family SME performance (Dyer, 1989; Hall & Nordqvist, 2008). Levinson (1971) asserts that regardless of being a family or non-family SME, the wisest course of action for a

business is to move to professional management quickly and for family SMEs, all relatives should be taken out of business operations while keeping them acting as a family for the business. However, the liability of smallness might not enable family SMEs to recruit best talents in the market (Aldrich & Auster, 1986). If SMEs recruit incompetent family members for key positions, this could be a competitive disadvantage for the SME in terms of utilizing human capital (Gibb Dyer Jr, 2006). For this reason, family SMEs utilize internal and external resources in combination.

Whether the SME is considered family or nonfamily, all SMEs primarily use advisors to fill knowledge gaps (Bennett & Robson, 2005; Michel & Kammerlander, 2015).

External advisors counsel and advise the SMEs by providing a breadth of knowledge that is not available from the founder, directors or partners and external advisors are critical resources that might not otherwise have been identified (Westhead, Wright and Ucbasaran, 2001). Resource gaps are higher in smaller firms; therefore, SMEs voluntarily purchase business advice (Carey, 2015). Seeking external advice reflects the dependence of SMEs on external specialist information/acumen not available internally for a firm's growth, competitiveness and success (Bryson, Keeble and Wood, 1997).

The specific idiosyncrasies of the familiness in family SMEs, make advising family SMEs different than advising nonfamily SMEs (Reay et.al., 2013). Major aspects that differentiate advising family SMEs and nonfamily SMEs are nature (emotional vs. rational), membership (involuntary vs. voluntary), assessment (loyalty and reciprocity vs. contribution), orientation (inward vs. profit-oriented) and penchant to change (a threat for family vs. opportunity for growth and advancement) (Strike, 2013). Family advisors are grouped as expertise-based advisors that are externally hired (Gordini,

2012; Salvato & Corbetta, 2013) providing specialized knowledge (Naldi et.al. 2015), trust-based advisors who build long-term relationships and group advisors such as family councils (Strike, 2018). Even if they are formed with family members, family councils utilize owner knowledge and are influential on issues of great importance for the family (Suess, 2014); therefore, family councils behave analogous to an external advisor for the family SME.

The role or processes required of family SME advisors might be subtle or overt and they can become “most trusted advisors” who are deeply embedded within the SME and have lifelong relationships (Strike, 2013). Trusted advisors can even have a role in succession-planning of family SMEs by their expert knowledge: the incumbent and successor rely on the trusted advisor (or a team of expert advisors) for triggering, preparation, selection and training processes associated with succession (Michel & Kammerlander, 2015). Advisors are engaged with the family SME to bridge the gap between the knowledge and capabilities of the SME that are required to succeed (Strike, 2012); therefore, from KBV, advisors act as a knowledge resource that compensate the effects of liability of smallness for the family SME.

Accounting and the different roles of accountants are also forms of advising for non-family SMEs (Berry, Sweeting & Goto, 2006; Breen, Sciulli & Calvert, 2004; Carey, 2015) and family SMEs (Perry, Ring & Broberg, 2015; Reay et.al, 2013), as accountants can serve the firm for statutory (tax return, financial statements, compliance, bookkeeping) and advising tasks simultaneously. For SMEs, if an external accountant can serve statutory services in a high-quality fashion and if the SME aspires for growth via external advisory services, the SME is expected to purchase advice from its

accountant (Gooderham, Tobiassen and Døving, 2004). Especially in SMEs, accountants can potentially have an important role in the transmission of management expertise (Kirby & King, 1997).

In family SMEs, the accountant's role as advisor is of elevated importance as comparing with nonfamily firms, since family firms exhibit unique characteristics for business advice and "familiness" adds further complexity for the engagement of the advisor (Barbera & Hasso, 2013). For family SMEs, the importance of accountants as advisors is apparent in two dimensions: first, accountants are the most frequently used resources for advice (Nicholson, Shepherd & Woods, 2009; Reddrop & Mapunda, 2015) and second, among all other advisors, accountants are the most likely to be the most trusted advisor (Strike, 2012). When external accountants serve the family SME as an advisor and as they become more embedded, they are more likely to make a contribution to sales growth and survival of the family SME; since they fill an internal resource gap (Barbera & Hasso, 2013).

High levels of Family Involvement in Management (FIM) is a characteristic for family firms, that differentiates them from nonfamily firms. Family SMEs balance the negative effects of liability of smallness through utilizing knowledge resources of family members in management processes. Being most trusted and most frequently used advisors of family SMEs, accountants also contribute to knowledge base of these SMEs, by filling the knowledge gaps in management. This brings us to following hypothesis:

H1. There is a positive relationship between family involvement in management and use of external accountant (CPA) for advising tasks.

### 3.2. The Moderating Role of Use of Internal Accountant for Basic Tasks

Due to their liability of smallness and lack of knowledge resources, past research has shown that external accountants frequently act as advisors for family SMEs (Barbera & Hasso, 2013; Nicholson, Shepherd & Woods, 2009; Reddrop & Mapunda, 2015). Accountancy practices in SMEs have also captured attention from the perspective of outsourcing accounting tasks (Everaert, Sarens & Rommel; 2010), for identifying its effects on financial management (Collis & Jarvis, 2002) and past research acknowledged this additional role within the framework of advisory services (Berry, Sweeting & Goto, 2006; Doving & Gooderham, 2008). Despite the call in family business research of Salvato & Moores (2010), existing research on accountancy practices is still limited except for a handful of studies dealing with the quality of accounting information (Cascino, Pugliese, Mussolino & Sansone, 2010), audit function (Niskanen, Karjalainen & Niskanen, 2010; Trotman & Trotman, 2010), and further calls for more research (Songini, Gnan & Malmi, 2013). It is particularly notable that, in the family business research, authors dealing with advising practices (Barbera & Hasso, 2013; Strike, 2013; Su & Dou, 2013) have paid more attention on accountancy practices than that of accounting researchers. Accordingly, the characteristics of accountancy practices that enable accountants to act as advisors to family SMEs is a gap in family business research.

SMEs' accountancy practices comprised of first, statutory, basic, audit and taxation related, and compliance tasks (Collis & Jarvis, 2002; Doran, 2006; Gooderham, Tobiassen, Døving & Nordhaug, 2004) and second, interpretation of accounts and advice, and non-compliance tasks (Berry, Sweeting & Goto, 2006; Carey & Tanewski, 2016). A similar perspective that distinguishes SMEs' accountancy practices is routine vs non-routine: routine tasks such as entry of invoices and preparation of interim reports, which are straightforward, require less judgment and non-routine tasks, such as period-end accounting and preparation of financial statements that require more judgment and valuable opinions (Everaert et.al., 2010). Accounting services utilized by SMEs are basic services such as statutory accounts preparation, tax compliance, company secretarial tasks and other services that include business advice, tax consultancy and financing advice (Doran, 2006). Past research designates that external accountants bring their expertise to interpret the outputs of basic services and this form of advising is called statutory advice (Berry et.al, 2006).

SMEs tend to outsource basic accounting tasks to external accountants due to the liability of smallness (Aldrich & Auster, 1986; Collis & Jarvis, 2000). Also, employing a full time qualified accountant within the company might not be cost beneficial. Although an internal accountant's acumen can be beneficial to management due to closeness and timeliness, benefits of employing an accounting professional offsets the costs only after a certain level of sales (Collis & Jarvis, 2002). Accordingly, SMEs have varying alternatives in performing their accounting related tasks. In their empirical study Collis and Jarvis (2002) found that very few small firms employed a certified expert accountant with 58% of SMEs employing basic bookkeepers, 34% employ one or more credit



controllers and only 31% of them have a qualified [accountant] employee or director. This research shows that basic accounting tasks can be performed by either internal or external sources of knowledge.

After external accountants are employed to provide statutory services or even basic assistance, and if they perform well in the tasks, research suggests that the SME develops a relationship and requests additional advising services (Gooderham, Tobiassen, Døving & Nordhaug, 2004). In particular, as opposed to other external SME advisors (ex. Lawyers, etc.), accountants are privileged to have confidential financial information of the SME and are thereby able to advise the SME in a variety of managerial aspects (Sian & Roberts, 2009). Hence, the progression for an external accountant to be a frequent advisor for a SME is: initial employ for a specific task, successful completion, and then advisor. Despite this progression, family firms do not isolate and rely on only one of internal and external resources in decision making and rather utilize multiple sources of advice simultaneously (Strike, 2012; Strike, 2013; Strike, 2018).

From the KBV perspective, a SME may perform routine, basic accountancy tasks internally while outsourcing advisory tasks. The knowledge obtained from a trusted external advisor should have higher value, if it is instrumental for filling a gap associated with decision making, control and future strategy. Mundane performance of daily accounting is homogeneous and those external professional accountants that can provide additional advisory services will differentiate themselves from their competitors (Berry et.al, 2006). Therefore, knowledge obtained through advisory services is likely to be a rare knowledge resource with superior value. As past research suggests that over half of

family SMEs employ individuals who provide basic bookkeeping and credit control (Collis & Jarvis, 2002), they are however constrained in attracting competent employees (Jenning & Beaver, 1997). Because of their limited resources, family SMEs might recruit bookkeepers and credit controllers with relative ease, but do not have the resources to employ a professional accredited accountant (CPA/Chartered Public Accountant) that can provide other required advisory services (Collis & Jarvis, 2000).

For the family SMEs, the external accountants' role as advisor has been widely acknowledged. However, the mechanisms that result in such phenomena have captured limited attention in family business research, although accountancy tasks of SMEs have also been defined. These tasks are basic, routine tasks and non-routine, complicated, advising related tasks. Family SMEs tend to outsource the former group and if the external accountant performs well in those tasks and develop a trusted relationship, they are more likely to further the relationship. However, they do not solely depend on only internal or external resources for either basic or advising tasks. From the KBV perspective, utilizing internal knowledge resources for basic, mundane tasks and obtaining valuable and rare knowledge from external accountants through advising is practical. This brings us to the following hypothesis:

H2: Use of internal accountant for basic tasks strengthens the relationship between family involvement in management and use of external accountant (CPA) for advising tasks.

