



**MBA 2006/7**

**Business strategies and the small professional  
services firm: evidence from the accounting  
profession**

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## **ABSTRACT**

The purpose of the study is to explore the concepts of strategy content and strategy process as it relates to small professional services firms. A case study approach based on grounded theory utilised in-depth interviews to collect data from five small professional service firms. The study found that it is worthwhile to conceive of strategy content and process in relation to small professional services firms. An emerging theory is presented. The research was limited by its small scale and single method to collecting data. Future research could include a wider sample and testing of the emerging theory. The emerging theory provides a valid and reliable measure for improving actions and decisions of practitioners. The emerging theory is practitioner-oriented and contributes to an area of research that is understudied.

## DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University.

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N. F. van Wyk

14/11/2007

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## **Chapter 1. INTRODUCTION TO RESEARCH PROBLEM**

### **1.1 Introduction**

According to French, Kelly and Harrison (2004), research on strategy and strategy process is central to the field of strategic management. However, although these concepts have been extensively researched, such research relates mostly to large companies and manufacturing concerns. Exploring strategy and strategy process in the context of small professional service firms has not received the same attention by researchers.

Although one of the main aims of research related to strategy management is to improve prediction of organisational success, such as performance, the approach taken by Love, Stephen and Paterson (1995), will be followed in this study. According to Love et al (1995, p467) their aim was to “determine if reference to business strategy in regard to legal firms is meaningful rather than to determine the effect of such strategies”. The current study will therefore not explore the “content – process – performance” relationship.

### **1.2 Need for & Objectives of Research & the Research Problem**

The accounting profession has experienced major environmental changes and traditional theories of strategy predict that firms need to adapt to their external environment so as to re-align their organisational capabilities in order to ensure continued competitive advantage and long-term survival. However it is not immediately apparent whether the above proposition applies to small professional accounting firms, on account of their peculiar nature since they:

- 1) Are owner managed;
- 2) Are simultaneously influenced by internal profit-driven motives and external imputed professional and ethical standards;
- 3) Operate within a legislative monopoly: and
- 4) The client is an integral part of the production process.

Because of the importance of the accounting sector to the economy and the fact that scholarly research on the strategy concept as applicable to professional service firms is rare (Brock, Yaffe and Dembovsky, 2006), this study will focus on a single industry, the accounting sector, and the unit of analysis within this sector will be small professional accounting firms.

Given the importance of the role played by these firms in assisting businesses to present and interpret financial information, there is an obvious need for strategy research that focuses on professional accounting firms. The present research is therefore undertaken to gain an understanding of the strategy types that exist within professional accounting firms and the strategy processes that lead to specific strategic choices with the unit of analysis being a sample of small and medium accounting practices providing professional services to the public for a fee. Chapter 4 further describes the unit of analysis and Chapter 5 elaborates on the context within which these firms operate.

The environment in which professional accountants operate is constantly subject to change. Kharwa (2007) states that the future viability and sustainability of the accounting profession will require professional accountants to either deliver to their clients services that will assist them in achieving greater

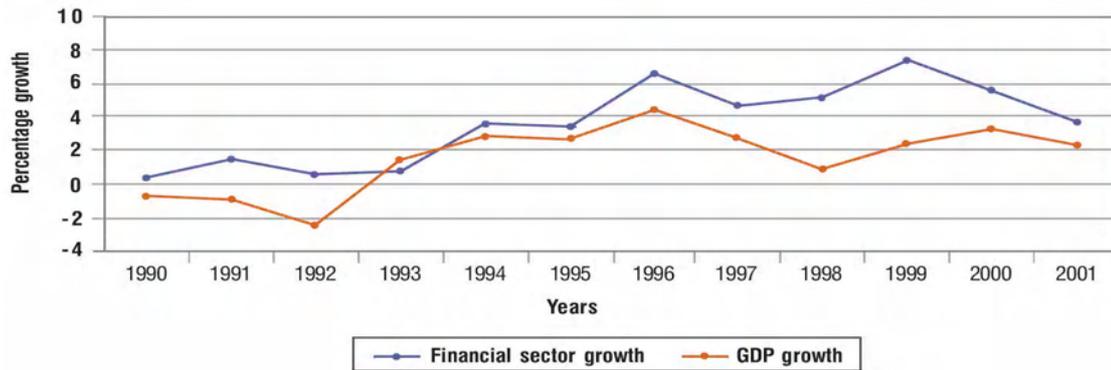
meaning in their businesses or otherwise face the risk of their services being transferred abroad or replaced with computer-driven databases and software. Various scholars agree that this change is the result of de-regulation, increased competition, globalisation of services, and technological developments (Brock, 2006).

For a firm to remain competitive these changes necessitate its adapting its strategy and operational structures. Change thus has an effect on how firms define their goals and means, and also on the processes that lead to these definitions.

According to Mboweni (2005) a structural change occurred in the South African economy as a result of the growth in the Services Sector. This is evident from the fact that in 1960 this sector contributed about 51.8% to Gross Domestic Product (GDP); and in 2005 it accounted for 64%. The accounting profession forms part of the Financial & Business Services Sector, a sub-sector of the Services Sector.

Figure 1 illustrates the relationship of this Sector to GDP.

**Figure 1: Real annual growth of the Financial & Business Services Sector relative to the economy (GDP), 1990-2001**



Manuel (2006) confirms the important role the accounting profession, and in particular small and medium practices, play in the economy. This role was described as “an invaluable service to many small and medium businesses. The overwhelming majority of these businesses are unlisted and too small to hire a battery of skills in-house. Consequently, many SAIPA members are in effect the chief financial officers (CFO) and investment advisers to these businesses”.

Given the importance of the Services Sector in the South African economy, small and medium accounting practices in particular, and the lack of research focus on small professional firms (Brock, 2006), it becomes important to formalise the understanding of strategy in this sector.

The main research objective of this study is therefore to determine whether strategy and strategy process are meaningful concepts in the case of small professional service firms.

### 1.3 Research Questions & Scope

Chakravarthy and White's (2001) holistic view of strategy process is depicted in Figure 2 in Chapter 2. Their holistic model and related definitions of strategy and strategy process form the basis of the research questions and scope of this study.

According to Chakravarthy and White's (2001) model the core elements of the strategy process are regarded to be decisions and actions. Strategy is seen as the patterns of decisions and actions that occur within a firm over time so as to leverage business context to achieve performance. An interdependent relationship exists between strategy process and strategy content. The purpose of the current content analysis via in-depth interviews is therefore to understand the strategy processes and strategy content reflected by small professional firms of accountants. This research paper therefore uses a qualitative approach to explore the stated concepts as they relate to small professional service firms. This study is exploratory, cross-sectional and homogenous with regard to industry and organisational type, and the research is therefore descriptive and not normative *i.e.* the research describes how things are and not how they ought to be.

The key issues that should be established include whether it is meaningful to conceive of strategy and strategy-making processes within the domain of small professional service firms; and, if it is meaningful, can different types of strategy and strategy-making processes be identified; and can these different types be

linked to “tenets of economic theory” as depicted in generic strategy typologies (Love et al, 1995).

Since current business strategies, such as Porter (1980), are formulated based on large multi-national companies it would be valid to ask whether generic strategies so derived apply to small professional firms, given their unique nature *i.e.* providing a professional service within the framework of an externally formulated code of ethical behaviour but simultaneously having a business approach that is profit seeking.

Given the current process of liberalising (opening up to competition) services that were previously the domain of professional accountants, it is fair to hypothesise that these firm have already discounted/appraised the effects that such liberalisation will have on the extent of their involvement in the professional accountant market and how they should adapt their methods of operation to stay competitive. The environment in which professional accountants operate is subject to two main drivers of de-regulation:

- 1) The proposed draft Companies Bill (Minister of Finance,(2006); and
- 2) The proposed draft Tax Practitioner Bill (SAIPA, 2007).

The effect of the proposed legislation will be :

- 1) The removal of the requirement to appoint registered auditors for private companies;

- 2) The removal of the requirement to appoint an accounting officer for close corporations; and
- 3) The introduction of new competition into the provision of tax services by introducing alternative regulatory requirements.

Based on the above the following broad research questions can be formulated within the context of small professional service firms:

- 1) Do professional accountants in practice exhibit coherent business strategies and strategy-making processes?
- 2) If they do, what forms do these strategies and strategy-making processes take?

## **Chapter 2. LITERATURE REVIEW**

### **2.1 Introduction**

According to Olsen and Bokor (1995:34), Chandler (1962), Ansoff (1965) and Andrews (1980) establish strategy as a “key influence on business strategy and success” and suggest that research on strategy should be separated into strategy process research and strategy content research.

In contrast, Ketchen, Thomas and McDaniel (1996), report that Miles, Snow, Meyer and Coleman (1978) emphasise the need to account for both process and content when assessing the relationship between a firm’s strategy and its performance

This study explores both content and process in the context of small professional services firms.

It is a common belief that organisations that do not change in line with strategic imperatives are doomed to gradual and final failure. In the past professional services firms relied on their reputation and a client referral process for their business; however due to rapid changes in the business environment such an approach is not sufficient to ensure the future of these businesses (Harris, 2000).

However, in the absence of planning, an increase in the rate of change within the environment results in an increase of occurrences of mismatching between

the demand and supply of services (Harris, 2000). According to Harris (2000) environmental changes include an increase in competition; structural changes such as changes to legislation that give professionals monopoly in the provision of services; and an increase in customer expectations. In the past the source of business was status and the reputation enjoyed by professional firms.

## **2.2 Professional Services Firms**

Brock (2006) defines a professional organisation as an organisation primarily sustaining professionalized occupations.

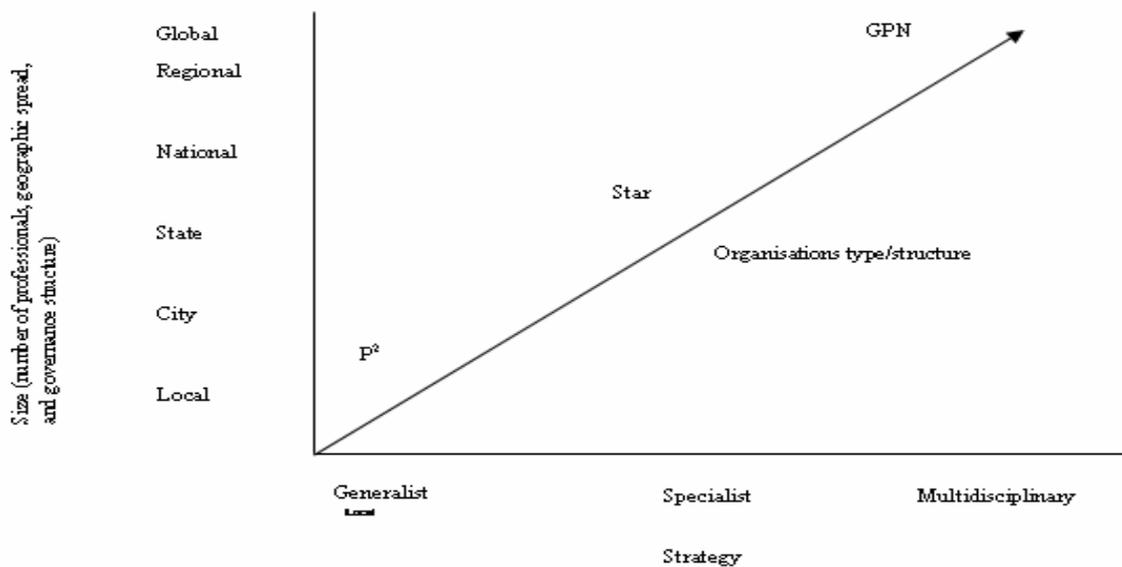
Brock (2006) provides an analysis of the archetype concept within the professional organisation field. An archetypal approach requires that the concept of configuration be studied by considering organisational structure and systems; and the "beliefs, values and ideas" represented by these structures and systems (Brock, 2006:159). A similar idea is represented by Miles *et al* (1978) when they hold that top executives' theory of management, not just environmental considerations, contributes to the creation of an organisational structure.

Brock (2006) argues that the traditional notions of the archetype professional firm, those proposed by Mintzberg (1980): professional bureaucracy and Greenwood, Hinings and Brown (1990): professional partnership, no longer represent the new organisational types that are emerging. A new model is proposed: the Global Professional Network (GPN) that better addresses the emerging changes in the field of professional organisations. These changes are classified as: managerialism; more reliance on formal networks; more

individualised reward systems; increasing corporate governance; increasing global reach; and emergence of multidisciplinary practices.

Currently (Brock, 2006) the three identified archetypes of professional organisations are in competition to become the one ideal type of professional organisation. The strategy - structure fit of each archetype is depicted as follows (Brock, 2006:169):

**Figure 2: Brock (2006) Strategy Structure Fit of each Archetype**



The following table highlights some of the “aspects of the three competing archetypes” (Brock, 2006:170)

**Table 1: Brock (2006) Aspects of three competing Archetypes**

	<b>P<sup>2</sup></b>	<b>Star</b>	<b>GPN</b>
<b>Structure and process</b>	Peer control, Partnership track, small size, moderate support staff, small techno-structure	Peer control, informal, moderate support staff, moderate techno-structure	Strong differentiation, integration mechanism, spatial differentiation, formal, large support staff and techno-structure, networks
<b>Strategy</b>	Generalist, accessibility, reliability, local	Niche, differentiation, elite, regional	Market share, leverage, consistent branding, national or global
<b>Interpretive scheme</b>	Collegiality, client focus, referrals	Excellence in professional speciality	Corporate, money making, market dominance

However Brock (2006:170), allows for the argument that instead of competing archetypes, all three models should be regarded as archetypes in their own right: "...to make this argument one would either have to redefine the field of professional organisation into three separate fields or reconsider the proposition that any institutional field can only sustain one archetype in the long term." Maister's (1993) view in this regard is based on a re-definition into three separate fields.