### 3.3 Use of External Accountant (CPA) for Advising Tasks and Firm Performance

Identifying antecedents of firm performance is one of the focal points of management research, as business performance is located at the center of strategic management (Venkatraman & Ramanujam, 1986). There are varying broad definitions for the performance construct with examples such as: “profit performance” (Gepfert, 1968; Schoeffler, Buzzell & Heany, 1974), “success” (Ghoshal & Bartlett, 1986; Kekre & Srinivasan, 1990), “high-market share” (Bloom & Kotler, 1975). Past research measured performance through objective data such as Tobin’s q (Hermalin & Weisbach, 1991) and gross rate of return on assets (Huselid, Jackson & Schuler, 1997) or in the absence of objective data, subjective measures obtained from top management teams of the firms (Dess & Robinson Jr., 1984).

Firm performance also has been the variable of interest both in SME research (Hudson, Smart & Bourne, 2001; Soriano & Castrogiovanni, 2012; Wiklund & Shepherd, 2003) and in family business research (Gibb Dyer Jr., 2006; Miller, & Le Breton-Miller, 2006, Sciascia & Mazzola, 2008). In SME research, from the RBV foundation, some elements of firm performance are: technological intensity, enterprise and firm size (Dhanaraj & Beamish, 2003) and organizational orientations (Lonial & Carter, 2015) or from the KBV foundational approach, knowledge about market, opportunity in the market and knowledge generation in regard to the marketplace (West III & Noel, 2009). In family business research, from RBV, the familiness bundle that combines unique characteristics of family business in terms of physical capital resources, human capital resources, organizational capital resources and process capital resources (including knowledge) is

the main component of firm performance (Habbershon & Williams, 1999; Tokarczyk, Hansen, Green & Down, 2007).

Getting the help of business-support professionals has a positive impact on firm outcomes affecting firm performance, through enhanced decision quality, increased planning, diversity, breadth of knowledge (Strike, 2012) and the development of financial management practices (Deakins, Logan & Steele, 2001). One of the business-support professionals, consultants might act as an advocate and an advisor, a facilitator and a leader: they claim to be a scientist and a storyteller (Whittle, 2006) and are playing the role of an improviser that helps firms to manage uncertainty by reducing the number of options that the firm has (Furusten, 2009). In the SME research, advisors influence SMEs' "soft" outcomes (improved ability to manage and ability to cope) and "hard" outcomes (profitability, turnover, reduced costs) (Ramsden & Bennett, 2005)

Definitions of the business-support professional providing managerial advisory differ in past literature and are typically differentiated based on firm-size. In the literature stream that investigates advising in larger firms, "consultant" is typically used (Nees & Greiner, 1985; Werr & Styhre, 2002). The research on large firm consultancy focuses on the relationship in regard to distribution of power and the consultant's superiority in knowledge with a typically powerless and dependent client (Nikolova, 2007). SME research suggests that the presence of the advisor is rational and analytic with advisors not insisting small businesses conform to their way of thinking (Dyer & Ross, 2007). Past research suggest that the majority of SMEs need the contribution of business-support professionals (Dyer & Ross, 2007).

Types of business-support professionals that serve large and small businesses are also different. Historically, large consulting firms have advised, re-organized large firms and management consultants believe that the reputation of their firms were of more significance than individual reputations (McKenna, 2001). SME research suggests that business-support professionals are individuals such as bankers, lawyers, accountants and the people with whom the SME does its business (Robinson Jr., 1982). Among these individual outsiders to SMEs, accountants have a primary role in external business advice (Bennett & Robson, 1999).

Currently, the accountants' role for firms have changed dramatically transitioning from bookkeeping and tax preparation to a strategic management consultant (Holtzman, 2004). Although this is a transition from 19<sup>th</sup> century clerk to 21<sup>st</sup> century consultant, the stereotypical caricature that portrays accounting as a dull bookkeeping effort "haunts" the profession (Jeacle, 2008). Past research focusing on small businesses used to perceive the role of accountants as that of a clerk while outsiders such as bankers, lawyers and accountants claimed to have consulting capacity, although they lacked the "rounded view possessed by a consultant" (Krentzman & Samaras, 1960) and outside management consultants are more likely to provide "concrete help of a sizable nature" (Golde, 1964). Current SME research has highlighted the importance of the external role of the accountant advisor (Bennett & Robson, 1999; Berry, Sweeting & Goto, 2006; Carey, 2015; Carey & Tanewski, 2016). For SMEs accountants now serve advising functions such as emergency, financial management and business advice (Berry et.al., 2006).

From the KBV perspective, when an SME require the services of an external accountant (e.g. taxes, governmental required reporting, auditing, etc.) the external accountants are closer to the tacit knowledge about the SME and this puts accountants in a strong position to advise the SME on internal management planning, decision making, control and future strategy (Collis & Jarvis, 2002; Doran, 2006; Døving & Gooderham, 2008; Sian & Roberts, 1999). In other words, from the KBV perspective, accountants help small businesses by filling tacit knowledge gaps and subsequently assisting in managerial assistance. In SMEs, external accounting specialists will be required to fulfill many duties internal accountants will not have the acumen (Collis & Jarvis, 2002) such as tax planning, choice of type of company entity, financial management, budgeting, pension schemes, transference of ownership, marketing, sales, strategic planning, secretary to company boards, administrative routines, IT, remuneration schemes and salary administration (Døving & Gooderham, 2008). As liability of smallness results in a disadvantage for SMEs to recruit best talents in the market (Aldrich & Auster, 1986) and due to their higher resource gaps (Carey, 2015) SMEs that utilize their accountants as advisors are more likely to gain critical resources that enables them to create sustainable competitive advantage (Wright & Ketchen, 2001).

Regardless of their size, firms are always strategically attempting to achieve high performance. For SMEs to maintain or achieve high performance, they will need outsiders to fill knowledge gaps due to liability of smallness, as breadth of knowledge diminishes the likelihood of failure (Thornhill & Amit, 2003). From the KBV perspective, knowledge is a crucial resource for all firms to have high performance and SMEs must blend outsider knowledge with internal resources. For SMEs, accountants

are credible sources of outsider knowledge (Gooderham et.al., 2004). In addition to their specialist knowledge of basic accounting tasks, accountants are proven to be frequently used advisors (Bennett & Robson, 1999). Unlike basic accounting tasks that could be also be handled by using internal knowledge base; in advisory tasks accountants contribute a valuable knowledge resource which is difficult to obtain from internal knowledge base or from other types of advisors. This brings us to following hypothesis:

H3. There is a positive relationship between the use of external accountant (CPA) for advising tasks and firm performance.

#### 3.4. The Mediating Role of Use of External Accountant (CPA) for Advising Tasks

From the KBV perspective, the advising needs of large and small firms differ. Due to globalization, knowledge is interconnected and firms are competing through networks of relationships (Choo & Bontis, 2002). Large firms have vast networks of which they obtain global information (Etemad, Wright & Dana, 2001) and have access to a larger knowledge base than SMEs (Mejri & Umemoto, 2010). SMEs that have the liability of smallness require assistance from outside advisors to supplement their lack of resources available to large firms. Past research suggests that external accountants are the most sought advisors for SMEs to fill the knowledge gap (Berry, Sweeting & Goto, 2006; Gooderham, Tobiassen, Døving & Nordhaug, 2004; Robson & Bennett, 2000).

Due to liability of smallness, SMEs employ external advisors to fill knowledge gaps to increase their firm performance. Past research suggests a correlation between the use of external advisors and firm performance as external boards of directors are shown to increase firm performance (Maseda, Iturralde & Arosa, 2015) and the growth rate of SMEs is positively associated with the accountant's business advice, emergency advice and financial management (Berry et.al., 2006). Contrary research suggests that the correlation may be limited due to conflicts and expectation gaps between the external accountant and the firm (Kirby & King, 1997).

Although all SMEs have similarities, family SMEs have unique characteristics that affect the use of external advisors. Family SMEs are unique due to a complex interaction of family, ownership and management systems, multigenerational involvement, powerful influence of the founder and the existence of a privacy culture and tradition (Davis, Dibrell, Craig & Green, 2013). Even with this complexity, family firm advisors (including non-family members of the board of directors) are found to have a positive impact on economic and non-economic wealth creation of the family firms (Reay, Pearson & Gibb Dyer, 2013) that relates to the firm performance. As a result of the familiness aspect (Tokarczyk, Hansen, Green & Down, 2007) other performance related aspects that family firm advisors contribute are succession and less agency costs (Michel & Kammerlander, 2015; Salvato & Corbetta, 2013), translation of research knowledge to practice (Reay et.al., 2013), enhancing family member relationships (Strike, 2013) and better use of knowledge (Zattoni, Gnan & Huse, 2015). Despite these aspects that favors advisors for family firms, cost of advice and advisors' incompetency might result in dissatisfaction (Reddrop & Mapunda, 2015), incumbent generations in family firms



might have varying views for the use of advisors (Gordini, 2012) and a balance should be maintained between external advisors and family members (Maseda, Iturralde & Arosa, 2015).

As noted, family SMEs will require unique services compared to that of a non-family SME (e.g. family membership relationships, succession planning, etc.), and thus will have a greater need for such external services. However, research suggests a causality problem as the usage of external advisors in family business SMEs may not be the cause of high performance; it even might be the result of high performance (Barbera & Hasso, 2013; Dyer & Ross, 2007). Past research lacked a rigorous academic methodology and illustrates that the conflicting research still has much work to do (Strike, 2012).

Unlike other advisors that serve family SMEs, external accountants are able to provide advice on family-specific issues such as succession, retirement and business planning or sale of the business (Nicholson, Shepherd, & Woods, 2009). External accountants serve family SMEs as advisors either in the role of business expert advisors or trust-based advisors (Strike, Michel & Kammerlander, 2018): the former being related to technical knowledge (Reddrop & Mapunda, 2015) and the latter founded on tacit knowledge about the family firm, obtained by being deeply embedded in the firm (Barbera & Hasso, 2013), enabling the advisor to build a long-lasting relationship (Strike, 2013). As legal and tax issues are related with both the firm and the family, accountants and lawyers are privileged among other trust-based advisors to become the “most-trusted advisor” (Strike, 2013). Therefore, for family SMEs being a trust-based advisor might be the component that enables external accountant to have an impact on performance.

Accountants have been serving the firms for basic accounting functions such as tax return, preparation of financial statement, bookkeeping and compliance (Carey, Simnett & Tanewski, 2000; Kirby & King, 1997; Marriott & Marriott, 2000) but their role has evolved to that of a firm advisor that is difficult to measure due to its intangibility (Barbera & Hasso, 2013; Perry, Ring & Broberg, 2015). Therefore, proxies that solely measure advisory role of external accountants, such as duration of the relationship with advisor (Dyer & Ross, 2007), advisor embeddedness and frequency of meetings with external accountant (Barbera & Hasso, 2013; Bennett & Robson 1999) do not fully represent the role of accountant while investigating its effect of firm performance. Past studies that consider both the basic and advising functions of accountant simultaneously are able to capture the interaction and process of becoming an advisor (Carey, 2015; Carey & Tanewski, 2016; Gooderham et.al.,2004).

External accountants or advisors have separately found to be influencing firm performance, either in family firms or in SMEs. At the intersection of these theoretical frameworks, Barbera & Hasso (2013) found that when external accountants behave as advisors for family SMEs, they have a positive impact on firm performance. As external accountants provide a unique set of advising services family SMEs due to familiness bundle (Tokarczyk et.al., 2007) their role for family SMEs is different than that of non-family SMEs. The interaction of advisory and basic accountant roles might also influence performance in family and non-family SMEs. Therefore, the role of accountant is likely to mediate the relationship between the family firm and performance. This brings us to following hypothesis:

H4. Use of external accountant (CPA) for advising tasks mediates the relationship between family involvement in management and performance – family SMEs likely to have higher performance than non-family SMEs.



## **CHAPTER 4**

### **METHODS**

#### **4.1. Family SME and Certified Public Auditors (CPA) Contexts**

Our data set was collected from SMEs in Turkey. As of 2016, 95% of all companies and 75% publicly traded companies in Turkey have some family involvements (PwC Türkiye, 2017). Also, as of 2015, 99.9% of Turkish companies are SMEs (SP, 2015). This increases the probability of coming across a family SME even with random sampling during the research. The definition of SMEs in Turkey is primarily related with number of employees and the current legislation defines SMEs as having less than 250 employees; however, firms that employ 0-9 people contributes 93.6% of all SMEs (SP, 2015). Despite their importance for the Turkish economy, SMEs in Turkey have not

unleashed their full potential yet, primarily because of difficulties to shift their focus to the knowledge-based economy (Nurrachmi, Abd Samad & Foughali, 2012).

The accountancy and audit professions have their legislative background in Law of Accountancy Profession # 3568, passed on June 13rd, 1989. When this legislation came into effect, there were three categories for accounting professionals: Sworn-in Certified Public Accountant (SCPA), Certified General Accountant (CGA) and Certified Public Accountant (CPA). CGA title was abolished in 2008 and currently CPA and SCPA titles are in effect. As of 2018, there are 107.447 CPAs in Turkey, 85% of which have a bachelor's degree (the rest 15% are high-school graduate CGAs, whose title converted to CPA). 50% of CPAs are under the age of 45. CPAs might work for their own interest by starting an office or they can be employed by a firm. As of 2018, total number of CPAs are split by half for independent (working in his/her office) and dependent (working for a firm) categories.

With Article 28 of Law #3568, the “Union of Chambers of CPAs and Sworn-in CPAs of Turkey” (in Turkish, TÜRMOB) was established and it is still responsible for all duties associated with CPAs and SCPAs. TURMOB is a member organization of International Federation of Accountants. Under the umbrella of TURMOB, there are 77 local chambers in cities. Among all chambers, İstanbul Chamber of Certified Public Accountants has the highest number of members, around 42.000. Within the general duties of a CPA, there are book-keeping, preparation of tax forms, legal opening or closing of companies, preparation of financial statements, preparation and tracking of documentation related with Social Security Institution and advising. SCPAs, on behalf of Ministry of Treasury and Finance, audit and approve tax declarations and financial

statements of firms. Generally, CPAs have contracts with dedicated SCPAs to approve and consult their work. Companies who employ CPAs internally also have a contract with a dedicated SCPA in the same way.

#### 4.2.Data Collection and Respondents

We obtained data by applying print and online surveys in Turkish, from two separate perspectives for triangulation: SMEs (who receive the services) and CPAs (who provide the services). Since all measures are originally in English, following the approach Brislin (1970) we applied a translation / back-translation and pilot testing procedure. A panel of Turkish academics and graduate students translated and back-translated the surveys in several iterations, until the whole panel reached consensus (Douglas and Craig, 1983). Before and during the design and translation of the surveys we interviewed CPAs and firm owners through convenience sampling. Two of interview informants had both CPA degree and non-CPA job experience in firms throughout their career, which enabled them to bring the two perspectives simultaneously to the surveys. We included CPA informants from both orientations: advising-oriented ones and those who concentrated more on basic accounting tasks. SME respondents were from a diverse portfolio and are knowledgeable enough on his/her company's accounting policies. These interviews acted as pilot testing as we they eliminated ambiguities in translation and added clarification to the survey. Moreover, through these interviews, we included additional items to the scales by following the informants' suggestions.

We conducted two separate surveys for firms and CPAs with measures from previous research, who are the parties that engage in a service supplier-service buyer relationship (see Appendix A,B,C and D for questionnaires in Turkish/English). Investigating a similar theoretical framework, Kirby and King (1997) applied the same approach by conducting two separate surveys to CPAs and firms. At the beginning of the CPA survey, we asked the respondent to choose one firm that he/she consider to be a “key” (important) client and respond for this “key firm” in the remainder of the survey. The firm survey does not lead the respondents to pick a specific CPA, rather the scale items designate the firm’s current CPA. To overcome response social desirability bias and to establish rapport, we included a cover sheet explaining that there is no compensation for responding, participation is strictly voluntary, the respondent might refuse to participate at any time and there are no right or wrong answers (Podsakoff, MacKenzie & Podsakoff, 2012).

We obtained 104 responses for firm survey and 102 responses for CPA survey. We did not calculate response rates as we distributed and collected all print surveys (CPA and firm) by hand. We also distributed online survey links through the mailing lists of CPA Chambers and local trade associations. Both surveys were able to capture the firms (or the firms that CPAs work with) from at least 16 sectors, including accommodation, agriculture & fishing, automotive, chemicals & petroleum, communication, construction, electricity & electronics, food & beverage, forest, paper & packaging, information technologies, transportation & logistics, metals, mining, textile & apparel, trade (sales & marketing) and training. Likewise, we asked respondents to specify employee size. Given the micro-scale intensity of Turkish SMEs, we defined 6 categories: 1-5, 6-10,

11-30, 31-50, 51-100 and 100+. For both samples, more than 50% of firms are concentrated in total of categories 11-30, 31-50 and 51-100.

### 4.3. Measures

#### 4.3.1. Family Involvement in Management

To measure family involvement, we used items from Kim & Gao (2013) that measure “family involvement in management”. The scale from past research asks the respondent to indicate the top seven (7) management roles (CEO, Vice CEO, CFO, Head of Production, Head of Marketing, Head of HR, Board of Directors) populated by family members in a binary fashion (yes/no). We revised this answering method by adding a third option as “I don’t know / This position does not exist in the firm”. The rationale behind this addition is twofold. First, CPAs might not be knowledgeable enough about all senior roles of the firm. Second, family SMEs, due to their liability of smallness might not have all senior positions included in the scale; therefore, a “no” answer might be confusing in the sense that it might be showing either a senior position is not populated by a family member or that position is not present in the firm. Originally Kim and Gao (2013) analyzed the data obtained from this scale through percentage of family members populating the senior positions. We calculated family involvement score by the arithmetic sum of senior positions filled by the family members. To enhance internal validity, we also added a second measure. Following Kotey & Folker (2007), we asked respondents to indicate if they consider the firm as a family firm or not. During the analysis, we binary coded the answers to this question (0=non-family firm vs 1=family firm)



#### 4.3.2 Use of Internal Accountant for Basic Tasks

To measure the degree to which use of internal accountant for basic tasks, we used items from Everaert et.al. (2010), which are designed to measure the outsourcing intensity of accounting. In the original scale, accounting tasks that are handled either by internal accountant or external accountant are included and these tasks were: 1) entry of invoices, 2) interim reporting, 3) period-end -accounting- and 4) -preparation of- financial statements (Everaert et.al. 2010). We ask respondents to specify a percentage of workload for each task, between internal and external accountant, “0” meaning that the task is handled by external accountant and “100” meaning that the task is handled by internal accounting personnel. Although developed for SME context, the scale of Everaert et.al. (2010) were conducted in Belgian context, where internal accountants might be employed by SMEs. In Turkish context however, SMEs might not be employing a full-time Certified Public Accountant, therefore we replaced the original term “internal accountant” of Everaert et.al. (2010) with “internal accounting personnel”. During pre-test, in one of the interviews, a firm informant notified us that his accounting personnel put a great deal of effort in entry of bank receipts, checks and bonds. When triangulated with other pre-test informants, this information appeared to be valid and we included this as an additional item to the scale.

#### 4.3.3. Use of External Accountant (CPA) for Advising Tasks

To measure the use of external accountant (CPA) for advising tasks, we used “Roles of external accountants” scale of Berry et.al. (2006): the authors developed the scale for SME context and particularly for advising roles of external accountants, which makes the scale highly applicable for our study. Original items of the scale were 1) “active member of management team”, 2) “business advice for management”, 3) “source of emergency advice”, 4) “financial management support”, 5) “statutory advice” and 6) “other” (Berry et.al., 2006). In one of the pre-test interviews, a CPA informant notified us that “other” option might be too vague for a CPA to answer and suggested a seventh item measuring the intellectual dialogue between the CPA and the firm, asserting that he has regular conversations with his customers (firms) about macroeconomic agenda and changes in regulatory environment. We transformed this information into a new scale item with the following wording: “an agent for intellectual exchange and dialogue”. We applied the items on a 6-point Likert scale, 1 for “not-at-all” and 6 for “to a very large degree”. The revised scale had good reliability ( $\alpha = 0.97$  in the firm survey and  $\alpha = 0.94$  in the CPA survey).