Mintzberg (1980:322) proposes that the "elements of organisational structuring" suggest five basic configurations. One of these is referred to as Professional Bureaucracy. According to him the elements include:

- 1) The five basic parts of the organisation;
- 2) The five basic methods of co-ordination;
- 3) The design parameters; and
- 4) The contingency factors.

Mintzberg (1980) further proposes that the five configurations rely on one of the co-ordinating mechanisms and tend to favour one of the five parts. The co-ordinating mechanisms are identified as: mutual adjustment, direct supervision, standardisation of work processes, outputs and skills. The five parts are: operating core, strategic apex, middle line, techno-structure, and support staff.

The conclusions drawn by Mintzberg (1980:322) are that "the effective organisation will favor (*sic*) some sort of configuration – some type of logically consistent clustering of its elements – as it searches for harmony in its internal processes and consonance with its environment".

The Professional Bureaucracy is of particular interest to the proposed research as this form is seen by Mintzberg (1980) as depicting accounting firms, which are the subject of this research. A comparison between Maister (1993) and Mintzberg (1980) suggests that the Mintzberg structure should be regarded as a template structure to be customised according to the structures proposed by Maister.

French *et al* (2004) follow Satow's (1975) classification of professional organisations as "value-rational organisations". These are a distinct group of organisations where there is a ". . . tendency toward a horizontal rather than vertical pattern of authority, a decentralised distribution of power, and an emphasis on colleague control" (Hall, 1968, cited in Satow, 1975:5).

The research of French *et al* (2004) focus on the planning practices of small professional services firms. Exploratory factor analysis is used to identify constructs measuring vision, mission, latent abilities, competitor orientation and market orientation. According to French *et al* (2004) these variables are associated with the effective formulation and implementation of strategic plans.

## **2.3 Strategy Process**

### **2.3.1 Introduction**

The method followed in reviewing the literature on strategy process is to group relevant articles by theme and then in chronological order.

The main themes are:

- 1) An overview of the field;
- 2) Identifying how strategy process is defined; and
- 3) Reflecting on proposed integrative models.

A sub theme is the link between strategy process and content.

### **2.3.2 Overview of the strategy process research field**

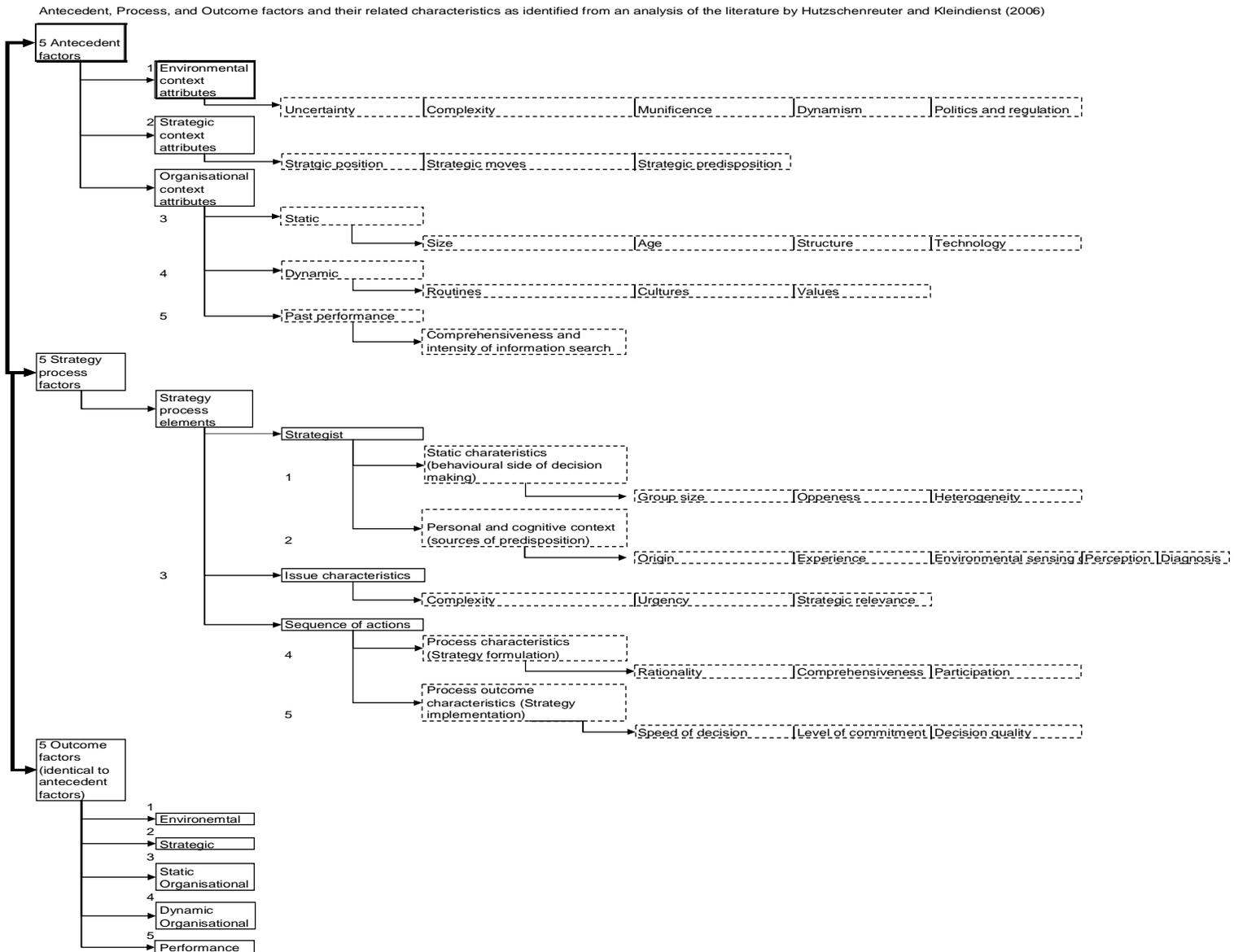
The purpose of the elaborate literature review of Hutzschenreuter and Kleindienst (2006) is to provide a complete and contained overview of the field within the current research paper and also to provide a reference point for interpreting the research results and for drawing conclusions.

According to Hutzschenreuter and Kleindienst (2006) the field of strategy process research is characterised by plurality of concepts and frameworks. Strategy processes are depicted as being: prescriptive; descriptive; or anchored at individual, group or organisation level. The result is competing and overlapping models. This provides different perspectives that increase knowledge, but also complexity. For this reason Hutzschenreuter and Kleindienst (2006) seek to provide guidance on what is known and what should be learned in the field of strategy process research.

Hutzschenreuter and Kleindienst (2006) analyse the literature and develop an integrated framework to evaluate the body of literature related to strategy process; they identify key antecedents, process and outcome factors as well their interrelationships relevant within the field. The framework is used to review and synthesise the literature on strategy process research to outline crucial findings, contradictions, and gaps. Areas for future research are also identified.

The table overleaf presents the findings of Hutzschenreuter and Kleindienst (2006) in a summarised form:

The table identifies the characteristics of the antecedent, process and outcome factors as presented by Hutzschenreuter and Kleindienst (2006) from their analysis of relevant literature.



**Table 2: Antecedent, Process, and Outcome factors and their related characteristics as identified from an analysis of the literature by Hutzschenreuter and Kleindienst (2006)**

According to Hutzschenreuter and Kleindienst (2006:677) the “framework highlights five sets of antecedent factors”, “five sets of strategy process factors” and “five sets of outcomes identical to the antecedent factors”.

Also according to Hutzschenreuter and Kleindienst (2006) the framework reveals that research on strategy process falls into two categories: those that study only the elements of one of the factors *i.e.* box-exploring studies; and those that study the linkage between elements of the factors. Most of the latter research followed a bivariate contingency approach and presents four research streams.

Box-exploring studies (Hutzschenreuter and Kleindienst, 2006:698) seek to “describe phenomena and . . . develop concepts”. Four areas are noted: strategy process, strategist’s characteristics and strategist’s personal and cognitive context, strategy formulation, and strategy implementation.

**Table 3: Reconstruction of Hutzschenreuter and Kleindienst, (2006) Presentation of research on the elements of Strategy Process**

Strategy process	
Key focus	Findings
Conceptualising the process	<ul style="list-style-type: none"> <li>a. Evolutionary; iterated process of resource allocation; guided evolution; organic perspective; shaping conversations;</li> <li>b. Reject balkanised/rational/design approach to concept of strategy;</li> <li>c. Shift focus from strategic choice to strategic change; change can take place before it is recognised;</li> <li>d. Look for patterns and their systematic implications.</li> </ul>

<b>Strategist's characteristics and strategist's personal and cognitive context</b>	
<b>Key focus</b>	<b>Findings</b>
Exploring cognitive concepts	a. Cognition is influenced on multiple levels <i>i.e.</i> personal, group and issue – explain managerial behaviour.
<b>Strategy formulation</b>	
<b>Key focus</b>	<b>Findings</b>
Strategic planning	a. Transmutation of concept; strategy is result of formal strategic planning and decisions made outside of plan and later incorporated into plan; b. Combine discipline and imagination for strategy-making.
<b>Strategy implementation</b>	
<b>Key focus</b>	<b>Findings</b>
Resource-based perspective	a. Implementation skills could be source of advantage; b. Organisational members should be treated fairly and be included as participants of implementation.

The research streams as identified within the linkage-exploring studies, as well as some of their related findings are reconstructed in the following table:

**Table 4: Reconstruction of Hutzschenreuter and Kleindienst, (2006) Presentation of research on linkages between the elements of Strategy Process**

<b>Research stream</b>	<b>Relationship</b>
<b>1</b>	<b>Influence of antecedent factors on strategy process</b>
Findings	<ul style="list-style-type: none"> <li>a. Structural complexity does not imply procedural and formalised processes;</li> <li>b. Distance from market development influences type of approach – deductive (far) or inductive (near);</li> <li>c. Uncertain environment requires intuition and personal sources of information to enhance decision-making speed;</li> <li>d. Strategic context should be considered when exploring relationships;</li> <li>e. Past performance may result in ignorance, simplicity and increase in politics and conflict;</li> <li>f. Antecedent factors influence strategist's cognition and as a result strategist's choices;</li> <li>g. Strategic orientation influences ability to acquire implementation skills.</li> </ul>

Research stream	Relationship
<b>2</b>	<b>Influence of antecedent factors on outcomes</b>
Findings	<ul style="list-style-type: none"> <li>a. Environment characteristics influence strategic context so that strategic context may be path dependent <i>i.e.</i> organisation develops a dominant logic which informs responses;</li> <li>b. Organisational characteristics influence strategic context;</li> <li>c. A configurational approach (incorporating strategic, organisational and environmental characteristics) could be more appropriate for predicting performance than the traditional contingency approach;</li> <li>d. Past success leads to a monolithic culture , which leads to narrow task (strategy) processes.</li> </ul>
<b>3</b>	<b>Strategy process's influence on strategy process</b>
Findings	<ul style="list-style-type: none"> <li>a. Group characteristics, such as size or involvement, influence processes such as agreement or comprehensiveness;</li> <li>b. Cognitive model of strategist, and not evaluation of objective information, influences strategic choices;</li> <li>c. Socialisation has positive effect on process-outcome characteristics <i>i.e.</i> quality, speed, creativity;</li> <li>d. In stable environments, rationality and comprehensiveness positively relate to decision success;</li> <li>e. Involvement, consensus and procedural justice (strategist) relate positively to quality and commitment (process outcomes);</li> <li>f. Crises decision, complexity, importance, etc [issues] influence process – however degree and extent of influence unclear;</li> <li>g. Planning and behaviour (commitment, learning, key person involvement) facilitates implementation success;</li> <li>h. Personal characteristics have influence on process and process outcomes;</li> <li>i. Reason for limited studies on issue characteristics due to the artificial divide between process and content research not yet overcome.</li> </ul>
<b>4</b>	<b>Relationship of strategy process factors and outcomes</b>
Findings	<ul style="list-style-type: none"> <li>a. Relationship between planning and performance mostly addressed research question;</li> <li>b. Planning relates positively to performance;</li> <li>c. Strategic planning regarded as device to enhance internal communication, integrate different capabilities, and co-ordinate organisational activities;</li> <li>d. Strategic planning not primary decision path for making strategy;</li> <li>e. Benefit of strategic planning is integrative achievement;</li> <li>f. Planning – performance relationship varies according to environment and strategic context;</li> <li>g. Strong support but no general conclusion that strategist's characteristics influence performance.</li> <li>h. Significant impact of cognitive characteristics on strategic context;</li> <li>i. Strategist's characteristic, influences cognitive models, influences strategic decisions, influences performance: link between strategist's characteristics and performance.</li> </ul>

The broad historic development of the field is described by Hutzschenreuter and Kleindienst (2006) as evolving from a prescriptive approach to being one descriptive of actual practices with focus shifting from studying planning to exploring the link between planning and performance. Cognitive effects on the process are also gaining popularity.