#### 4.3.4. Firm Performance

In the absence of objective financial information, to measure the performance of firms, it is possible to use self-reports, the perceptions of respondents for the firm’s performance with respect to its competitors (Dess & Robinson, 1984; Dess & Davis, 1984). For the family business research domain, frequently used performance measures were return on assets (ROA), return on sales (ROS), return on equity (ROE) sales growth, market share growth, employment growth, profit growth, profit margin, fund growth from profit (Craig & Dibrell, 2006; DeMassis et.al. 2016<sup>a</sup>, Holt, Madison & Kellermanns, 2017). In

SME research domain, frequently used perceived performance measures were sales, sales growth, market share, ROE, gross profit, return on investments (ROI), change in sales revenue, profit and profit margins (Baker & Sinkula, 2009; Pelham, 2000). In Turkish context, given the relative complexity of return measures, measures such as ROA, ROS, ROI or ROE are frequently applied in research on companies that are publicly traded in Borsa İstanbul (BIST) (i.e. Menteş, 2011; Korkmaz, 2016), rather than family SMEs. Therefore, in this study, we decided to omit the return measures. Instead, our scale uses perceptual data in regard to: 1) sales growth, 2) market share generation, 3) profitability growth, 4) employee growth and 5) ability to fund from profits as performance measures. We asked the respondents to evaluate performance with respect to competitors for the last three years. To enhance reliability of the measurement by eliminating the temporal aspect, we asked respondents to rate performance regardless of current economic conditions. The five-item scale had good reliability ( $\alpha = 0.94$  in both surveys).

#### 4.4. Control Variables

We controlled for four covariates utilized in past research that can possibly influence the hypothesized relationships. First, we controlled for import-export exposure of the company. Past research has shown SMEs might need advising to internationalize their business (Mughan, Lloyd-Reason & Zimmerman, 2004) i.e. exporters seek external advice than their non-exporting counterparts (Xiao & Fu, 2009). Foreign trade practices might increase a firm's "awareness" for advising services, which is an important motivator to seek advice (Reddrop & Mapunda, 2015) and might be expected to enhance

the use of external accountant as advisor. We asked participants to specify the percentage of revenue that the firm derives from domestic and international markets. Second, we controlled for perceived competency of external accountant. Past research demonstrated that perceived competence in statutory accountancy services and in business advisory increase the likelihood of small firms' usage of accountants as advisor (Gooderham et.al. 2004). In the firm survey, in two items, we asked participants to rate their CPA's competencies on a 6-point Likert scale: 1 for "very limited competence and 6 for "very highly competent". CPA survey lacks these perceived competency measures, since asking CPAs to rate the key firm's perception of their competence would be confusing and resulting in social desirability bias. Fourth, we controlled for firm's usage of other advisors for tasks such as: 1) legal advice, 2) inheritance issues/generational 3) transfer, 4) management/organization/HRM, 5) training and skills development, 6) remuneration schemes/salary administration. In this item set, we combined items from Døving & Gooderham (2008) and pre-test interviews. The five-item scale had good reliability ( $\alpha = 0.60$  in the firm survey and  $\alpha = 0.84$  in the CPA survey).

#### 4.5. Validity and Reliability Tests

We measured firm performance and use of external accountant (CPA) for advising tasks in Likert scales. To ascertain discriminating and convergent validity of these scales, we conducted confirmatory factor analysis in R version 3.5.3 (R Core Team, 2016) by using "lavaan" package (Rosseel, 2012). For the firm survey, the first measurement model was with all items, loaded on the matching factors and this model has a close fit to data ( $\chi^2 = 168.90$ ,  $df = 43$ ,  $CFI = 0.91$ ,  $TLI = 0.88$ ,  $RMSEA = 0.16$ ). All factor loadings were

greater than the cutoff level of 0.7 and they were significant at 0.01 level, which supports convergent validity for both constructs. The second measurement model was with all items set to load on a single latent construct ( $\chi^2 = 527.94$ ,  $df = 44$ ,  $CFI = 0.65$ ,  $TLI = 0.56$ ,  $RMSEA = 0.33$ ). The chi-square difference test ( $\Delta \chi^2_{diff} = 359.04$ ,  $df = 1$ ,  $p = .000$ ) resulted that the first model had a better fit than the second model. For the CPA survey, the results were similar, that is, the first model ( $\chi^2 = 58.85$ ,  $df = 43$ ,  $CFI = 0.98$ ,  $TLI = 0.98$ ,  $RMSEA = 0.06$ ) has a better fit ( $\Delta \chi^2_{diff} = 231.03$ ,  $df = 1$ ,  $p = .000$ ) than the second model.

Several aspects of the research design help us to mitigate the risk of common method bias (Podsakoff, MacKenzie & Podsakoff, 2012): first, we measured the mediator, moderator, independent and dependent variables through different and separate methods and second, we triangulated our results in a moderated mediation model. That is, the existence of common method variance would deteriorate the significance of interaction effect, in other words, having a significant interaction effects decreases the likelihood of method effect (Evans, 1985). Third, applying two sets of surveys to two groups of respondents (CPAs and firm) helps us to mitigate the risks of common rater effects on common method biases (Podsakoff, MacKenzie, Lee & Podsakoff, 2003).

#### 4.6. Analytical Approach

We used the same analytical approach to analyze the data of firm and CPA surveys. We tested Hypothesis 1 by implementing linear regression analysis, to investigate the effect

of family involvement in management on the use of external accountant (CPA) for advising tasks. To test Hypothesis 2, the moderation hypothesis, we conducted hierarchical regression analysis and we entered the interaction effect between family involvement in management and use of internal accountant for basic tasks. We tested Hypothesis 3 by implementing linear regression analysis that checks the effect of use of external accountant (CPA) for advising tasks on firm performance. To test Hypothesis 4, the mediation hypothesis, we applied the routines developed by Preacher, Rucker and Hayes (2007). We bootstrapped the indirect effect of use of external accountant (CPA) for advising tasks and checked if the resulting confidence intervals exclude zero through PROCESS macro (Hayes, 2017) in SPSS. By using the same tool, in a supplemental analysis, we also tested a moderated mediation model through bootstrapping and checked region of significance by Johnson-Neyman approach.

We calculated both standardized and unstandardized coefficients and we reported both in corresponding tables. Given that all scales do not align in terms of measurement techniques (i.e. arithmetic sum for family involvement in measurement, percentage of workload for use of internal accountant for basic tasks, Likert scales for other items) we reported standardized coefficients within the text. In PROCESS calculations for mediation and moderated mediation we used standardized variables as well.

## CHAPTER 5

### RESULTS

Table 1 presents descriptive statistics and correlations among variables. We report the correlations that support the hypothesized relationships between the constructs as follows: first, there is high correlation ( $r=.395, p=.01$ ) between family involvement in management and use of external accountant (CPA) for advising tasks and second, there is a high correlation between family involvement in management and use of internal accountant for basic tasks ( $r=.508, p=.01$ ). The largest variation inflation factor we observe in all regression models was 1.7, that eliminates a concern for multicollinearity (Akinwande, Dikko & Samson, 2015). The Koenker tests for heteroskedasticity show that residual variances are homogenous for Firm Performance and Use of external accountant (CPA) for advising tasks models.

Table 2 shows the hierarchical regression analyses results. The dependent variable of the first three models in Table 2 is use of external accountant (CPA) for advising tasks and that of the next two is firm performance. Hypothesis 1 predicts a positive relationship

between family involvement in management and the use of external accountant (CPA) for advising tasks. Model 1 is the control variable model for the use of external accountant (CPA) for advising tasks and accounts for 13,6% of the variance. The results show that firms use external accountants as advisors if they have a higher foreign trade exposure ( $b=0.20$ ,  $SE=0.09$ ,  $p=.037$ ) and use other external advisors ( $b=0.24$ ,  $SE=0.09$ ,  $p=.013$ ). In Model 2, we entered the main effect of family involvement in management ( $b=0.36$ ,  $SE=0.09$ ,  $p=.000$ ), which accounts for an additional variance of 12.8% ( $p=.000$ ) and supports Hypothesis 1. Hypothesis 2 predicts that use of internal accountant for basic tasks strengthens the relationship between family involvement in management and use of external accountant (CPA) for advising tasks.

To test this, in Model 3, we entered the main effect of use of internal accountant for basic tasks ( $b=0.34$ ,  $SE=0.09$ ,  $p=.000$ ) that contributes 8.5% ( $p=.000$ ) additional variance. The significant interaction between family involvement in management and use of internal accountant for basic tasks in Model 4 ( $b=0.56$ ,  $SE=0.01$ ,  $p=.027$ ) provides support for Hypothesis 2 ( $\Delta R^2= 0.03$ ,  $p=.027$ ). Figure 2 graphically depicts this relationship (Aiken, West & Reno, 1991). As predicted, family involvement in management is positively related with use of external accountant (CPA) for advising tasks when use of internal accountant for basic tasks is high (when use of internal accountant for basic tasks is 1SD above the mean, the gradient of the simple slope is  $0.38$ ,  $t=1.73$ ,  $p=.087$ ). On the contrary, when use of internal accountant for basic tasks is low (1SD below the mean), family involvement in management is conditionally related with use of external accountant (CPA) for advising tasks (the gradient of the simple slope is  $-0.08$ ,  $t=-0.41$ ,  $p=.686$ ).



Hypothesis 3 predicts the positive effect of use of external accountant (CPA) for advising tasks on firm performance. Model 5 is the control variable model for firm performance and accounts for 11,2% of the variance. The results show that the perceived competency of CPA in advising tasks has a marginally significant effect on firm performance ( $b=0.17$ ,  $SE=0.10$ ,  $p=.090$ ). Model 6 tests the effect of use of the external accountant (CPA) for advising tasks on firm performance ( $b=0.46$ ,  $SE=0.08$ ,  $p=.000$ ), which supports Hypothesis 3.

Hypothesis 4 posits that use of an external accountant (CPA) for advising tasks mediates the relationship between family involvement in management and firm performance. This implies that family firms that use their external accountant as advisors tend to have higher performance. To test this hypothesis, we constructed bias-corrected confidence intervals based on 5,000 random samples by using the procedures of Preacher, Rucker and Hayes (2007). We applied this procedure through using “Model 4” of PROCESS macro (Hayes, 2017) in SPSS. The 95% bias-corrected bootstrapping confidence intervals for indirect effect of use of external accountant (CPA) for advising tasks excluded zero (CI: [0.13, 0.36]), supporting Hypothesis 4.