From their analysis Hutzschenreuter and Kleindienst (2006) propose that the current intellectual structure of the field reveals six main perspectives of strategy process research which are set out in the table below:

**Table 5: Six main perspectives of Strategy Process research as proposed by Hutzschenreuter and Kleindienst (2006)**

<b>Perspective</b>	<b>1. Rational-mechanistic</b>
<b>Brief description</b>	Classical model; deterministic; sequential, rational and analytical; Strategy is alignment between internal strengths and external opportunities; Limited consideration of individual organisational members; Descriptive research provides more realistic information than prescriptive approach.
<b>Perspective</b>	<b>2. Cognitive</b>
<b>Brief description</b>	Recognise bounded rationality of organisational members; Decisions the result of cognitive models and not rational consideration; Context-specific nature of decisions recognised; Explain individual and organisational behaviour.
<b>Perspective</b>	<b>3. Upper echelon</b>
<b>Brief description</b>	Top executive decisions influence strategic choice, organisational design and performance; Decisions are influenced by perception and evaluation – not only rational; Integrates cognitive and behavioural research to explain behaviour of organisation.
<b>Perspective</b>	<b>4. Middle management</b>
<b>Brief description</b>	Decisions of middle management – not top management – greater influence on outcomes; Involved with thinking and doing; Middle managers determine content of information communication upward and downward and therefore influence organisational action.
<b>Perspective</b>	<b>5. Organic</b>
<b>Brief description</b>	Dialectic approach – upper echelon provides rationalising and structuring and lower levels provide strategic initiatives; Dynamic and eclectic side of strategy process; Influence of historical developments; Messy side of reality.
<b>Perspective</b>	<b>6. Micro</b>
<b>Brief description</b>	Value in micro activities of organisational members; Strategy as social action; Focus on organisational members as strategists (not organisation) – effectiveness of strategists, Work of strategists and how strategists learn.

Although focusing on different perspectives was useful in past research, it is recommended that future research should “move the perspectives closer together” and “urge cross-fertilisation between different perspectives” (Hutzschenreuter and Kleindienst, 2006:703).

Hutzschenreuter and Kleindienst (2006) conclude by suggesting areas for future research. One of these relates to the research stream: antecedents’ influence on outcomes. Any one of the four perspectives can be used as a starting point. The opportunity relates to the use of configurational constructs such as strategic, organisational and environmental characteristics to explain organisational outcomes.

However, Szulanski, Porac and Doz (2005) report that although there is much support for uncovering the principles of good strategy-making, enduring prescriptions for effective strategy making are rare. This may be due in part to limited insight concerning the origin of strategies and the process that shapes them (Szulanski *et al*, 2005; Chakravarthy, Mueller-Stewens, Lorange and Lechner, 2003).

According to Szulanski *et al* (2005: xv) terms such as “Cognition, emotion, strategizing, strategy practices, strategy as organizing, organizing as strategy, complexity, architectures, patching, innovation, and the like” are associated with strategy-making.

They report that the study of process may be regarded as “the study of simultaneously occurring activities and of their linkages” and that “process generates content and that content disciplines process” and therefore supports the comment that “strategy making is an ongoing cycle of action and reflection, exploitation, and exploration” (Szulanski *et al*, 2005: xvii)

According to Lechner and Müller-Stewens (2000:3) strategy process research is defined as “focusing on the central research question of how - and whether at all - strategies of firms are formed over time.”

Research on strategy content formulates questions related to the corporation and its environment. Research on strategy process is primarily concerned with the questions of whether, and how strategies are formed (Lechner and Müller-Stewens, 2000).

### **2.3.3 Integrative models**

An important development in the field of strategic management is the differentiation between strategy content and strategy process. According to Lechner and Müller-Stewens (2000), it is Chandler (1962), Ansoff (1965) and Andrews (1980) who introduce this differentiation into the field of strategic management. This is a fruitful development in the area of strategy research as it assists in the defining and building of theories.

However this traditional distinction as found in current research papers is not without criticism. Some argue that such a distinction is counter-productive, Lechner and Müller-Stewens (2000:2) are of the opinion that a “realignment of

the current distinction is called for”. The authors however recognise the benefits of both approaches as a case was noted of two identical companies choosing different strategies to obtain the same goal (content). The reason for this, it is argued, may be found in the “varying internal patterns of interaction and their specific context (process)”.

The aim of their paper is to provide an overview of the strategy process research field whilst giving due consideration to relevant strategy content issues. The process followed is a classification of existing literature. The literature draws a distinction between two research approaches, the first seeks an adjustment to the classical strategy process model, and the second seeks to replace the classical model with a new model for understanding the phenomena. (Lechner and Müller-Stewens, 2000)

The classical process model draws a distinction between strategy formulation and implementation. This model views strategy as: a sequential process, driven by decisions that can be analysed; goal-orientated and active; a top management initiative; and that it actually exists. In short the process may be described as prescriptive – “rigid and normative” (Lechner and Müller-Stewens, 2000:5) - rather than descriptive.

Chakravarthy and White (2001) argue for a holistic approach for studying the strategy process of a firm. They recognise the distinction between strategy process and strategy content and also that process has been characterised in contradictory terms such as rational, intentional, goal-directed, intuitive and non-

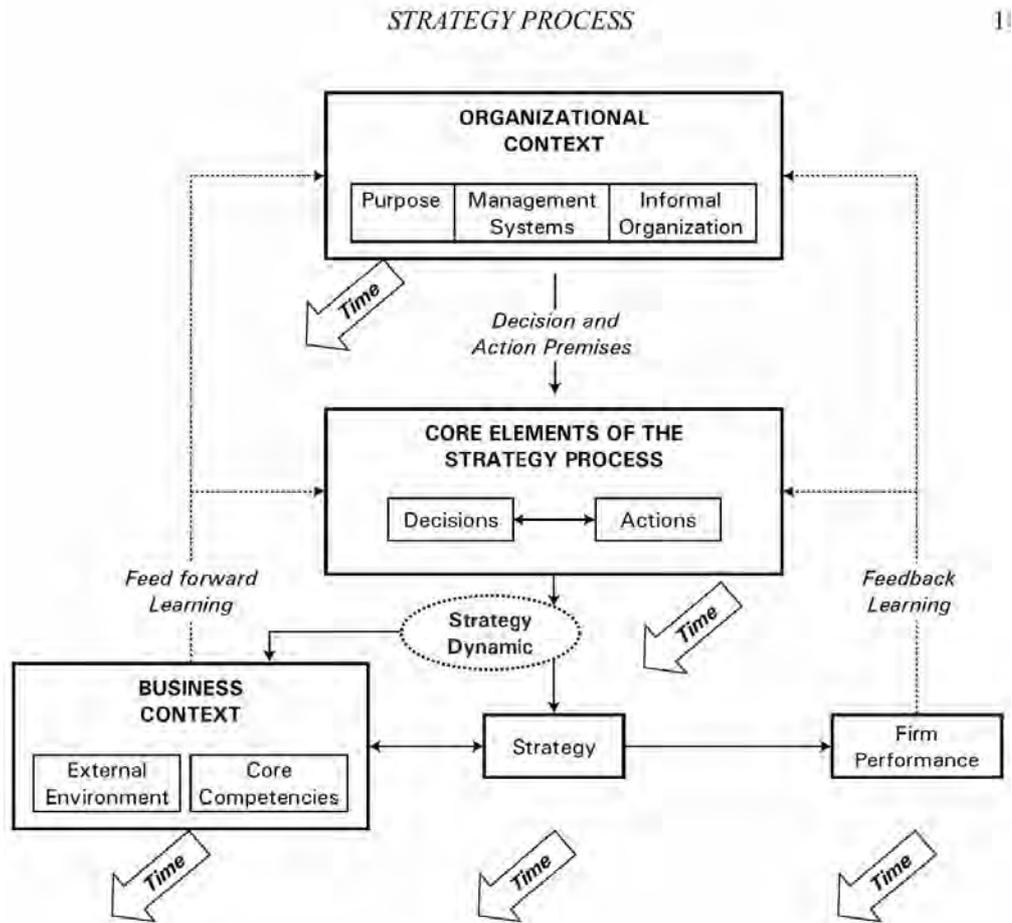
teleological. Each of these has founding support in empirical research. As a result the authors argue for a unifying theory of the different perspectives.

For them strategy process should be concerned with improving, consolidating, and changing a firm's strategic position, it therefore involves both movement and stability. They believe that process research can only have meaning if it is linked to "context and outcomes". Meaningful process research can only occur if such research includes reference to: context; history; multiple perspectives; and contributes to improved strategy outcomes. In this regard context comprises business context - internal and external environment – and organisational context – purpose, management system and informal organisation (Chakravarthy and White, 2001).

Strategy is seen as the patterns of decisions and actions that occur within a firm over time to leverage business context to achieve performance. Thus research should have a holistic approach in seeking to understand the strategy process.

Chakravarthy and White's (2001) holistic view of strategy process is depicted in the diagram below:

Figure 3: Chakravarthy & White's (2001) Holistic View of Strategy Process



The framework depicts four distinct pairs of relationships that should be considered in process research:

- 1) Strategy and business context affecting performance;
- 2) Decisions, actions and strategy;
- 3) Organisational context affecting decisions and actions; and
- 4) The dynamic interaction between all of the preceding elements over time.

The core elements of strategy process are regarded as decisions and actions. They affect the strategy dynamic *i.e.* “the predisposition of the firm to improve, consolidate or change its strategic position” (Chakravarthy and White,

2001:184). Strategy is realised via emergent and planned actions which are influenced by feed-back and feed-forward learning. The authors view this framework as bridging the gap between strategy formulation and implementation. A gap which they view as unnecessary as both these elements form part of the same process.

The four relationships are discussed below:

- 1) Strategy content distinguishes between three levels of strategy – business level (low cost or differentiation), corporate level (scale or scope; or vertical and horizontal integration) and trans-national (global integration or national responsiveness) each of these may be plotted on a strategy frontier reflecting industry best practice. Firms have a predisposition to improve, change, or consolidate their position along the frontier; this is the firm's strategy dynamic. They argue that a firm's strategy dynamic, and not its strategic position or level of strategy, mainly determines the strategic processes that will be followed. Their process research seeks to build from this perspective. Research that links strategy dynamics and processes is rare, with a notable exception being that of Miles *et al* (1978). Their framework could thus be regarded as bridging the gap between content and process research. The external environment is regarded to be social, political, and sectoral; the internal environment consists of the firm's competencies.

- 2) The core elements of process are depicted as decisions and actions. According to the authors these should be approached from the following composite perspectives: rational, political, evolutionary and administrative.
  
- 3) Strategy is the pattern of decisions and actions of a firm as influenced by the organisational context and performed by organisational members. In this sense decisions and actions are guided by “organisational cognition” as they are not always “deliberate, articulate or consensual” (Chakravarthy and White, 2001:194) and managed by organisational purpose, policies and procedures. Learning may enhance this interaction. Purpose is determining how the firm will achieve its position. The firm’s management system should ensure the continued exploration and exploitation of the current and any future strategy. This is achieved if the management system: provides for a planning system that is interactive; facilitates systems to control future actions *i.e.* budgets; and consists of an efficient human resource management system. Informal organisation is equated with leadership.
  
- 4) The framework provided by the authors depicts a dynamic interaction between “context, process and outcomes” . They therefore argue for a “multi-level evolutionary perspective to provide the meta-theory that could unify much of strategy process research” (Chakravarthy and White, 2001:200).

The authors suggest that future researchers should start with strategic dynamics and work backwards to study the subsequent actions and decisions. This should be performed across levels.

Papadakis and Barwise (1998) concur that a more integrated and cumulative approach would enhance the field of strategy process research; and that bridging the gap between strategy process and strategy content should form part of future research.

Scholars recognise that to have been able to compete in the 1990's a firm would have needed not only efficiency and high quality, but also effective strategic processes and organisational capabilities. Strategy-making is viewed as part of these processes. Strategy-making is subject to complexity and variety, however most models on strategy-making do not fully consider this fact. Empirical classification of organisations is still in its infancy (Papadakis and Barwise, 1998).

Hart (1992) develops a framework to integrate these different approaches. The organising principle used is to specify who is involved in strategy-making and in what manner (Hart and Banbury, 1994:252). This approach is chosen so as to consider the total organisation. The result is an identification of different modes of strategy-making. These consist of patterns of interaction between the roles performed by top managers and organisational members. As such they could be regarded as a "resource or skill" available to the firm (Hart and Banbury,

1994:252). The five modes are not seen as mutually exclusive. Firms could combine modes or elements of modes to develop a particular capability.

Hart and Banbury (1994), in reviewing the literature, identify an evolutionary progression of strategic management capability as reflected in an increased competency in strategy-making. The stages of development progress from: financial and forecast-based planning; to include strategic analysis skills; and finally to include diffusing of strategic thinking throughout the organization.

Competitive advantage resulting from a combination of modes and a linear progression of skills is more difficult to imitate than a single or less complex mode or skill. Hart and Banbury (1994) therefore propose a performance differential between firms with a combinatorial and paradoxical process skill and those without. The former would outperform the latter. Hart and Banbury's (1994) research includes an analysis of contingency factors that are hypothesised to influence the process performance linkage. The two contingency factors considered are the size of the firm and competitive environment. This means that the larger the size of the firm the more formal, symbolic and participative the strategy-making processes will become.