### 5.1. Robustness Checks

We applied two robustness checks. The first robustness check is on measures. To deal with potential effects of method bias, we eliminated common scale properties (Podsakoff, MacKenzie & Podsakoff, 2012) by using alternative measurements for the constructs. An alternative way of measuring familiness of a firm is to ask respondents

directly if they perceive their firm as a family firm or not as Kotey & Folker (2007) applied. We recoded answers to this question into a dummy variable, 0 indicating a non-family firm and 1 indicating a family-firm. The independent-samples T-test between the dummy variable and family involvement in management score showed that means of family involvement in management scores are significantly different for family and non-family firms at 95% confidence interval level ( $M0=0.80$ ,  $MI=3.15$ ,  $p=.000$ ). Using the dummy variable as a proxy for family involvement in management, we re-iterated the analyses for H1, H2 and H4 and found similar results. In Model 2, adding the dummy variable ( $b=0.29$ ,  $SE=0.09$ ,  $p=.002$ ), resulted in an additional variance of 7.7% ( $p=.002$ ) that supports Hypothesis 1. In Model 4, interaction of the dummy variable and use of internal accountant for basic tasks is significant ( $b=0.65$ ,  $SE=0.22$ ,  $p=.004$ ) and added 5.5% variance ( $p=.004$ ), which supports Hypothesis 2. The 95% bias-corrected bootstrapping confidence intervals for indirect effect of use of external accountant (CPA) for advising tasks, when re-iterated with the dummy variable, also excluded zero (CI: [0.16, 0.82]), which supports H4.

The second robustness check is to conduct an alternative analysis for H2, moderation hypothesis. In this analysis, analogous to second robustness check, family involvement in management is measured through a dummy variable. For moderator variable, which is using internal accountant for basic task we followed conceptual demarcation of Everaert et.al. (2010), which divides accounting tasks into routine and non-routine tasks. Routine tasks require are straightforward, standardized and they require less judgment of accountant whether internal or external (Everaert et.al. 2010) therefore, entry of invoices and preparation of interim reports are conceptually closer to basic accounting tasks.

Combining these two tasks with entry of bank receipts, check and bonds we calculated a composite score which is the arithmetic average of these three items. This is the alternative measurement for use of internal accountant for basic tasks. For dependent variable, use of external accountant (CPA) for advising tasks we used the same measurement as previous analyses.

To conduct an independent-sample t-test, we recoded the composite score of use of internal accountant for basic tasks into a dummy variable, split by mean ( $M=59.45$ ). That is, 0 indicating the lower levels of use of internal accountant for basic tasks and 1 indicating the high levels. To capture the differentiation between family firms and non-family firms we conducted two independent-samples t-tests for each group by selection. When we select non-family firms and conduct an independent-samples t-test, we observed that use of external accountant (CPA) for advising tasks means are not significantly different ( $t(49)=-0.765, p=.448$ ) for low ( $M=2.06, SD=1.46$ ) and high ( $M=2.41, SD=1.51$ ) levels of use of internal accountant for basic tasks. For family firms, we observed means of use of external accountant (CPA) for advising tasks are significantly different ( $t(51)=-4.47, p=.000$ ) for low ( $M=1.78, SD=1.02$ ) and high ( $M=3.96, SD=1.65$ ) levels of use of internal accountant for basic tasks. These results support H2 that among family SMEs, the ones that highly use internal accountant for basic tasks are likely to use their external accountant as advisor.

## 5.2. Supplemental Analyses

We conducted four supplemental analyses. First, we conducted an alternative analysis to test a moderated mediation model on firm survey. In prior analyses, we confirmed the moderating effect of use of internal accountant for basic tasks (Hypothesis 2) and

mediating effect of use of external accountant (CPA) for advising tasks (Hypothesis 4) through separate analyses. “Model 7” of PROCESS macro (Hayes, 2017) enables us to test two hypotheses simultaneously as a moderated mediation model. Again, we constructed bias-corrected confidence intervals based on 5,000 random samples. The 95% bias-corrected bootstrapping confidence intervals for moderated mediation excluded zero (CI: [0.03, 0.23]), validating both effects. Within this analysis we applied Johnson-Neyman technique, in which confidence intervals for different levels of the moderator are investigated (Preacher et.al.,2007). This technique concluded that indirect effect of use of internal accountant for basic tasks is positive and significant at the 5% level for values higher than 60.25. After this level, similarly, confidence intervals excluded zero.

Second, we conducted a CPA survey to triangulate the results obtained from the firm survey. For CPA survey, we iterated the analyses of firm survey with a restructured model, that is, competency measures were not present in CPA survey and we could not include them in the model as control variables. Therefore, models used in the analyses of the CPA surveys included two control variables: foreign trade exposure and usage of other external advisors. We obtained similar results from the analyses for H2 (moderation) and H4 (mediation). Table 3 presents the correlations and Table 4 presents the results of the hierarchical regression analyses for the CPA survey. The interaction between family involvement in management and use of internal accountant for basic tasks in Model 10 ( $b=0.54$ ,  $SE=0.01$ ,  $p=.060$ ) provides support for Hypothesis 2 ( $\Delta R^2=0.02$ ,  $p=.060$ ). Figure 3 graphically depicts this relationship (Aiken, West & Reno, 1991) and when use of internal accountant for basic tasks is 2SD above the mean, the gradient

of simple slope is 0.42 ( $t=1.69, p=.093$ ). To test H4, again we used “Model 4” of PROCESS macro (Hayes, 2017) and generated 5,000 random samples. The 95% bias-corrected bootstrapping confidence intervals for indirect effect of use of external accountant (CPA) for advising tasks excluded zero (CI: [0.04, 0.24]), supporting Hypothesis 4.

In the third supplemental analysis, on the firm survey, we investigated which advising services are more frequently received by family SMEs. For all firms -regardless of family involvement in management- among six external accountant roles related to advising, two roles with highest means are statutory advice ( $M=3.39, SD=2.04$ ) and source of emergency advice ( $M=3.00, SD=1.94$ ). We conducted independent-samples t-test to find out if means of these two advising services differ between family and non-family firms. For statutory advice, means are significantly different ( $t(102)=-3.64, p=.000$ ) between family ( $M=3.64, SD=1.94$ ) and non-family ( $M=2.33, SD=1.71$ ) firms. For external accountant being the source of emergency advice, means are also significantly different ( $t(102)=-4.16, p=.000$ ) between family ( $M=4.15, SD=1.92$ ) and non-family ( $M=2.61, SD=1.86$ ) firms.

To investigate the findings of previous research that lawyers are a highly frequent advising service provider to the firms (Krentzman & Samaras, 1960, Robinson Jr., 1982, Strike, 2013) we conducted a fourth supplemental analysis. In firm survey, results indicated that firms frequently receive external advisory services (not from CPAs) for training / skills development ( $M=3.15, SD=2.01$ ) and for legal, compliance issues ( $M=2.71, SD=1.63$ ). Independent-samples t-tests showed that likelihood of receiving training / skills development and legal, compliance related advisory services do not

differ significantly for family and non-family firms ( $t(97)=0.67, p=.504$  and  $t(100)=-1.41, p=.158$  respectively).



Table 1. *Descriptive Statistics and Correlations*

Variable	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8
1. Firm performance	3.96	1.48	1							
2. Family involvement in management	2.00	1.77	.026	1						
3. Use of internal accountant for basic tasks	54.37	32.73	.213*	.457**	1					
4. Use of external accountant (CPA) for advising tasks	2.80	1.75	.508**	.395**	.504**	1				
5. Foreign trade exposure	13.69	17.61	.152	.016	.095	.210*	1			
6. Perceived competency of CPA in basic accounting tasks	4.42	1.53	.222*	.047	.172	.244**	.000	1		
7. Perceived competency of CPA in advising tasks	2.91	1.77	.239*	.109	.179	.190	-.006	.339**	1	
8. Use of other external advisors	2.34	0.79	.159	.083	.129	.293**	.062	.160	.173	1

Note: N=104. Correlations larger than .21 (.24) are significant at the level of .05 (.01), two-tailed test.

Table 2. *Multiple Regression Results*

Table 2. Multiple Regression Results

Variable	Use of External Accountant (CPA) for Advising Tasks												Firm Performance											
	Model 1				Model 2				Model 3				Model 4				Model 5				Model 6			
	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>
Intercept	0.15	0.00	0.09	1.000	-0.32	0.00	0.09	1.000	-0.60	0.00	0.08	1.000	-0.02	-0.09	0.09	.292	2.30		0.57	.000	2.25		0.51	.000
Controls																								
Foreign trade exposure	0.19	0.20	0.09	.037	0.02	0.20	0.09	.027	0.02	0.16	0.08	.048	0.01	0.12	0.08	.128	0.12	0.15	0.10	.122	0.01	0.06	0.09	.503
Perceived competency of CPA in basic accounting tasks	0.20	0.18	0.10	.076	0.20	0.17	0.09	.057	0.16	0.14	0.08	.118	0.15	0.14	0.08	.113	0.14	0.15	0.10	.148	0.07	0.07	0.09	.470
Perceived competency of CPA in advising tasks	0.09	0.09	0.10	.359	0.06	0.06	0.09	.543	0.03	0.03	0.09	.752	0.04	0.05	0.09	.600	0.14	0.17	0.10	.090	0.11	0.13	0.09	.153
Use of other external advisors	0.53	0.24	0.09	.013	0.48	0.22	0.09	.016	0.44	0.20	0.08	.019	0.43	0.19	0.08	.018	0.18	0.10	0.10	.326	-0.02	-0.01	0.09	.886
Main effects																								
Family involvement in management					0.36	0.36	0.09	.000	0.21	0.21	0.09	.020	-0.19	-0.19	0.20	.342								
Use of internal accountant for basic tasks									0.02	0.34	0.09	.000	0.01	0.13	0.07	.315								
Use of external accountant (CPA) for advising tasks																	0.39	0.46	0.08	.000				
Interaction effect																								
Family involvement in management x Use of internal accountant for basic tasks													0.01	0.56	0.01	.027								
$\Delta R^2$					0.12				0.09				0.03								0.11			
$\Delta F$					17.8	.000			13.4	.000			5.04	.027							23.95	.000		
$R^2$	0.17				0.30				0.38				0.41				0.11				0.29			
Adjusted $R^2$	0.14				0.26				0.35				0.37				0.08				0.25			
Model <i>F</i>	5.06	.001			8.30	.000			10.04	.000			9.68	.000			3.12	.018			7.87	.000		