With regard to environment Hart and Banbury (1994) hypothesise that industry structure in part determines success, irrespective of a firm's strategy or strategy-making capability. Hart and Banbury (1994) also note contradictory views on the strategy-making dimensions in dynamic, as opposed to turbulent (both dynamic and complex), environments. Although Hart and Banbury (1994)

propose that only an enhanced strategy-making capability will result in performance benefits for firms operating in turbulent environments, their findings indicate that both “high and low strategy process capability predicted performance in turbulent environments” (Hart and Banbury, 1994:266). Hart and Banbury (1994) explain this paradox by arguing that top management’s in-depth knowledge of the firm gives them an ability to analyse information more quickly than their competitors. This enables them to make faster decisions.

Hart and Banbury (1994) suggest that future research could consider using competitive strategy as a contingency variable. They conclude that the strategy-making process can deliver competitive advantage and should therefore be subject to specific organisational design. The reason for this is that developing a skill to combine the modes of strategy-making seem to enhance organisational performance.

## **2.4 Strategy Content**

### **2.4.1 The complexity of strategy content**

Bakir and Bakir (2006) identify the strategy field as being fragmented. By performing a multi-paradigm enquiry into the strategy literature they attempt to make linkages across paradigms. Part of the fragmentation is the result of a conflict between “purposeful strategy” and “unintended organisation strategies” (Bakir and Bakir, 2006:153). In terms of their enquiry they use a grounded theory approach as they believe that the current existing theory does not adequately explain the strategy phenomena. Their empirical research is conducted in a local authority in England and focuses on strategy in the leisure

and cultural fields as this allows them to capture the complexity of strategy and pin down the “elusiveness of strategy” (Bakir and Bakir, 2006:155). Their aim is to unravel what managers perceive they do when making strategy. To this end they apply purposive and theoretical sampling.

The fragmentation and contradiction with regard to strategy is presented in the following table summarising the findings of Bakir and Bakir (2006).

**Table 6: Bakir and Bakir (2006) Findings on fragmentation and contradiction of Strategy Concept:**

Strategy concept	Association	Researcher
<b>Definition</b>	Too complex for human cognitive capacity	Platt <i>et al</i> (1998)
	No common accepted definition	O'Regan and Ghobadian, 2002
	Intended plan of action	Ansoff and McDonnell 1990; Hax and Majluf, 1991; Porter, 1991
	Unpredictable emergent patterns	Cyert and March, 1963; Stacey, 1996; Mintzberg <i>et al</i> , 2003
	Exists only in the actors' minds	Chaffee, 1985; Mintzberg <i>et al</i> , 2003
	Complexity and ambiguity	Knights and Morgan, 1991; Munro, 1995
	Social action encompassing richly interactive and contextually situated social behaviours	Barry and Elmes, 1997; Hendry, 2000; Tranfield, 2002b; Whittington, 2003
<b>Strategy formation: four schools plus one</b>	Sequential rationality, rational problem-solving	Andrews, 1980; Huff and Reger, 1987; Ansoff and McDonnell, 1990; Littler <i>et al</i> , 2000
	Incrementality and evolution	Quinn, 1981; Mintzberg and Waters, 1985; Huff and Reger, 1987
	Organised anarchy	Lindblom, 1959; Cyert and March, 1963; Cohen <i>et al</i> , 1972
	Self-organisation	Levy, 1994; Stacey, 1996
	Strategy as practice	Barry and Elmes, 1997; Hendry, 2000; Tranfield, 2002b; Whittington, 2003
<b>Conditions that shape strategy</b>	Resource-based view	Wernerfelt, 1984; Grant, 1991
	Natural selection view	Porter, 1991
	Managers' intuition, values and beliefs	Hurst <i>et al</i> , 1989; Singer, 1994

Using a multi-paradigm inquiry Bakir and Bakir (2006) interpret their data, and the strategy literature, by applying the concept of grounded theory as proposed by Corbin and Strauss (1990). The result is a definition of strategy, referred to as navigational translation, which seeks to address the “complex, ambiguous, and therefore elusive” notion of strategy currently present in the literature (Bakir and Bakir, 2006:166). Strategy is classified as a purposeful and complex process that “gives rise to intended and unintended outcomes because of the fluidity and inter-connectedness of the process involved in strategising” (Bakir and Bakir, 2006:166). The result is a new and comprehensive framework that utilises the divergent paradigms found in strategy literature, thereby unpacking the complexity of strategy.

#### **2.4.2 Strategy content and small professional services firms**

Love *et al* (1995) examine the use of business strategies as a response to a changing environment in the Conveyancing market. Solicitors are chosen as the unit of analysis on account of the inherent conflict that exists within the professional services sector *i.e.* firms simultaneously having a profit and a professional focus within an uncertain environment. The liberalisation opened the Conveyancing market to competitors who do not have to adhere to the same level of professionalism as solicitors. The paper therefore analyses the extent and form of business strategies employed by solicitors in response to an increase in competition.

According to Love *et al* (1995) it is not clear whether business strategy that is based on economic theory could be applied to the small businesses sector. In an attempt to investigate a possible relationship Love *et al* (1995) apply the

framework as suggested by Kay (1993) to identify the extent to which solicitors follow a coherent business strategy and the form such strategies take.

The framework presented by Kay (1993) is preferred by Love *et al* (1995) to a generic strategy such as proposed by Porter (1980), as they believe it better reflects the characteristics of professional services firms. The framework used by Love *et al* (1995) is summarised in the following table:

**Table 7: Kay's (1993) Framework for analysing Business Strategies of professional services firms**

	Element	Description
1.	Identifying distinctive capabilities	Architecture - Long-term relationship with stakeholders - Forbearance, trust, network relationships - Penalise opportunistic behaviour  Reputation - Method used to convey information to customers  Innovation - New product - New delivery mechanism  Strategic assets - Natural monopoly - Legislative monopoly - Sunk cost
2.	Derive competitive advantage from distinctive capability	Identify market and business in which the firm will operate
3.	Ensure that competitive advantage is sustainable and appropriable	
4.	Decide on an appropriate business strategy	Competition – Price and Position Customer – Advertising and Branding

Telephone and in-depth interviews are conducted with firms of solicitors in selected geographical locations in England and Wales. Information obtained

relates to advertising and branding practices, as well as the method of fee calculation.

Love *et al* (1995) reported that

- 1) Size is not a requirement for the possession and exploitation of distinctive capabilities and resultant competitive advantage;
- 2) Long-term advantage to all stakeholders weighs more than short-term opportunities that would only benefit the firm;
- 3) Possessing a distinctive capability translates into a pricing strategy that is sensitive to the market expectations;
- 4) Firms do not generally determine fees based on their cost structure;
- 5) Price discrimination between clients is found to be widespread;
- 6) Advertising is common;
- 7) Firms with a distinctive capability are more likely to advertise their quality of service;
- 8) Distinctive capabilities of reputation and architecture are the most difficult to be copied by competitors;

Analysis by Love *et al* (1995) provide support for the proposal by Kay (1993) that distinctive capabilities are unique to each company; although firms operate in the same market with similar challenges, similar regulatory regime and routine services, the business strategies employed by them to address these challenges differ substantially. As a result they conclude that it is “meaningful to conceive of strategy among law firms” (Love *et al*, 1995:467) despite the

industry being characterised by personal service, ethical behaviour and small-scale providers.

This appears to support the Lechner and Müller-Stewens (2000) finding that the difference between the strategies of similar companies in the same market is due to different strategy processes existing within those firms.

### **2.4.3 Generic strategies**

According to Chrisman, Hofer and Boulton (1988:414), since the publication of Hofer's 1975 "contingency theory" article, in the field of strategic management considerable attention is being given to developing generic strategy classification schemes at the business level. Some authors develop generic strategy classification for special circumstances. More emphasis is being given, however, to classifications that apply to a wider range of business level situations.

Miles *et al* (1978) view the organisation as consisting of two elements: an articulated purpose together with mechanisms to achieve the purpose. In their view an effective (strategy) and efficient (structure) organisation is one that achieves market alignment (strategy) and one that designs mechanisms to support the market strategy (structure). Maintaining an alignment and managing 'internal interdependencies' are recognised as a complex and difficult processes. They propose a framework that could assist managers with maintaining and managing the relationship between strategy, structure and process.

Their framework consists of two elements: identifying an adaptive cycle and the use of strategic typologies to navigate the adaptive cycle.

The adaptive cycle categorises the choices required by management in aligning their strategy, structure and process into three distinct problem areas: entrepreneurial, engineering, and administrative.

Management has to decide on the type of product or service to be produced and the target market for these goods (entrepreneurial problem). Once the decision is made a system to operationalise management's decision needs to be created (engineering problem). The actual structure of the organisation is only revealed once the system is rationalised so as to reduce uncertainty and is implemented in such a fashion as to allow the organisation to continually innovate (administrative problem).

Four strategic typologies are identified for solving the three problem areas. The strategic types available to firms are: Defenders, Prospectors, Analysers, and Reactors.

The first three types are all proactive to their environment but in different ways. The result is that their response to change is both consistent and stable. The Reactor however suffers from both an inconsistent and unstable response to change. There are three reasons for this: lack of communicating the strategy; lack of fit between strategy - structure and processes; and finally a lack of adaptation of the strategy - structure in line with environmental change.

Their study also identifies that organisational structure and process are not only determined by environmental conditions, but also by management choices. How management responds to the problems, as identified in the adaptive cycle, determines the choice of strategic typology. Top executives' theory of management should therefore form part of studies of fit between strategy - structure - process. (Miles *et al*, 1978).

Desarbo, Di Benedetto, Song and Sinha (2005, citing Hambrick, 2003) regards the Miles and Snow framework to be the most enduring strategy classification system available. This is motivated as being due to the typology's: innate parsimony, industry-independent nature, and its correspondence with the actual strategic postures of firms across multiple industries and countries (Desarbo *et al*, 2005 citing Hambrick, 2003). Desarbo *et al* (2005:47) argues that Miles and Snow regarded strategy as an "agglomeration of decisions by which a strategic business unit (SBU) aligns its managerial processes (including its capabilities) with its environment". This understanding leads to the classification of businesses, according to their patterns of decisions into the Prospector–Analyzer–Defender–Reactor (P-A-D-R) framework.

However Desarbo *et al* (2005, citing Hambrick 1983), argues that the Miles and Snow model provides an incomplete view of strategy due to its ignoring industry and environmental peculiarities.

Campbell-Hunt (2000), in contrast, believes that the Porter typology is the dominant paradigm of competitive strategy. He also, however, identifies shortcomings in this approach as it has proved difficult to assess as a descriptive system and concerning its ability to predict performance.

The theory of generic competitive strategy as proposed by Porter remains one of the most important contributions to the study of strategic behaviour in organisations (Campbell-Hunt, 2000:127).

The theory has two basic elements:

- 1) A scheme to describe competitive strategies and competitive advantage;  
and
- 2) A theoretical proposition on the link between strategic design and performance.

According to their market scope firms should choose between two strategies: focused or broad. Competitive advantage is either achieved via cost or differentiation (Campbell-Hunt, 2000:127). Firms that choose a mixed cost and differentiation design will under-perform relative to those that do not choose this design.

Campbell-Hunt (2000:128) views Porter's theory as the dominant paradigm in the study of competitive strategy. However, serious challenges have been raised against the central tenants of the Porter theory. According to Campbell-

Hunt (2000:128) “... external conditions provide no *a priori* reason to discriminate against mixed ... designs (Murray, 1988)” and “...external conditions might actively favour mixed designs (Hill, 1988).” Empirical testing has also undermined the theory due to the inability of findings to be cumulated to other findings (Campbell-Hunt, 2000:128).

As a result of the above, researchers note the recent shift in research effort from a typology/taxonomy perspective to a resourced-based perspective (Parnell, 2006:1140).

According to Maijor and Van Witteloostuijn (1996) the resource-based view of the firm is promoted as a unifying theory of strategy. It seeks to bridge the gap between internal organisational capabilities and external competitive strategies. They identify the main difference between the two theories as the “focal level of analysis” (Maijor and Van Witteloostuijn, 1996:550). The resource-based view emphasises the firm level and subsequent factor imperfections. The industrial organisational theory emphasises the industry and subsequent market imperfections. However they argue that the “...theories are Siamese twins, as both factor and product market imperfections are crucial and both the firm and the industry level of analysis are important” (Maijor and Van Witteloostuijn, 1996:550).

As the key concept in the resource-based view of the firm is resources, competitive advantage is dependent on identifying those resources that produce a sustainable rent potential. Based on Barney and Wernerfelt’s research,

Maijor and Van Witteloostuijn (1996:550) argue that this can be achieved by identifying factor and product market imperfections.

In the professional accounting framework factor imperfections occur if a resource were imperfectly mobile, imitable and substitutable. And market imperfections occur if a resource is valuable and scarce (Maijor and Van Witteloostuijn, 1996:550). Human resources are arguably the primary resource within the professional accounting (services) industry.

These two perspectives *i.e.* competitive strategy theory and the resource-based view, may be seen as opposing points on the same continuum – the aim of typologies and taxonomies is to increase knowledge by generalising the concept of strategy with an aim to creating generic strategies that are valid across organisations and industries. In contrast the resource-based view recognises the differences within organisations due to the unique capabilities available to organisations. As such the main reason for this shift in perspective is the unreliable predictive ability of typologies and taxonomies, and the growing awareness of the existing complexities of variations across organisations (Maijor and Van Witteloostuijn, 1996). Competitive advantage should therefore be sought within competitive strategy theory on the precondition that due consideration be given to the recent criticism.

Allen and Helms (2006) explore the association of specific strategic practices to generic strategies as proposed by Porter (1980), and explore whether specific practices have a stronger relationship with higher levels of organisational

performance. A questionnaire was developed and distributed to working adult graduate students enrolled for a part-time MBA program.

The research model proposed by Allen and Helms (2006) is depicted as follows with generic strategies determining strategic practices. In addition firms that focus on critical practices will achieve higher performance:

**Table 8: Allen and Helm's (2006) Research model for studying the relationship between Generic Strategies and Strategic Practices**



However according to Ketchen *et al* (1996:235) generic strategies cannot be used as context variables influencing the impact of process – content interaction on performance as “generic strategy can be defined as a particular confluence of strategy process and content”. Any future research building on the research results proposed by Allen and Helms (2006) should consider this criticism.

Allen and Helms (2006) view the strategy typology proposed by Porter as the dominant paradigm in competitive strategy. These generic strategies are believed to be generally accepted as strategic typologies for organisations and may be classified as: low cost, differentiation, focus and combination. Although these generic strategies have been widely accepted by academics and

practitioners (Allen and Helms, 2006), a review of the literature (Allen and Helms, 2006) on strategy research reveals contradictory results with regard to the link between a singular generic strategy and performance with some research results supporting a singular strategy and others finding support for combination strategies especially with regard to a combination of low cost and differentiation.

The variables used to measure strategic practices were developed by Allen and Helms (2006) from their review of Porter’s generic strategies. The findings with regard to strategic practices and associated generic strategy are depicted in the table overleaf:

**Table 9: Summary of Allen and Helm’s (2006) Findings on the relationship between Generic Strategies and Strategic Practices**

STRATEGIC PRACTICES	STRATEGY			
	Product Differentiation	Focus-Cost Leadership	Cost Leadership	Focus-Product Differentiation
Innovation in marketing technology and methods				
Forecasting new market growth				
Forecasting existing market growth				
Utilising advertising				
Fostering innovation and creativity				
Developing brand identification				
Refining existing products and services				
Building a positive relationship with the industry for technological leadership				
Extensive training of marketing personnel				
Developing a broad range of new products and services				
Building high market share				



STRATEGIC PRACTICES	STRATEGY			
	Product Differentiation	Focus-Cost Leadership	Cost Leadership	Focus-Product Differentiation
Controlling the quality of products and services				
Providing outstanding customer service				
Improving operational efficiency				
Extensive training of frontline personnel				
Intensive supervision of frontline personnel				
Vigorous pursuit of cost reduction				
Tight control of overhead costs				
Minimising distribution cost				
Providing speciality products and services				
Targeting a specific market				
Dropping unprofitable customers				
Producing products/services for high price market segments				

The result of their research supports their hypothesis that specific strategic practices are associated with each generic Porter strategy.

Their second hypothesis relates to uncovering the specific practices that have a significant affect on performance and their results are summarised as follows:

**Table 10: Specific Strategic Practices that significantly affect performance according to Allen and Helms (2006)**

SIGNIFICANT STRATEGIC PRACTICES	STRATEGY			
	Product Differentiation	Focus-Cost Leadership	Cost Leadership	Focus-Product Differentiation
Innovation				
Providing outstanding customer service				
Minimising distribution costs				
Producing products/services for high price market segments and providing speciality products and services				

The practical implications of this research for managers is that firms that seek to outperform their competition will be able to do so if they excel at the critical strategic practices as required by their chosen strategy (Allen and Helms, 2006). Future research is needed on the relationship between strategy and performance, and any moderators of this relationship, so as to advance strategic theory (Allen and Helms, 2006).

Maister (1993) builds his theory on the Professional Bureaucracy and Professional Partnership structures. He suggests subdividing these structures into three distinct sub-structures: efficiency-based practices; experience-based practices; and expertise-based practices. This is as a result of the three key benefits that clients seek from professional services firms: efficiency, experience and expertise.

This proposition by Maister (1993) is based on the concept of balance between three elements: the market for the firm's services; the market for the firm's staff; and the firm's goal of economic performance. This proposition finds clear resonance in the concept of fit of strategy and structure.

## **2.5 Process, Content and Context**

Segev (1987) studies the effect of the relationship between strategy content and strategy process on organisational performance by conducting a survey amongst the top executives of 126 kibbutz-owned enterprises. These businesses are described as small, with single ownership operating in a single environment. Hypotheses are formulated with regard to the fit between strategy typologies as proposed by Miles *et al* (1978) and the strategy-making typologies as proposed by Mintzberg (1973). Quantitative methods are used to analyse the relationships or lack thereof.

The research finds links between the two typologies with certain strategy-making processes being favoured by certain types of strategies. The hypothesis that organisations with a fit between the two concepts perform better than organisations without a fit, is only partially supported.

Segev (1987) argues that although strategy content and strategy process are related concepts, they have no direct causal relationship. The strategy content - process dichotomy found within the strategic management research field is believed to be an "artefact of convenience" (Segev, 1987:267), as both concepts are integral components of the organisation-environment adaptation process. Future studies should seek to refine his conclusions by

operationalising and studying the concepts of content and process. The simultaneous study of content and process will increase knowledge in the areas of administrative behaviour, business policy, industrial organisation and marketing paradigms.

Olsen and Bokor (1995) examine the interactive effect of strategy process and content variables on the performance of small rapidly growing firms. A single variable only is chosen for each of the concepts: the variable for process is planning methods *i.e.* formal or informal, and the variable for content is product service innovation. However they make it clear that the purpose of their study is to explore interactions between strategy variables and not to explain performance completely.

The findings of Olsen and Bokor (1995) indicate that most of the small firms sampled use informal planning in their pre-start up processes and most follow an innovation strategy. Overall they find strong support for their hypothesis that the performance of small fast growing firms is influenced by the process (planning formality) and content (product service innovation) interaction.

They propose that to increase our understanding of the concept of strategy, process and content should be studied together. A *post hoc* analysis indicates that contextual factors, in their case CEO characteristics, could affect the process - content interaction.

Ketchen *et al* (1996) propose that content and process, as well as the interaction between the concepts, are determinants of performance. However their predictive power may be increased by understanding the context in which this interaction occurs. Context is thus a key moderator of the relationship between content and process. They therefore argue for an integrated approach to strategy research as this will enhance the ability to predict the determinants of business performance.

The study conducted by Ketchen *et al* (1996) examines the extent to which synergy between content, process and context affect performance. Ketchen *et al* (1996) focus on a single industry in a single geographic location and collect data via a questionnaire survey amongst CEO's of 545 public hospitals.

According to Ketchen *et al* (1996) organisations receive environmental stimuli and need to make decisions on how to respond to such stimuli. How the firm responds will determine the degree of success or failure. As a result, decisions have an effect on performance and are therefore an important topic for researchers within the strategic management field as it seeks to explain and predict performance. The relationship between strategic decisions and performance may therefore be either negative or positive. According to Ketchen *et al* (1996) these decisions may be separated into those relating to strategy process and those relating to strategy content.

Strategy process (Ketchen *et al*, 1996) consists of a sequence of behaviour starting with the performance of environmental analysis to provide information

which is transformed via an interpretive scheme into an understandable format and decisions are made that affect performance. Strategy enables a firm to control competitor forces; this should cause an increase in performance. However the results of previous research is ambiguous regarding the link between strategy process and performance and strategy content and performance. Ketchen *et al* (1996) believe this results from studying the concepts in isolation without considering their synergistic relationship.

In contrast Ketchen *et al* (1996) use an integrated approach to study the relationship to performance of process and content. Their findings indicate that process and content affect performance; their interaction significantly enhance explanation of performance; and context is a key moderator of the relationship. Context affects the nature and intensity of the process – content – performance relationship. Ketchen *et al* (1996) used the variables set out in the following table in their research:

**Table 11: Variables used by Ketchen, Thomas and McDaniel (1996) in research on Process-Content Relationship**

<b>Process</b>	Political Activity
	Information Usage
<b>Content</b>	Strategy type: domain offence or domain defence and
	Competitive advantage: product/service offering – choice between introducing new products or focusing on existing products
<b>Context</b>	Organisation: Size
	Environment: Dynamism

They conclude by stating that alignment between process – content – context will enhance performance. Their findings suggest that, in a dynamic environment, firms choosing to follow a domain-offensive strategy and to introduce new products will only achieve sustainable performance if the strategy

content is supported by appropriate strategy processes that allow for acceptable information processing capabilities.

French *et al* (2004) investigate the relationship between strategic planning and performance by conducting a survey of small professional services firms in a single geographic location, Western Australia, across multiple industries within the professional services sector. Industries include law firms, finance and accounting firms and others. The survey is sent to the managing partner or owner. Quantitative techniques are used to analyse the data.

The research finds construct validity for the variables used to measure strategic planning: vision, mission, latent ability, and market and competitor orientation. No significant support is found for the notion that strategic planning affects performance. French *et al* (2004) conclude that many questions relating to the effect of strategic planning remain unanswered. Research is required on the actual planning practices of SMEs. Although it is commonly assumed that formal planning increases performance or the likely success of a firm, it is not conclusively supported by research. In small firms operational rather than strategic planning might be more important because: they operate in a stable environment; are relatively small in size; and the services they provide are of a personal nature. Small firms therefore experience environmental stimuli, good or bad, as random events and any strategy they follow will have an equal chance of being successful or unsuccessful. French *et al* (2004) affirm in conclusion that it is perhaps the process of planning rather than planning itself that is important.

### **Chapter 3. RESEARCH QUESTIONS/PROPOSITIONS/HYPOTHESES**

Research on strategy content and process is of central importance in the field of strategic management (French *et al* 2004). On account of the important (Manuel, 2006) and diverse (IFAC, 2006) services provided by small professional accounting firms to small medium enterprises (SMEs) (Tyl, 2005) and because of the lack of research around the concept of strategy as it relates to small professional firms (Brock *et al* 2006), this study sought to address this gap in the literature.

In accordance with the study performed by Love *et al* (1995:467) the aim of this analysis was to “determine if reference to business strategy” in regard to small professional accounting firms is “meaningful rather than to determine the effect of such strategies”. Research questions formulated therefore do not address the content – process – performance link.

Based on the lack of research on strategy relating to professional services firms; the literature review presented in Chapter 2; and the aims of this study stated in Chapter 1; the following broad research questions have been formulated within the context of small professional services firms:

- 1) Do professional accountants in practice exhibit coherent business strategies and strategy making processes?
- 2) If they do, what forms do these strategies and strategy-making processes take?

The key issues that were to be discovered include whether it is meaningful to conceive of strategy and strategy-making processes within the domain of small professional services firms; if it is meaningful can different types of strategy and strategy-making processes be identified; and can these different types be linked to 'tenets of economic theory' as depicted in the generic strategy typologies.

The specific research questions have therefore been formulated as follows:

- 1) What is the strategy-making process in professional services firms?
- 2) What factors impact this process?
- 3) What are the key elements of strategy?
- 4) What influences these elements?
- 5) How does competition impact the strategy-making process and strategy itself?
- 6) What environmental factors impact strategy-making process and strategy? How and why?
- 7) What internal factors impact strategy-making process and strategy? How and why?
- 8) What existing theoretical typologies on strategy and strategy-making processes come closest to describing the phenomena of strategy? If no typology, why not? If a specific typology, why?
- 9) What new typologies can be proposed?
- 10) How do the proposed typologies add value?

The research method regarding case study analysis as proposed by Eisenhardt (1989) was followed and Questions 1 – 7 were used to guide the within-case and cross-case analysis of the phenomena of strategy content and process, whilst Questions 8 – 10 were used to guide the theoretical analysis.

It was hoped that patterns would emerge from the case analysis that would establish a construct of strategy content and process as it relates to small professional accounting firms.

## **Chapter 4. Research Methodology**

### **4.1 Introduction**

Qualitative research is particularly appropriate to new topic areas, such as where little is known about a phenomenon or when “current perspectives seem inadequate because they have little empirical substantiation, or they conflict with each other or common sense” (Eisenhardt, 1989:548).

The case study approach seeks to understand the dynamics present within a single setting (Eisenhardt, 1989).

This method was therefore used to explore the research questions and gather relevant information. Case study methodology was applied using purposive, non-probability sampling and a loosely structured questionnaire as a data collection tool for in-depth interviews.

### **4.2 Research Design**

The aim of this study was to describe strategy content and process within a professional services environment and to develop testable, relevant, and valid theory from case studies by focusing on understanding the dynamics of a single setting (Eisenhardt, 1989). Thus the focus was on theory building and not theory testing. Whilst conducting the research all attempts were made to keep the research free of “preordained theoretical perspectives” (Eisenhardt, 1989:536).

The literature review that was conducted assisted in the formulation of the research questions and the preliminary identification of constructs. The research objectives specified the organisations that were to be approached and as a result provided a well defined focus within which to study the organisations. The *a priori* specifications of constructs facilitated a more accurate measurement of constructs that could possibly emerge from an analysis of the data (Eisenhardt, 1989). However it was recognised that the process followed was iterative which allowed for the amendment of research questions and possible elimination of the identified constructs so as to ensure results that are not informed by prior theory.

Interviews were used as the method for collecting data. The analysis was at a single level, namely that of the firm. Following Miles and Huberman (1984) the techniques used to analyse the data included tabular displays.

The interviews were limited to five firms as it was considered that five interviews provided theoretical saturation *i.e.* adding another case would only incrementally improve the quality of the evidence as presented in the five cases (Eisenhardt, 1989). In addition practical constraints of time and resources led to the limiting of the case studies to five. Eisenhardt (1989) does, however report that four to ten cases work well for qualitative research.