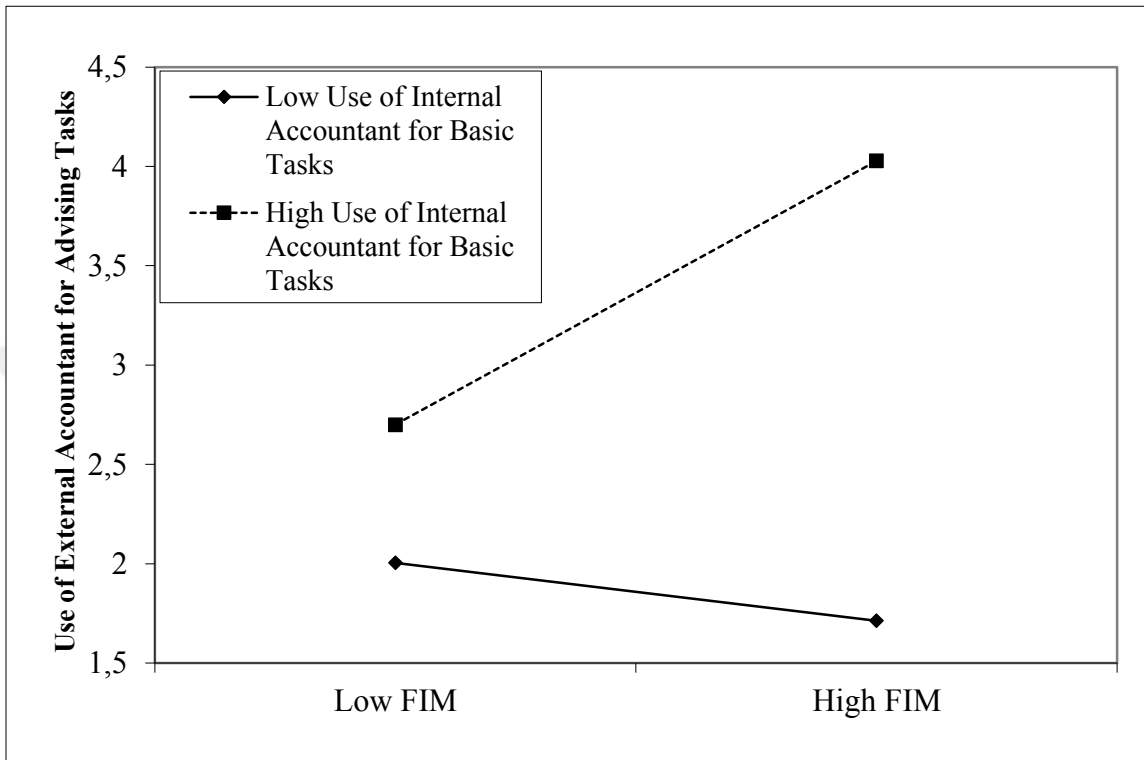


Figure 2. The interaction effect of family involvement in management and use of internal accountant for basic tasks

Table 3. *Descriptive Statistics and Correlations (CPA Survey)*

Variable	<i>M</i>	<i>SD</i>	1	2	3	4	5	6
1. Firm performance	3.80	1.18	1					
2. Family involvement in management	2.10	1.33	.185	1				
3. Use of internal accountant for basic tasks	47.83	27.20	.579**	.358**	1			
4. Use of external accountant (CPA) for advising tasks	3.54	1.50	.692**	.300**	.586**	1		
5. Foreign trade exposure	10.46	19.20	-.028	-.023	-.075	.068	1	
6. Use of other external advisors	3.20	1.27	.452**	.100	.258**	.522**	.076	1

*Note:*  $N=104$ . Correlations larger than .25 are significant at the level of .01, two-tailed test.

Table 4. Multiple Regression Results (CPA Survey)

Table 4. Multiple Regression Results

Variable	Use of External Accountant (CPA) for Advising Tasks												Firm Performance											
	Model 7				Model 8				Model 9				Model 10				Model 11				Model 12			
	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>	<i>b</i>	$\beta$	<i>SE</i>	<i>p</i>
Intercept	1.62		0.37	.000	1.10		0.40	.007	0.56		0.36	.122	1.34		0.54	.015	2.60		0.29	.000	1.83		0.25	.000
Controls																								
Foreign trade exposure	0.01	0.04	0.09	.686	0.01	0.05	0.09	.606	0.01	0.08	0.08	.270	0.01	0.06	0.08	.441	-0.01	-0.06	0.09	.547	-0.01	-0.08	0.01	.298
Use of other external advisors	0.59	0.50	0.09	.000	0.56	0.48	0.09	.000	0.44	0.37	0.08	.000	0.41	0.35	0.08	.000	0.37	0.42	0.09	.000	0.07	0.08	0.08	.359
Main effects																								
Family involvement in management					0.28	0.26	0.09	.004	0.11	0.10	0.08	.219	-0.30	-0.27	0.23	.201								
Use of internal accountant for basic tasks									0.03	0.48	0.08	.000	0.12	0.22	0.01	.164								
Use of external accountant (CPA) for advising tasks																					0.50	0.65	0.07	.000
Interaction effect																								
Family involvement in management x Use of internal accountant for basic tasks													0.07	0.54	0.01	.060								
$\Delta R^2$					0.06				0.18				0.02								0.31			
$\Delta F$					8.55	.004			31.89	.000			3.64	.060							56.73	.000		
$R^2$	0.25				0.31				0.49				0.51				0.17				0.49			
Adjusted $R^2$	0.23				0.29				0.47				0.49				0.15				0.47			
Model $F$	15.30	.000			13.83	.000			21.91	.000			18.78	.000			9.74	.000			29.25	.000		

Note:  $N = 93$

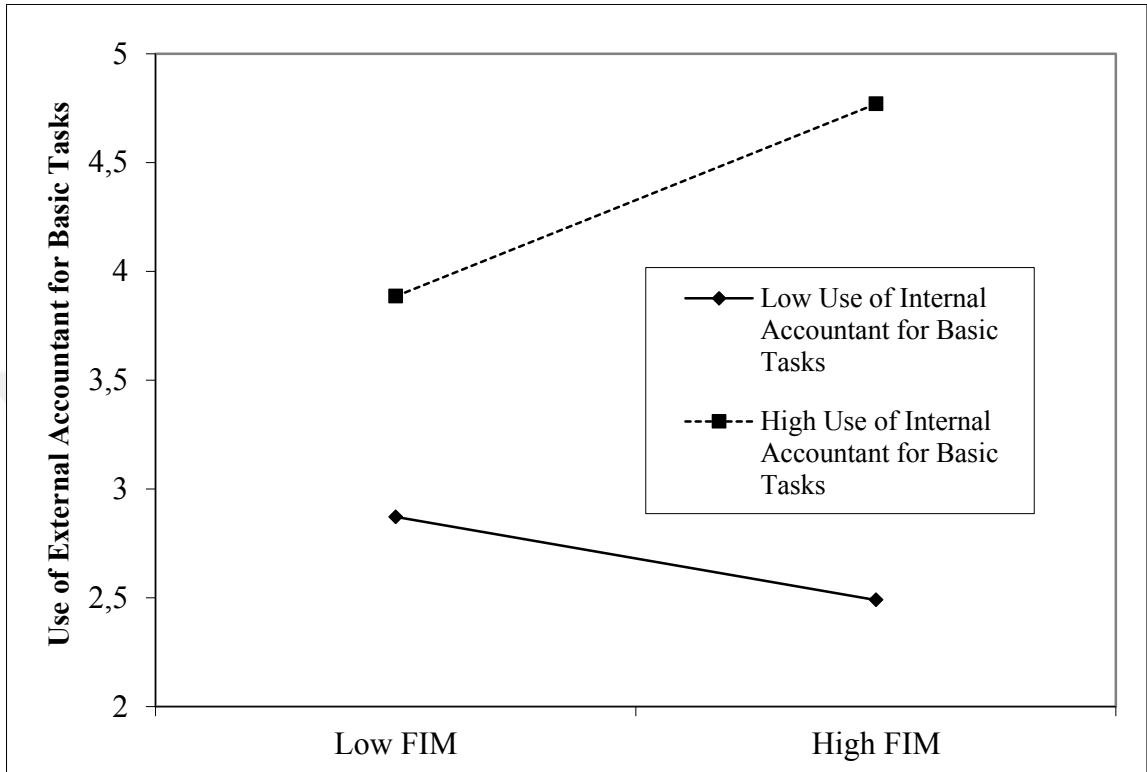


Figure 3. The interaction effect of family involvement in management and use of internal accountant for basic tasks (CPA Survey)

## **CHAPTER 6**

### **DISCUSSION**

This research builds on the family business and SME literatures to extend the a priori knowledge on how family SMEs utilize an outside knowledge resource, in specific, those of an external accountant (CPA) and if this utilization enables the family SME to have higher performance. The theoretical foundation of the research is Knowledge Based View (KBV) that designates knowledge as a valuable resource that firms depend on to excel. Confirmed by the data separately collected from both CPAs (those giving the services) and family SMEs (those receiving services), our findings highlight the importance of external accountants as advisors for the family SME due to the liability of smallness. We hypothesized and empirically supported that high-performance family SMEs tend to use their external accountant as an advisor, especially if the SME uses its internal resources for basic accounting tasks. These findings have noteworthy theoretical contributions and practical implications.

## 6.1. Theoretical Contributions

The primary theoretical contribution of this research is that we provided an explanation to external accountant's (CPA's) contribution to family SME performance through their advising role. Past research on family businesses highlighted the importance of external knowledge resources (Chirico & Salvato, 2008; Daspit, Long & Pearson, 2018) and contributions of external accountants to the family firm (Barbera & Hasso, 2013; Nicholson, Shepherd & Woods, 2009). However, these studies have not provided a conclusive explanation on external accountants' (CPA) contribution on firm performance through their advising role. It is possible to observe the same tendency in SME research as well, Berry et.al. (2006) presented proportional analyses that SMEs with high-performance tend to use external advisors and external accountants. Building on the measurements of Berry et.al. (2006) on the role of external accountant (CPA) we added familiness and perceived firm performance constructs and tested these constructs empirically. This research also differs from previous studies that are similar in terms of context and operational definitions. For example, in family SME context, Barbera & Hasso (2013) investigated two aspects that enable external accountants to affect firm performance, however, the authors measured the use of external accountant in a dummy variable. This approach does not capture the specific role of the external accountant that justifies the effect on firm performance. Our study proposes and supports the advising role of the external accountant (CPA) particularly is of elevated importance for enhanced firm performance.