### 4.3 The Population of Relevance

The population of the study were members of the South African Institute of Professional Accountants (SAIPA) who operate in public practices which can be regarded as small and medium practices (SMP).

Public practice has been defined by the International Federation of Accountants (IFAC, 2006) as meaning a firm that provides professional services to a client. Professional services are regarded to be any service requiring accountancy or related skills performed by a professional accountant including accounting, auditing, taxation, management consulting and financial management services.

SMP have been defined (Tyl, 2005) as firms that provide professional services principally, but not exclusively, to clients who are small and medium-sized enterprises (SME). Tyl (2005) regards an SME as an entity that has:

- 1) Concentration of ownership and management in a small number of individuals (often a single individual); and
- 2) One or more of the following are also found:
  - i. Few sources of income;
  - ii. Unsophisticated record-keeping; and
  - iii. Limited internal controls together with the potential for management override of the controls.

The population was selected so as to avoid “extraneous variation” that could occur because of size differences, and also to set the limits of generalising the

findings (Eisenhardt, 1989:536) by clearly stipulating the industry as small professional services firms operating as professional accountants in practice.

#### **4.4 The Sample**

In the context of this study the focus is on what types of strategies, if any, are followed by small professional accounting firms, and on how these strategies are developed.

The nature of a small professional firm is such that the owner of the firm is intimately involved in the operation and management of the firm. The structure consists of a single owner and a single layer of support staff. As a result the separation of the decisions and actions of the owner from those of the firm is very difficult. In addition, the owner was seen to be the person with most, if not all, of the information on the strategy content and process activities of the firm. This is aligned to Ketchen *et al* (1996) who regarded the CEO as the primary interpreter of environmental conditions and the holder of the most information regarding formulation of strategy.

Non-probability purposive sampling was used as the method for selecting the research samples. According to Zikmund (2003:382) this sampling technique requires that an experienced individual select a sample based on his judgement “about some appropriate characteristic required of the sample members”. The research problem was addressed by firstly performing purposive, and then theoretical, sampling (Bakir and Bakir, 2006).

Five small professional accounting firms were identified. All of the firms are owned and operated by accountants who have obtained the designation Professional Accountant (SA) as full members of SAIPA and operate an accounting firm, within the borders of South Africa, and more specifically located in Gauteng province, that provides professional services to the public for a fee.

Firms were selected on the basis of the following criteria:

- 1) Prior or current involvement with the South African Institute of Professional Accountants (SAIPA) as either regional committee members or board members. The rationale behind this criterion being that such involvement presupposes a commitment to the industry; a high level of customer service; an understanding of the external and internal environment faced by accountants; a likelihood of providing sensitive information due to the level of trust associated with the interviewer as a member of the same organisation;
- 2) Owners of firms had to be full members of SAIPA as well as being in good standing. Different classes of membership are available within the broader profession and within SAIPA. Sample firms had to be owned by members with the highest form of membership, with no fees outstanding and having no findings regarding unprofessional conduct against them;
- 3) Having more than eight years of experience being the owner of an accounting firm. The timeframe was chosen based on the common perception that a practice with this history would be regarded as established.

This implies stable goals and means and an understanding of the process that shaped the formulation of the goals of the firm;

- 4) Current or previous employment of more than three staff members. This requirement presupposes exposure to the internal challenges of managing employees and allocating work to them in order to achieve the goals of the firm;
- 5) Location within the Gauteng region of South Africa. This was a practical consideration so as to provide ease of access and adequate time to identify, approach and conduct in-depth interviews with the sample of firms;
- 6) The focus of the firm should be primarily towards providing professional services to small and medium enterprises.

Five firms were selected from the population based on the above criteria. The selection was aided by the prior knowledge of the sample possessed by the researcher. This was the result of the work-related interaction between the sampled firms and the researcher. The owner of each firm was contacted a week prior to the planned interview. The purpose of the research and the method to be followed was explained and a date was set for the interview. Interviewees were not supplied with any background documents nor with the framework of the interview.

A total of five interviews were conducted with the owners of five firms. The context and background relating to each of the firms is described in Chapter 5.

#### **4.5 The Research Instrument**

Data collection was limited to conducting in-depth interviews. The sensitivity of the information requested as well as the limited capacity of these types of firms for providing additional sources of information, such as secondary data, limited the method to the in-depth interviews.

Data was gathered on the basis of loosely structured in-depth interviews with the owners of the professional accounting practices. The interview method followed was as described by Mason (2006) and Tsai, Hong-quei and Valentine (2003). This method suggests the use of response cards to guide the interview process. The framework used to create the content of the response cards was designed so as to obtain data relating to the concepts of strategy and strategy-making practices as found in professional accounting practices, and the context in which this occurs. The framework used is presented in Appendix 1.

The framework was utilised for initial guiding questions and core concepts, however no formally structured instrument was followed and the interview process could therefore freely move in any direction.

#### **4.6 The Process of Data Analysis**

The aim was to extend emergent theory. According to Corbin and Strauss (1990) the aim in grounded theory is representativeness of concept, not of people. This is achieved by carrying out a comparison of within-case, cross-case and existing theory with the intention being to gain a deeper understanding of the analysed cases so as to present a theoretical explanation of particular

phenomena. The purpose is not representation of all variables so as to generalise findings. Cases are chosen for theoretical and not for statistical reasons as the aim is to choose cases which are likely to replicate or extend emergent theory (Eisenhardt, 1989). Thus theoretical sampling was used as data triangulation *i.e.* using what is known to induce a general principle related to strategy content and process as it relates to small professional accounting firms.

Case studies of the concepts of strategy and strategy-making processes, as found in professional accountant practices, were developed from the in-depth interviews.

According to Eisenhardt (1989:539) “Analyzing data is the heart of building theory from case studies, but it is both the most difficult and the least codified part of the process.” However several key features of analysis can be identified (Eisenhardt, 1989): within-case analysis; cross-case analysis and theory analysis.

Within-case analysis assists researchers in coping with the large volume of data produced by case analysis on account of the open-ended nature of case study research problems. The aim of within-case analysis is to develop an intimate knowledge of each case in order to identify unique patterns. At a later stage these patterns are generalised across the cases (Eisenhardt, 1989).

The intimate knowledge gained assists with a cross-case comparison in the search for patterns. Cross-case analysis should be designed in such a way as to avoid information-processing biases which could lead to premature and false conclusions. The biases that researchers should avoid are depicted in the following table:

**Table 12: Biases in cross-sectional analysis identified by Eisenhardt (1989)**

	<b>Bias in cross-sectional analysis</b>
1	Leaping to conclusions based on limited data
2	Being overtly influenced by vividness
3	Being overtly influenced by elite respondents
4	Ignoring basic statistical properties
5	Ignoring disconfirming evidence

Establishing patterns across cases and avoiding the identified biases may be achieved by implementing certain suggested tactics which are depicted in the following table:

**Table 13: Tactics for performing cross-case analysis suggested by Eisenhardt (1989)**

<b>Tactic 1</b>	Analyse cases by identifying categories or dimensions and then using these to compare the similarities and differences between cases. Categories may be derived from the research problem, the literature review or suggested by the researcher. Several categories may also be compared simultaneously.
<b>Tactic 2:</b>	Group cases into pairs and then list their inter-group similarities and dissimilarities. The result of the forced comparison may be new categories or concepts not previously anticipated.

<b>Tactic 3:</b>	Analyse cases according to data sources <i>i.e.</i> interview, observation etc. This presupposes a team of investigators that will be able to compare their findings.
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The present study utilised a combination of Tactics 1 and 2 to analyse the cases. Tactic 3 was found to be non-applicable on account of its use of multiple data sources.

The purpose of the tactics is to assist the researcher in obtaining different perspectives on the data so as to improve the “likelihood of accurate and reliable theory, that is, a theory with a close fit with the data” (Eisenhardt, 1989:541). A further purpose is to constantly compare emergent theory with the data so as to make progress towards building a theory that incorporates new perspectives and which is closely aligned to the data. This iterative process seeks to:

- 1) Refine the definition of the constructs; and
- 2) Build evidence to measure the construct in relation to each case.

The aim is to collapse multiple indicators into a single construct measure. This was achieved by using tables to summarise and tabulate the evidence underlying the construct so as to ensure a clearly defined and measurable construct. This is a requirement for a strong theory (Eisenhardt, 1989).

Theory building also requires that the “emergent relationship between constructs fits with the evidence in each case.” (Eisenhardt, 1989). Each case

was used to confirm or disconfirm the emergent theory. This served to either increase the validity or further refine the theory. Eisenhardt (1989:543) summarises this process as “Overall, shaping hypothesis in theory-building research involves measuring constructs and verifying relationships.” According to Eisenhardt (1989) this iterative process should stop when any additional comparison will only incrementally contribute to the theory building.

Following Bakir and Bakir (2006:156), the data as presented in the in-depth interviews was “fragmented, examined, compared and conceptualised” and then “categorised the emerging concepts using grounded theory’s open coding procedure”. Data obtained from the in-depth interviews reflected incidents of strategy content and strategy process from the perspective of small professional accounting firms. Incidents, including any similarities between incidents, were labelled by choosing concepts that had a logical and graphical link to the incidents. These concepts are displayed in Appendix 2 and 3. Concepts that could be induced further formed categories. This was achieved via continuous comparison between the data, emerging concepts, common sense knowledge and strategy literature (Bakir and Bakir, 2006). Dimensional ranges related to each concept were also identified. This aided the understanding of the categories as they apply within a specific setting (or firm), as the dimensions would allow a category to be located on a position on the dimensional range.

The final step in grounded theory was to develop a core category. According to Bakir and Bakir (2006:163) the core category should subsume all the categories and provide an “explanation of strategy”. This is achieved through selective

coding “a procedure that involves: validating and refining the relationships between categories, allowing the emergence of the core category; and then systematically relating the core category to the other categories”.

Theory building was the result of comparing the emergent theory with the literature review conducted in Chapter 2 of this study. Similarities and dissimilarities were identified. Reasons for any dissimilarities were further assessed via a re-examination of the evidence and the conflicting research, so as to address questions of internal validity and generalisability and to improve the theoretical level of the theory building.

The analysis resulted in an emergent frame of impressions, concepts, themes and possible relationships between variables. These results were compared to the data as presented in the cases. A close fit is necessary to ensure construct validity and an empirically valid theory (Eisenhardt, 1989).

#### **4.7 Limitations of the Research**

The following limitations were identified:

- 1) The population of relevance was limited to small professional accounting firms;
- 2) Interviews were conducted with only five small professional accounting firms located in the Gauteng province of South Africa;
- 3) The purposive and theoretical sampling served initial theory-building aims.

## Chapter 5. RESEARCH CASES

### 5.1 Introduction

The objective of this chapter is to present the results of the research. The presentation will start with a general description of the context and history of the industry within which the professional accounting firm operate. Following this general description an overview of the cases will be provided. Thereafter data will be presented per case study interview and will be clustered around research Questions 1 through 7. The interviews were recorded using detailed notes. The notes were reconstructed during which process the data was subjected to initial coding. According to Eisenhardt (1989:589) such an iterative process of overlapping data collection and data analysis gives a “head start” for later data analysis and provides the benefit of flexible data collection.

The holistic view of strategy process as proposed by Chakravarthy and White (2002), and the Miles *et al* (1978) framework for analysing strategy, was used as a basis to code the detailed notes with regard strategy process and strategy content respectively. Chakravarthy and White's (2002) framework was further expanded by substituting the concept of decisions and actions, with the five strategy process factors as proposed by Hutzschenreuter and Kleindienst (2006). A detailed discussion of this research is presented as part of the literature review in Chapter 2.

Chakravarthy and White (2002) views strategy process, consisting of actions and decision, as being influenced by a firms business context (external and

internal environment); organisational context (management disposition and leadership issues) and performance (feedback learning). Performance is determined by how successful a firm's strategy is able to leverage the business context of the firm. Hutzschenreuter and Kleindienst's (2006) five strategy process factors are stated in relation to three concepts: the strategist, the issue and the sequence of actions. Miles *et al* (1978) framework consists of three elements. These are the entrepreneurial problem – identifying product-market fit; the engineering problem – developing an input-transformation-output system to support the identified product market; and the administrative problem – improving the system to increase efficiency.

The detailed notes were made subject to preliminary coding using the process as described above. The results of the research are presented here according to the subcategories identified through this coding process.

The following table relates the research questions to the coding and coding elements:

**Table 14: Research questions and initial coding**

	Research questions	Coding	Coding elements
1	What is the strategy-making process in professional services firms?	Strategy making	Strategist
			Issue
2	What factors impact this process?		Sequence of actions
3	What are the key elements of strategy?	Business context	Market
			Product
4	What influences these elements?		
5	How competition impacts the strategy-making process and strategy itself?	Business context	Market
			Product
6	What environmental factors impact strategy-making process and strategy? How and why?	Business context	Market
			Product
7	What internal factors impact strategy-making process and strategy? How and Why?	Organisational context	Operational
			Co-ordination
			Quality control
			Marketing
			Technology
			Qualification

## 5.2 Context

Professional Accountant (SA)'s are members of the South African Institute of Professional Accountants (SAIPA). SAIPA is a recognised professional body both in South Africa and Internationally. Members of SAIPA are subject to both legislative requirements and a code of professional conduct when they provide services to their clients. Due to historical developments all members of SAIPA

that provides services to the public, as opposed to being employed, may be described as small and medium practices (Tyl, 2006).