This research also contributes to the literature by highlighting the characteristics and practices that makes the external accountant (CPA) an advisor to the family SME, which

still is an under-researched area (Strike, 2012). In the family business domain, only a handful of studies (Cascino et.al. 2010; Salvato & Moores, 2010; Trotman & Trotman, 2010) researched internal accounting and auditing practices as a determinant of services received from the external accountant (CPA). Research on internal accounting practices of SMEs shed some light on use of external accountants (Collis & Jarvis, 2000; Collis & Jarvis, 2002); however, such studies did not include the familiness construct to the picture. Current research suggests that external accountants that serve family firms or SMEs as advisors had previous good performance on basic accounting tasks (Collis & Jarvis, 2000; Gooderham et.al. 2004) and competence in basic accounting tasks is a prerequisite for advising tasks (Reddrop & Mapunda, 2015). In this research we challenge this view and we empirically show that external accountants (CPA) do not have to serve family SMEs in basic accounting tasks to have an advising role. On the contrary, as family SMEs internalize basic accounting tasks, they are more likely to use the external accountant (CPA) as an advisor. This finding is currently the contemporary view in accounting and auditing research domains that accounting practitioners are moving away from basic functions (Doran, 2006) for being a full-fledged advisor (Holtzman, 2004; Jeacle, 2008).

In identifying how family SMEs utilize external and internal knowledge resources simultaneously, this research contributes to the literature by providing an example from the accounting and financial management processes. Past research has shown that due to their liability of smallness family SMEs might not be able to recruit the best talent in the market (Aldrich & Auster, 1986) and familiness makes these firms to have an absorptive capacity for obtaining knowledge and make associated internal changes (Daspit, Long &

Pearson, 2018), which makes the family SMEs an ideal place to combine internal and external resources. However, within the context of accounting practices in SMEs, past research has concentrated on outsourcing (Everaert, Sarens & Rommel; 2010) and identifying the effects of accounting practices on financial management (Collis & Jarvis, 2002). Only a handful of past research (Berry, Sweeting & Goto, 2006; Doving & Gooderham, 2008) has demonstrated how to combine internal and external knowledge resources. In this research, we built internal and external accounting and advisory practices on the Knowledge Based View (KBV) and treated both internal and external accountants as knowledge sources. Our study suggests combining internal resources that could be utilized for basic accounting practices (internal accountant) with advising services obtained from an external accountant (CPA) to provide superior performance. This approach contributes a way for utilization of internal and external knowledge resources simultaneously, which also signifies KBV as a strong theoretical foundation to investigate advising at the intersection of family business and SME research domains.

Another theoretical contribution of this research is to bring both perspectives of external accountants (CPA) and firm respondents at the same time. A very similar approach has been applied by Kirby & King (1997): the authors brought conflicting results with past research asserting that external accountants do not have a positive effect on firm performance, primarily attributed to expectation gaps between the external accountant (CPA) and the firm. Comparing with the study of Kirby & King (1997) this research has a larger sample size (100+ vs. 28) and this research applies a moderated mediation model rather than proportional analyses. In preparation of surveys, through interviews, we took the feedback of external accountants (CPA) and firm respondents into account.



Triangulating the results of the firm survey with the results of the CPA survey enabled us to come up with reliable and valid results. Future research can build on these results which combines both sides of the advising relationship in the family SME setting.

This research contributes an emerging market example to the family business, SME, advising and accounting literature streams. Being one of the G20 countries and 17<sup>th</sup> biggest economy of the world (The World Bank, 2019), Turkey is a fruitful context for business research. Moreover, Turkey has a very high proportion of SMEs and family firms, which enables the Turkish market to be a good venue for investigating family SMEs. Since the legal framework of accounting practices was established 30-years ago, for the accounting research, Turkey is a relatively fresh context to discover.

## 6.2. Managerial Implications

The results of this study confirm the widely acknowledged positive effect of advisors on firm performance (Bennett & Robson, 1999; Berry, Sweeting & Goto, 2006; Carey, 2015; Carey & Tanewski, 2016; Deakins, Logan & Steele, 2001; Robinson Jr., 1982; Strike, 2012). We suggest that family SMEs should enhance the role of the external accountant for advising tasks. Although past research shows that for family SMEs, employing a full-time CPA might only be cost effective after a certain sales turnover (Aldrich & Auster, 1986; Collis & Jarvis, 2000; Collis & Jarvis, 2002), family SMEs should consider employing an accounting professional internally as we assert that family SMEs that use their internal resources for basic accounting tasks tend to utilize their external accountant (CPA) as an advisor. Also, from the KBV perspective, for family SMEs, it is sufficient to utilize their own knowledge resources for basic accounting tasks

according to the results of this study. Given their liability of smallness, family SMEs might consider employing an accounting personnel with experience that suffices to handle basic accounting tasks – not necessarily a CPA. Family SMEs should assign more advising tasks to their external accountant (CPA) so that they can attain higher performance. This would mean combining cost-effective management of internal resources and deriving value added outcomes from the external resources.

Another managerial implication of this research is for the external accountants (CPA). It is widely acknowledged that accountants are becoming strategic management consultants (Bennett & Robson, 1999; Holtzman, 2004; Jeacle, 2008) and advising services are more profitable for the external accountants (Breen, Sciulli & Calvert, 2004). However, for many CPAs, they have not moved from basic accounting functions services to that of an advisor (Suadiye & Yükselen, 2001; Taner, Korukoğlu & Susmuş, 2001). To establish and maintain a competitive advantage for themselves and to keep their resources valuable for the firms, CPAs should put more emphasis on advising tasks and shift their current role for the customers, especially for family SMEs to a more value-added advisor role.

### 6.3.Limitations and Future Research

This research has limitations in terms of method and theory. Although we propose a model that resembles with a causal chain, our correlational data did not result with causal inference. An experimental design that investigates the same theoretical framework would be conclusive for causality. As a theoretical limitation, this research lacks the temporal aspect of using internal and external resources for the success of the

company. The temporality of the results is twofold. First, use of internal and external accountant might have a transforming nature over time, as family firms have a dynamic capability of absorbing external knowledge and internalizing it (Daspit, Long & Pearson, 2018). Therefore, in its early stages of foundation, a family SME might be depending on the external accountant (CPA), then employ an internal accounting personnel and distribute the accounting workload accordingly. At the final stage, the firm might be recruiting a full-time CPA and fully utilize them in all accounting and advising tasks. Although measuring the stage of a firm in the life-cycle through the firm age is frequent (i.e. Everaert, Sarens & Rommel, 2010) family firms are complicated when it comes to measuring their maturity as there is succession and this results in concerns such as transmit of knowledge (Giovannoni, Maraghini & Riccaboni, 2011) and accountant's role in succession (Caseroni & Sentuti, 2016). Therefore, future studies might empirically test the effects of a family SME's stage in its life-cycle for its usage of resources for accounting and advising processes. The second aspect of temporality is about the performance of the firm. Although we followed the past research (Baker & Sinkula, 2009; Craig & Dibrell, 2006; DeMassis et.al. 2016<sup>a</sup>, Holt, Madison & Kellermanns, 2017; Pelham, 2000) by asking the respondents to rate their firms' performance for last three years and regardless of current economic conditions, we acknowledge that perceived performance might be dependent on the time frame that we collected the data. Further research might consider the alternative ways of measuring family SME performance that has a stronger historical validity.

#### 6.4. Conclusion

This thesis demonstrates which role of external accountants (CPA) enable them to affect family SME performance positively and how internal resources of the firm become influential in this process. Our findings reveal that family SMEs tend to use their external accountants (CPAs) in an advisor role more than non-family firms and this enables them to have higher performance. We also found that family SMEs that use their internal knowledge resources for basic accounting tasks are more likely to use their external accountants (CPA) in an advisor role. Through this combined usage of internal and external knowledge resources in accounting, family SMEs can gain and sustain a competitive advantage.

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## APPENDICES

### APPENDIX A

#### Firm Survey in English

##### A. Control variables

1) What percentage of your firm's revenue comes from (% domestic, % international)

2) What is your industry? (Mark only one)

Forest, Paper & Packaging	Energy	Chemicals & Petroleum	
Information Technologies	Finance	Mining	
Glass, Cement & Soil	Food & Beverage	Metals	
Training	Construction	Automotive	
Electricity & Electronics	Business & Management	Health & Social Services	
Agriculture & Fishing	Textile & Apparel	Trade (Sales and Marketing)	
Tourism & Accommodation	Transportation & Logistics	Communication	

3) Approximately, how many total employees does your firm have? (1-5, 6-10, 11-30, 31-50, 51-100, 100+)

4) My firm uses other advisors for: (1-very little, 6-extensively)

Legal advice

Inheritance issues/generation transfer

Management/organization/HRM

Training and skills development  
Remuneration schemes/salary administration

5) Please mark the box suits your answer most (1-very limited competence, 6-very highly competent)

My firm perceives its external accountant as a competent source of basic accountancy services.

My firm perceives its authorized accountant as a competent source of business advisory services

#### B. Family involvement in management

6) Please indicate whether or not each of the following senior positions is filled by family members in your firm (Yes, No, N/A)

CEO

Vice CEO

CFO

Head of Production

Head of Marketing

Head of HR

Board of Directors

7) Do you consider your firm a family firm? (Yes, No)

#### C. Use of internal accountant for basic tasks

8) Please, over a total of 100 percent, determine a percentage of workload between external accountant and your firm's internal accounting personnel: (% for Internal Accounting Personnel, % for External Accountant)

Entry of Invoices and Invoicing

Interim Reporting

Period-end Accounting

Financial Statements

Entry of Bank Receipts, Checks, Bonds

#### D. Use of external accountant (CPA) for advising tasks

9) How would you evaluate external accountant/auditor's role for your firm? (1-not at all, 6-to a very large degree)

Active member of the management team

Business advice for the management

Source of emergency advice

Financial management support

Statutory advice

An agent for intellectual exchange and dialogue

E. Firm Performance

10) Please answer the following question regardless of current economic conditions:

In last three (3) years, with respect to competitors and the industry, my firm has been experiencing: (1-much worse, 7-much better)

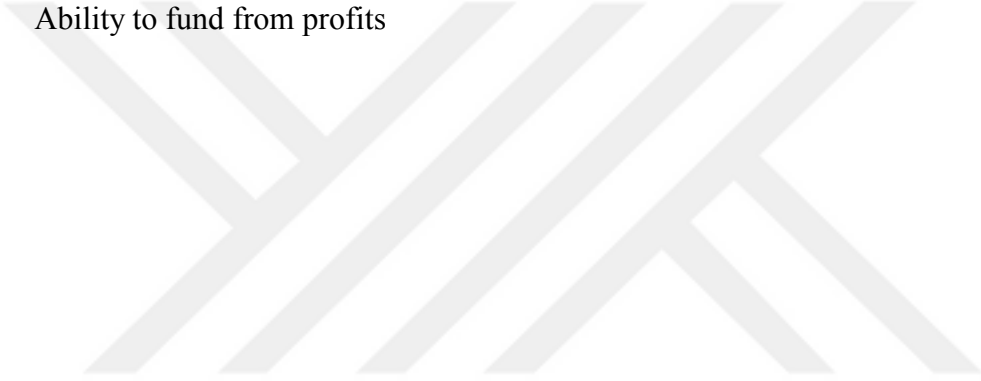
Sales growth

Market share generation

Profitability growth

Employee growth

Ability to fund from profits



## APPENDIX B

### Firm Survey in Turkish

#### A. Control variables

- 1) Şirketimizin cirosu şu şekilde dağılmaktadır: (% yurt içi + % yurt dışı faaliyetler)
- 2) Şirketinizin faaliyet gösterdiği sektör aşağıdakilerden hangisidir?

Ağaç İşleri, Kâğıt & Ambalaj	Enerji	Kimya ve Petrol	
Bilgi Teknolojileri	Finans	Maden	
Cam, Çimento ve Toprak	Yiyecek & İçecek	Metal	
Eğitim	İnşaat	Otomotiv	
Elektrik ve Elektronik	İş ve Yönetim	Sağlık ve Sosyal Hizmetler	
Tarım, Balıkçılık	Tekstil, Hazır Giyim	Ticaret (Satış ve Pazarlama)	
Turizm, Konaklama	Ulaştırma ve Lojistik	Haberleşme	

- 3) Şirketinizde yaklaşık kaç çalışan var? (1-5, 6-10, 11-30, 31-50, 51-100, 100+)
- 4) Şirketimiz aşağıdaki konularda diğer danışmanlardan hizmet alır: (1-çok az, 6-çok yoğun)

Yasal uyum ve hukuki konular  
Miras konuları veya kuşaklar arası aktarım  
Yönetim ve organizasyon  
Eğitim ve beceri geliştirme, mesleki yeterlilik sertifikaları  
Maaş planlaması ve yönetimi

- 5) Uygun kutucuğu işaretleyiniz: (1-Hiç yetkin değildir, 6-Çok yetkindir)

Mali müşavirimiz yasal konulardaki hizmetlerde...  
Mali müşavirimiz yönetim danışmanlığı hizmetlerinde..

#### B. Family involvement in management

- 6) Şirketinizde aşağıdaki pozisyonlardan hangilerinde aile üyeleri var? (Aileden, Aile Dışından, Bilgim Yok / Bu Pozisyon Yok)

CEO / Genel Müdür  
Genel Müd. Yardımcısı  
CFO / Mali İşler Yön.  
Üretim Müdürü  
Pazarlama / Satış Müd.  
İnsan Kaynakları Müd.  
Yönetim Kurulu Üyeleri

7) Sizce şirketiniz bir aile şirketi midir? (Evet, Hayır)

C. Use of internal accountant for basic tasks

8) Lütfen aşağıdaki muhasebe görevlerinin her birinin toplamını %100 olarak düşünün. Bu görevlerin yüzde kaçını şirketinizin çalışanı olan muhasebe personeli; yüzde kaçını SMMM'niz yerine getiriyor? (%Şirketimizin muhasebe personeli - %SMMM ya da onun personeli)

Fatura Basımı ve Fatura Girişi  
Ara Dönem Raporlaması  
Dönem Sonu İşlemleri  
Mali Tabloların Hazırlanması  
Banka Ekstreleri, Çek ve Senet Girişleri

D. Use of external accountant (CPA) for advising tasks

9) SMMM'mizin şirketimiz için rolü:(1-kesinlikle yanlış, 6-kesinlikle doğru)

Yönetim ekibinin aktif bir üyesidir  
Üst yönetim için bir danışmandır  
Acil durum tavsiyeleri için kaynağıdır  
Finansal yönetim için bir destek unsurudur  
Yasal konularda (vergi, dış tic.) bir danışmandır  
Entelektüel paylaşımda bulunulan biridir

E. Firm Performance

10) Lütfen aşağıdaki soruyu güncel ekonomik gelişmeleri dikkate almadan, şirketinizin genel gidişatını düşünerek cevaplayın.

Son üç (3) yılda, rakipleri ve sektör geneline göre şirketimizin durumu: (1-çok daha kötü, 7-çok daha iyi)

Satış Büyümesinde  
Kârlılık Artışında  
Pazar Payı Yaratmada  
Personel Sayısındaki Artışta  
Kârlılığı Büyüme için Kullanmada

## APPENDIX C

### CPA Survey in English

#### 0. Explanation

Dear CPA, now please choose one firm that you consider to be a “key” (important) client. Respond for this “key firm” when you read “the key firm” in the remainder of survey:

#### A. Control variables

- 1) What percentage of the key firm’s revenue comes from (% domestic, % international)
- 2) What is your industry of the key firm? (Mark only one)

Forest, Paper & Packaging	Energy	Chemicals & Petroleum	
Information Technologies	Finance	Mining	
Glass, Cement & Soil	Food & Beverage	Metals	
Training	Construction	Automotive	
Electricity & Electronics	Business & Management	Health & Social Services	
Agriculture & Fishing	Textile & Apparel	Trade (Sales and Marketing)	
Tourism & Accommodation	Transportation & Logistics	Communication	

- 3) Approximately, how many total employees does the key firm employ? (1-5, 6-10, 11-30, 31-50, 51-100, 100+)

- 4) The key firm uses other advisors for: (1-very little, 6-extensively)

Legal advice

Inheritance issues/generation transfer

Management/organization/HRM

Training and skills development

Remuneration schemes/salary administration

#### B. Family involvement in management



5) Please indicate whether or not each of the following senior positions is filled by family members in the key firm (Yes, No, N/A)

CEO  
Vice CEO  
CFO  
Head of Production  
Head of Marketing  
Head of HR  
Board of Directors

6) Do you consider this a family firm? (Yes, No)

C. Use of internal accountant for basic tasks

7 Please, over a total of 100 percent, determine a percentage of workload between you and the key firm's internal accountants (% for Internal Accounting Personnel, % for Us)

Entry of Invoices and Invoicing  
Interim Reporting  
Period-end Accounting  
Financial Statements  
Entry of Bank Receipts, Checks, Bonds

D. Use of external accountant (CPA) for advising tasks

8) How would you evaluate your role for the firm? (1-not at all, 6-to a very large degree)

Active member of the management team  
Business advice for the management  
Source of emergency advice  
Financial management support  
Statutory advice  
An agent for intellectual exchange and dialogue

E. Firm Performance

9) Please answer the following question regardless of current economic conditions:

In last three (3) years, with respect to competitors and the industry, the key firm has been experiencing: (1-much worse, 7-much better)

Sales growth  
Market share generation  
Profitability growth  
Employee growth  
Ability to fund from profits

## APPENDIX D

### CPA Survey in Turkish

#### 0. Explanation

Sayın SMMM, Őimdi mükelleflerinizden çok önemli gördüğünüz bir tanesini seçiniz. Anketin tümündeki soruları bu mükellef için cevaplayınız.

#### A. Control variables

1) Mükellefin cirosu Őu Őekilde dağılmaktadır: (% yurt içi + % yurt dıŐı faaliyetler)

2) Mükellefin faaliyet gösterdiği sektör aŐağıdakilerden hangisidir?

Ağaç İŐleri, Kâğıt & Ambalaj	Enerji	Kimya ve Petrol
Bilgi Teknolojileri	Finans	Maden
Cam, Çimento ve Toprak	Yiyecek & İçecek	Metal
Eğitim	İnŐaat	Otomotiv
Elektrik ve Elektronik	İŐ ve Yönetim	Saėlık ve Sosyal Hizmetler
Tarım, Balıkçılık	Tekstil, Hazır Giyim	Ticaret (SatıŐ ve Pazarlama)
Turizm, Konaklama	UlaŐtırma ve Lojistik	HaberleŐme

3) Mükellefin yaklaşık kaç çalıŐanı var? (1-5, 6-10, 11-30, 31-50, 51-100, 100+)

4) Mükellef aŐağıdaki konularda diėer danıŐmanlardan hizmet alır: (1-çok az, 6-çok yoėun)

Yasal uyum ve hukuki konular

Miras konuları veya kuŐaklar arası aktarım

Yönetim ve organizasyon

Eėitim ve beceri geliŐtirme, mesleki yeterlilik sertifikaları

MaaŐ planlaması ve yönetimi

#### B. Family involvement in management

6) Mükellef Őirkette aŐağıdaki pozisyonlardan hangilerinde aile üyeleri var? (Aileden, Aile DıŐından, Bilgim Yok / Bu Pozisyon Yok)

CEO / Genel Müdür  
Genel Müd. Yardımcısı  
CFO / Mali İşler Yön.  
Üretim Müdürü  
Pazarlama / Satış Müd.  
İnsan Kaynakları Müd.  
Yönetim Kurulu Üyeleri

7) Sizce bu mükellef bir aile şirketi mi?? (Evet, Hayır)

C. Use of internal accountant for basic tasks

8) Lütfen aşağıdaki muhasebe görevlerinin her birinin toplamını %100 olarak düşünün. Bu görevlerin yüzde kaçını siz; yüzde kaçını mükellefin çalışanı olan muhasebe personeli yerine getiriyor? (%Mükellefin muhasebe personeli – %Bizim yerine getirdiğimiz)

Fatura Basımı ve Fatura Girişi  
Ara Dönem Raporlaması  
Dönem Sonu İşlemleri  
Mali Tabloların Hazırlanması  
Banka Ekstreleri, Çek ve Senet Girişleri

D. Use of external accountant (CPA) for advising tasks

9) Mükellef için ben: (1-kesinlikle yanlış, 6-kesinlikle doğru)

Yönetim ekibinin aktif bir üyesiyim  
Üst yönetim için bir danışmanım  
Acil durum tavsiyeleri için kaynağım  
Finansal yönetim için bir destek unsuruyum  
Yasal konularda (vergi, dış tic.) bir danışmanım  
Entelektüel paylaşımında bulunulan biriyim

E. Firm Performance

10) Lütfen aşağıdaki soruyu güncel ekonomik gelişmeleri dikkate almadan, mükellefin genel gidişatını düşünerek cevaplayın.

Son üç (3) yılda, rakipleri ve sektör geneline göre mükellefin durumu: (1-çok daha kötü, 7-çok daha iyi)

Satış Büyümesinde  
Kârlılık Artışında  
Pazar Payı Yaratmada  
Personel Sayısındaki Artışta  
Kârlılığı Büyüme için Kullanmada