### **5.2.1 Local recognition**

Locally the main source of recognition is the Close Corporation Act and the draft Regulation of Tax Practitioner Bill.

The Close Corporations Act requires the appointment of an accounting officer to issue a report on the financial statements of the corporation and to perform a compliance function. Several other acts and legislation also requires the appointment of an accounting officer. To be recognised as an accounting officer a person has to belong to one of several professional bodies. SAIPA is one of these bodies. Membership of SAIPA therefore provides the right to perform a service that can be seen as a legislative monopoly.

According to Henning (2003: 776) “In 1984, South Africa became the first country with an English derivative company law system to take large steps forward in providing separate legislation for the reasonable entrepreneurial legal needs and expectations of the typical small business person” and “The Act introduced a new form of incorporation for closely-held enterprises with several unique and innovative features”.

Before the introduction of the Close Corporation the only other legal entity available for use by business people was the Company. With regard accounting and reporting the South African Companies Act (Companies Act, 1973) requires, that a Registered Accountant and Auditor perform an audit on

the financial statements of a company (Companies Act, 1973). An audit is performed in terms of an audit engagement as defined by the International Federation of Accountants (IFAC, 2005:17).

One of the major distinctions between the Close Corporation and the Company as business entities relates to ownership and control (Henning, 2003). In principle the Close Corporation Act makes no distinction between ownership and control whereas the English derived Company Law is built on the premise that shareholders are distinct from management.

Membership of SAIPA also provides access to various stakeholder forums and networking events. One of these stakeholder forums related to representation on the South African Revenue Service stakeholder committee. This representation will be formalised by the regulation contained in the draft Tax Practitioner Bill. It is expected that this bill will provide a legislative monopoly to the provision of tax services.

### **5.2.2 International recognition**

SAIPA is one of only four professional bodies in South Africa that is internationally recognised due to its membership of the International Federation of Accountants (IFAC). IFAC represents more than 139 professional accountancy bodies. As a result of this membership the members of SAIPA are subject to an international code of conduct.

### 5.2.3 The market

Professional accountants that provide accounting and related services for a fee to the SME market are referred to as “in practice” as they are not employed by the SME. Based on a number of assumptions, the following are an estimate of the number of small business that is deemed to be active in South Africa (DTI, 2003):

**Table 15: Estimate number of active small business in South Africa (2003)**

	Low estimate	High estimate
<b>Close corporation and Company</b>	428 540	428 540
<b>Sole proprietor and Partnerships</b>	128 562	257 124
<b>Non-VAT registered</b>	1 250 000	1 875 000
<b>Total</b>	1 807 102	2 560 664

### 5.2.4 Competitors

Possible competitors to professional accountants in providing services to this market include members of other professional bodies that provide similar services and other persons that registered with SARS in terms of the draft Tax Practitioner Bill. As the provision of accounting, excluding reports provided as an accounting officer, and tax services to an SME are usually performed by a single firm the total number of registered tax practitioners provides a good estimate of the size of the potential competition for professional accountants. According to SARS just more than 17 000 persons are registered as tax practitioners.

### 5.3 Overview of cases

The following table provides an overview of key dimension of the cases:

**Table 16: Overview of firms from which case studies was compiled**

Company	WE	SO	LL	GR	MS
<b>Industry</b>	Professional services				
<b>Date started</b>	1966	1988			
<b>Location</b>	Pretoria	Johannesburg	Johannesburg	Johannesburg	Pretoria
<b>Business form</b>	CC	CC	CC	CC	CC
<b>Members</b>	1	2	1	1	1
<b>Number of Staff</b>	35	20	2	3	1
<b>Branches</b>	5	-	-	-	-
<b>Performance (Average profit per month-Rand)</b>	150 000	50 000	50 000	50 000	150 000
<b>Clients</b>	-	-	130	300	50
<b>Interviews</b>	Owner	Owner	Owner	Owner	Owner
<b>Average duration of interview</b>	2.5h	1.5h	1.5	2h	2h

### 5.4 Firm WE

#### 5.4.1 Background

The WE firm has been in operation since 1966 and currently employs thirty five people. The firm is, however, understaffed due to a current staff shortage experienced in the accountancy industry in South Africa. An ideal staff contingency would be fifty seven. The firm is situated in Pretoria but has a number of branches in South Africa and neighbouring states.

## **5.4.2 Challenges**

The owner's view is that a practice should not concern itself solely with that type of accounting work that enjoys legislative protection, such as Accounting Officer and other reporting functions. The risk of doing this is high due to the changing nature of legislation which gives recognition to Accounting Officers and other reporting types. He has engineered his practice to be a business advisory firm. The primary dimension of strategy is to keep profit at R2 000 000 per annum. To maintain this kind of profit, however, it is necessary to obtain and retain staff.

Strengths of the firm have been identified as the experience and the exposure obtained from the number of years in practice. Weaknesses are believed to be the size of the firm. The number of support staff employed coupled with the firm's large profitability makes the firm vulnerable to competition.

## **5.4.3 Business Context**

### **5.4.3.1. Market-Service**

The owner considers the accounting practice to be the source of other related opportunities. "One cannot become rich by only operating a practice." The practice has the ability not only to identify opportunities but also to receive a regular stream of income and pay monthly salaries to employees. WE is also the owner of associate businesses in the following areas: insurance and investment; arrangement and structuring of finance, and the structuring of Black Economic Empowerment (BEE) transactions. The owner did not reveal a formal consideration of the future in terms of certain time intervals. He continuously considers possible future changes in the economy.

Services include basic accounting services and structuring of business transactions and the service offering consists of fifty percent bookkeeping work. This can be subdivided into the capturing of client invoices, compilation of a trial balance, preparation of financial statements and other statutory returns. The other fifty percent is evenly distributed among the following: analysis and interpretation of financial information, specialist services relating mainly to trusts and statutory reporting services.

The firm both shapes the environment and is influenced by it depending on the nature of environmental changes.

The owner believes that the economy in which the firm operates is volatile due to continued changes in legislation as well as a shortage of accountants and support staff

Legislative changes are monitored and the service offering of the firm is amended accordingly.

The firm he believes has an advantage over other accounting firms. Its size, organisational structure and service offering allow the firm to have time available for increasing the knowledge base of management and organisational members. This creates a wider understanding of environmental variables affecting the firm as well as a speedy reaction to change.

Having been designed as a business advisory firm, his practice provides broader services than other practices and the owner's success is measured based on profit as per the financial statements. This success is attributed to two key factors – communication with clients and client accessibility to the owner. WE regularly appears on a radio talk show, provides his cell number to all clients, meticulously controls the output of the firm and periodically reviews client satisfaction.

The firm charges higher than average fees and determines fees by using a value based pricing mechanism. Fees are therefore not calculated according to the hours spent performing the work but according to the client's perceived value of the work. Although mundane clerical work is charged at a fixed priced, most fees are adjusted according to client type.

#### **5.4.3.2. Competition**

The owner does not believe that the firm has competitors and therefore does not perform a competitor analysis. He believes that his service offering is not comparable.

#### **5.4.4 Organisational context**

Co-ordination: Co-ordination of activities is obtained via the firms operational procedures and training sessions. Every three months a progress report is prepared which is used by the owner to monitor service delivery to clients. With regard the latter, co-ordination of activities and alignment between the decision of top management and organisational members is achieved given the above, the response was that this was achieved via regular training sessions. The

operational procedures allow both the servicing of immediate customer needs and the identification of additional opportunities for service delivery.

Quality control: Client information and requirements are captured onto a database which is accessed by the support staff, enabling them to request additional information from the client and to perform an initial analysis of the scope of work and potential fee. The clients are viewed as active participants in this process as work is delegated back to the clients if possible. This depends on the type of client engaged with and the purpose is to reduce the amount of administrative work of the firm. This process also seeks to reduce the total amount of time spent on the client. An overarching quality control mechanism is used to ensure that work is performed on schedule and according to the required quality. This is referred to as the “Bureau of Standards”. This mechanism consists of two persons, the owner’s wife and a tax specialist. The duty of the former is to identify additional sources of income that may be generated from a particular client and also to train support staff in identifying these opportunities themselves. The duty of the tax specialist is to control the technical quality of the work in term of industry standards *i.e.* Generally Accepted Accounting Practice and relevant Tax Legislation. WE meticulously control the output of the firm and periodically review client satisfaction with the service delivered by staff. Client analysis is important and takes the form of continually analysing the client-support staff relationship. For this purpose regularity of fee payments as well as complaints are monitored.

Performance measures: The owner affirms that productivity measurements are performed throughout the organisation.

Staff: Mentors are appointed to supervise, train and assist a maximum of four support staff members each. Once the work is received back from the client one support staff member is allocated the work. Mentors also control the quality of the work as performed by the support staff. Fees generated from the work performed for a client is distributed to the mentors based on their control function. There is an even distribution of staff in terms of juniors-seniors-managers-owners, *i.e.* an even distribution between owners; specialists support staff and administration staff.

Marketing of the firm: WE regularly appear on radio talk shows and distribute brochures. The firm also uses the fee level as a marketing technique. If low utility of capacity is experienced the firm reduces fees and vice versa. If, as a result of a particular marketing campaign the firm's capacity is stretched due to an increase in client numbers, fees are increased to reduce the number of clients.

Technology: Technology is used to improve the firm's service offering and this function has been delegated to an outsourced Chief Information Officer (CIO). The firm applies the latest practice related software and hardware.

Qualifications: As regards the choice of service offering provided by the firm, the owner believes he has expert knowledge on the value added services offered

by the firm, such as trusts and finance structuring. He uses words such as “With regard to trusts very few accountants will be able to tell me how they work” or “I saved one client millions of rands due to my knowledge of partnership law”. On areas such as tax and accounting standards the owner relies on subject area experts.

#### **5.4.5 Strategy-making process**

##### **5.4.5.1. Strategist**

There are four words which the owner believes should never be used in a practice: vision, mission, left brain and right brain. This is an apparent negative statement in response to the ideas of consultants and so called business gurus, but his motivation is the fact that the owner discourages uniformity of thinking. In his words he “believes in developing staff personality and does not try to destroy it”. He views the use of the four words as implying similar thought and action – he is opposed to this view. His position is that staff should be “let loose to be innovative” as the CEO should not do all the thinking. The more innovative staff members are the more income is generated by the practice.

The owner has a very low appetite for risk taking as he regards himself being too old and a lack of time to recoup any possible losses. There is no need for risk taking as the firm is generating adequate levels of income. His staff know where the firm should be going, but do not necessarily pay attention to this, as most of them are still young and this is the nature of youth. The CEO does not intend leaving the practice, but will remain to steer it in the chosen direction. However, he is adamant that management should not tell staff what to do; but

should let staff inform management of the direction and actions the firm should be taking.

Any firm has to focus on a single area for service delivery. In this regard a formal decision has been made by the owner not to venture into a service such as estate planning, although he regards it as a high profit service. The reason for this is the lack of alignment between the personality of the owner and the nature of the work. A strong view is taken that a firm uses people to work with people. This means that the firm is as strong as both people that operate it and those to whom services are delivered.

The view is held that the personality of the owner of a firm determines the type of strategy followed. As a sole practitioner the biggest capital contribution to his firm is given by the owner in both time and money.

#### **5.4.5.2. Sequence of actions**

Legislative changes are monitored and the service offering of the firm is amended accordingly. The owner believes the firm has the capacity to adapt overnight. Staff utilisation is deliberately kept below full capacity. This consequent spare capacity allows the firm to manoeuvre in line with environmental requirements.

WE believes that any firm should have a long term plan to determine where the firm is going. He does not believe that, as he termed it, a 360° analysis is useful *i.e.* considering all possible service offerings available to the firm. The

content and volume of information does not increase the client base, while communication and accessibility do.

The owner is aware of the popular belief that successful people have a view of the future and written plans on how to get there and he does recommend to clients and listeners of his radio talk shows that all businesses should have business and strategic plans. His firm currently has neither of these. In the early stages of his firm's development he did operate according to a written plan, but as the firm grew and became more successful the practice became less inclined to develop explicit strategic plans.

## **5.5 Firm SO**

### **5.5.1 Background**

SO started the SO Firm as a sole practitioner in 1988 and was accepted as a Professional Accountant (SA) during January 1991. Just more than three years ago she decided to merge with another accounting practice. This resulted in the formation of MBS Accounting Services CC.

### **5.5.2 Challenges**

The greatest challenges to the practice are identified as “the huge problem of staff shortage”, “huge amounts of legislation promulgated during the last few years” and “creating the correct organisational structure “.

### **5.5.3 Business Context:**

#### **5.5.3.1. Market-Service**

The merger mentioned above, did not have the planned results. It did not contribute to the growth of the practice but rather resulted in it being hampered and negatively affected. The firm is currently in the process of being split between the partners.

The firm provides accounting and related services to the Small Medium Enterprise (SME) sector of the economy. Clients range from sole practitioners to private companies. These businesses are offered two main types of services: general accounting and tax services, and specialist tax planning services. General accounting and related services constitute approximately seventy percent of the total service offering while the balance may be regarded as specialist work.

General services include bookkeeping, financial statements preparation and tax compliance. Specialist services relate to the creation and administering of trusts, wills and performing estate planning. The interview was conducted with the partner who heads the general services division of the firm. Specialist services are performed by the other partner.

A separate business, of which the interviewee is the only partner, provides training services to the clients of the firm.

Other related services such as insurance and investment services are not directly provided by MBS, but referred to an outside associate of the firm.

SO believes that her ability to provide high quality training gives her an edge over other accountants. As SME owners often do not understand figures and financials there is a big demand for quality training. The service she provides motivates her clients to remain with the firm.

SO defines “good service” in relation to the value that clients perceive they get from the practice. Value was defined as “low cost and high service level”.

SO is uncertain as to how the firm’s service offering differs from that of other firms: “Don’t know, I think all do generally the same thing”. Compared to Chartered Accountants she believes that the services provided by Professional Accountants are more in tune with the demands of the SME sector. Professional Accountants (SA) specialise in a wide range of services (bookkeeping, accounting and tax) whereas Chartered Accountants specialise in auditing – something businesses do not really want or need.

The practice does not only make money out of a new client. Her clients stay because they “feel happy” and are able to trust the practice.

The method for calculating fees differs for each type of service. Bookkeeping fees are charged at a fixed rate which is reviewed every two months, financial

statement fees are charged as per time spent at a fixed rate per hour and fees are charged at a fixed rate for tax services.

### **5.5.3.2. Competition**

Although SO admits that she has competitors (“I’m sure I do”), they are not regarded as a threat as there are “only a few accountants and too much work”

### **5.5.4 Organisational context**

Marketing of the firm: The firm does not advertise its services but relies on word of mouth for client growth. There are a small number of “walk-in” clients as the practices are situated next to a school and close to a highway. However, the location of the practice is not regarded as a significant source of client growth.

The firm does not advertise via newsletters or websites but uses emails and SMS’s to inform clients of operational requirements. In this way information on compliance deadlines is communicated to clients. This relates to good communication or “selling yourself”.

Technology, Operations and Control: SO believes that a practice can only survive if it keeps up to date with the latest software and hardware. As owner/manager she views her role as dealing with clients at a “higher level”. She provides consulting, tax planning and financial control services and performs business intelligence training and analysis to improve the way clients manage their businesses.

She meets with all new clients before they are allocated to a specific department. She uses this opportunity to the client that he/she will be allocated to a manager whose role it is to “hold the clients hand”. The firm employs twenty staff members that are grouped into two strong teams, one providing accounting services and the other tax services. The current structure took two years to develop and is something SO is particularly proud of. The structure consists of three sections: The Tax Department, the Accounting Department and the Administrative Department. Each department is headed by a senior staff member who reports to the owner. The accounting department performs bookkeeping and preparation of financial statements for clients on a bimonthly basis or ad hoc as required by the client. It also provides training for clients who wish to perform their own bookkeeping function. The tax department offers secretarial and tax services for clients, whereas the administration department provides administrative support to the other two departments. Estate planning and the preparation of wills are also available, but are performed by a partner of MBS.

Her management style is that of a “delegator” and she has no problem with “bringing in more people” as partners. The ideal would be to distribute focus areas among three members: an office administrator, a tax expert and a member who sources new clients.

She manages staff by delegating responsibility to line managers. The practice uses CQStime – time management software also monitoring staff productivity.

Monthly management meetings are held and managers have weekly meetings with their staff.

Qualification: The practice is not dependent on the recognition she has as an Accounting Officer in terms of the Close Corporations Act. Even if legislation were to change and remove the exclusive recognition provided to Accounting Officers as report providers to Close Corporations, her business will not be affected. Her relationship with clients is not dependent on her appointment as Accounting Officer. Having a degree is very important to her being successful, but membership of a professional body is of personal importance only to her. For general business purposes such as gaining clients and running a practice it is not important. One advantage of being a SAIPA member is that SAIPA provides analysis of the environment which enables her to offer clients quality and value as she is able to provide “real business advice”.

### **5.5.5 Strategy-making process**

#### **5.5.5.1. Strategist**

SO views MBS as a one-stop-shop for clients, *i.e.* providing the full suite of accounting and related services.

The firm is dependent on the owner’s continued involvement and would not be able to survive without her. Managing the practices requires a qualified person and the experience with the failed merger have convinced her not to consider a merger based on equal partnership again. If she ever decided to expand in the future she would rather consider becoming the largest shareholder in the

business and offering minority shares to other potential partners. Sourcing such partners from current staff members is not an option.

Owing to the dynamic environment of her practice, her personality aids the firm in being adaptive. This is important as compliance deadlines do strain the systems of the firm. She believes that “out of the box thinking” is required to remain adaptive.

Her long term vision includes a managing partner if the business is to grow further. She does not have time to “drive it” any more although she knows that she has the potential to take the business “further”. She knows that she will have to make a decision to either sell or improve the practice.

#### **5.5.5.2. Issues**

The environment in which the firm operates is described as dynamic and complex.

#### **5.5.5.3. Sequence of actions**

SO views the firm as being adaptive in the face of a dynamic and complex environment. Although frequent legislative updates have been identified as a challenge, the firm uses the change in legislation as an opportunity. Legislative changes that require SMEs to issue compliance reports present the firm with an opportunity to expand its service base and include assistance with these reports. The above is evidence of their adaptive system.

In October each year a questionnaire is issued to staff, requesting, their input on whether they are happy; what goals they set themselves, what training they think they need and what suggestions they have to improve the business. After this process staff meets with department managers to discuss the above. Managers then meet with SO who then meets with staff to discuss issues. The result of this is an eighty page company policy document. All staff members are involved in the goal setting process which leads to the formulation of a formal goal statement.

SO believes that she has the ability to make quick decisions which are guided by the following principles: responsibility, authority and accountability.

## **5.6 Firm LL**

### **5.6.1 Background**

During 1979 LL was working as a SARS assessor and obtained his qualification by writing the internal SARS exams. In 1986 he made contact with SAIPA and applied to become an Accounting Technician. After completing the required subjects and practical requirements he qualified as a full member in 1989. In 1990 he started in the small business tax section of a large auditing firm. LL started his own accounting practice in 1996. The practice currently services 130 SME clients including Close Corporations, Partnerships and Sole Proprietors.

## **5.6.2 Challenges**

A possible challenge in the future could be the way in which legislation amends the reporting liability of clients *i.e.* if accounting officer reports are no longer required for Close Corporations. However, banks and SARS will continue to rely on the services provided by accountants. A change in legislation might also be beneficial as this could potentially remove the deadwood from the profession.

## **5.6.3 Business Context:**

### **5.6.3.1. Market-Service**

LL characterises the service offering of the practice as sixty percent performing statutory work such as compliance with tax requirements, completion of financial statements and books to trial balance. Forty percent of services relates to providing consulting services. He does not provide specialist services such as estate planning and trusts. His service is focused on the preparation of tax returns and financial statements. Other services are referred.

He believes it is important to advise clients on starting and managing a business and he explains the implications of their choices. As organisations are run by people, it is important for the client to understand the importance of aligning his personality and lifestyle with the choice of business and entity type. Clients with specialist needs are referred to experts. The practice does not earn a referral fee.

According to LL it is not possible to differentiate a firm based on the preparation of financial statements alone, as financial statements of similar businesses are based on the same principles and requirements. Value is derived from asking the question “What additional services can be provided to the client?” The value added services that he offers include directing clients in terms of financial management and providing business advice to clients. This assists clients in determining where their businesses are going. These value added services results in clients experiencing growth, as his advice “makes the client think”. The decision on whether to introduce new or amended service offerings is influenced by changes in legislation. Such changes are analysed and a service offering is developed, depending on client needs.

The clients of LL are described as members of the “middle band” with regard to level of turnover as applicable to SMEs. The range of turnover of his clients is between R80 000 and R35 000 per annum, with the majority of clients between the R350 000 to R10 000 000 level of turnover per annum. This wide range is the result of the way the owner builds his practice. His practice is not dependent on one type of client. He has found that clients who achieve turnovers beyond the R35 000 000 level tend to go to larger audit firms such as KPMG.

#### **5.6.3.2. Competition**

The owner does view other practices as competitors. The source of competition is described as “fee based”. However, LL does not feel threatened by competition as “banks and businesses themselves still require financial statements and SARS requires tax practitioners”. He believes that the market will “choose the best service provide”. In addition, his fees are described as

below average as “this is what is expected of professional accountants” and “they are always compared to chartered accountants”. The public believes that a chartered accountant’s services are of higher quality.

#### **5.6.4 Organisational context**

Staff: The firm employs LL’s wife as the one full time staff member who specialises in tax.

Part of the firm’s service offering is outsourced to bookkeepers. They work directly at clients’ offices. During the 2000 tax year LL employed three permanent bookkeepers, but later decided to outsource. The process he follows now entails inviting a client to meet him and an identified bookkeeper. Once the client and bookkeeper have been introduced they determine their own working relationship.

Marketing of the firm: The owner’s view is that the growth experienced by his firm is due to: “word of mouth”. His existing clients refer other potential clients to his practice. The growth is not due to the general economic growth experienced in South Africa, neither does the practice advertise its services. Information sessions with groups of potential and existing clients are arranged and utilised as networking events. The physical location of the practice ensures maximum exposure to clients. Obtaining advice from other practitioners on promoting your practice and networking with larger practices for referrals of clients, are beneficent to the firm’s growth .

Technology: The practice is technology driven and applies office automation tools as far as possible. The office uses five Pentium IV computers which are connected to the internet via ADSL. The software they use includes: Microsoft XP, QuickBooks, CASEWARE Tax Manager and VIP Payroll.

Operations/Quality control/Co-ordination/Performance measures: Operational aspects of the practice follow a standard sequence. A pending system is used to control workflow and to determine which project needs immediate attention. Mondays and Fridays are used to evaluate the work load and flow of work. The owner uses an eighteen month planning cycle, while resources are allocated in accordance with the number of clients the practice expects to obtain.

Qualification: The owner regards membership of a professional body as important as this provides him with: 1) Summarised technical news related to the practice; 2) Representation with government and other stakeholders; 3) Information on new development; 4) A link to industry experts. Having a formal qualification such as a degree is important as this gives you a wider scope, however this does not prepare you for what you may experience in practice.

The owner uses CPD (continuous professional development) events organised by SAIPA to become aware of key issues; once these are identified he performs further research on his own to increase his understanding of the issues.

The owner keeps his knowledge updated by reading business and finance orientated online websites and hard copy newspapers and journals. The case

studies presented within these resources provides him with practical exposure to the technical knowledge he needs in running a successful practice. To a certain degree these resources are regarded as virtual experts with whom he can consult.

## **5.6.5 Strategy-making process**

### **5.6.5.1. Strategist**

The practice has one owner whose role is to make initial contact with the client and determine the type of services needed by the client.

LL was earlier employed by KPMG but rather than pursuing a career in a corporate accounting firm, started his own practice. His reasons for this was the necessity of having a personal relationship with clients and the fact that clients do not want to be exposed to “layers of business” when interacting with a firm.

LL views himself as a “helper” of his clients. His concept is that he “observes what the client is doing”, considers how he can assist the client and then receives remuneration for this.

LL describes his long-term vision for the practice as recognising that: 1) Legislative changes will become more of a focus area for the practice; 2) The owner wants thirty to forty comparative clients from whom the required fees may be generated to achieve specified salary targets; 3) Partnership is not an option as this brings with it “too many hassles” in the sense that he cannot understand

why “other people don’t want to work as hard as I do”. He wants to continue providing a “personal and all inclusive service”. He does not wish to specialise as his training was more practical and regards himself as a perfectionist when it comes to delivering services to a client.

Even though there is a higher demand for his services than he is able to meet, LL does not wish to expand his firm, as he disapproves of “delegating”. He prefers having fewer clients, but such that will provide stability to the practice *i.e.* clients that remain with the practice for twenty to thirty years. There is no intention of gaining more clients as the firm does not have the capacity to service additional clients. This wide range is the result of the way the owner builds the practice. His practice is not dependent on one type of client.

The owner believes that you need to determine the lifestyle you want to lead and then align the type of practice with the chosen lifestyle. Provided the firm offers quality service, it will be able to make money. The result of providing quality service is that the practice “grows by itself”. LL emphasizes that obtaining this type of practice requires at least three years achieving.

The practice is described as “low risk”. The owner does not have an appetite for labour relation issues and this has influenced his decision to make use of outsourced staff. Trust, with regard to the “ownership” of the client remaining with the practice, governs his relationship with the outsourced bookkeepers.

### **5.6.5.2. Sequence of actions**

LL followed the following process in determining the type of practice he wanted to have: 1) He spoke to other practitioners as well as experts at SARS and these discussions determined the needs which he wanted to address. This process occurred during the years 1994 – 1996; 2) He currently makes choices based on cost and deadline analysis.

To his mind, there are three important concepts that contribute to success in a practice: 1) considering the demands required of a particular engagement before accepting such an engagement. This requires being competent in and understanding your industry and clients; 2) being selective of the clients that you wish to work with; you will need to grow with and understand your clients; this requires people skills; 3) the physical location of the practice.

Decision whether to introduce new or amended service offerings is influenced by changes in legislation. Such changes are analysed and a service offering developed dependant on client needs. He views the practice as being adaptive to legislative changes due to the research focus of the practice. Research is conducted on changes to legislation and on “how to know yourself better”. In this regard regional member forum meetings are important.

## **5.7 Firm GR**

### **5.7.1 Background**

The GR Firm is a small accounting firm, servicing just over 300 clients, located in the eastern parts of Johannesburg. Owner GR started his practice in 2000,

following his employment at a large audit firm. Since he was already responsible for operations and management as an employee, he felt he could start doing it for his own account. Currently he employs three people – 2 full-time and 1 part-time. The firm may be described as a sole practice as it does not have any partners or members and is operated via a close corporation. GR acts in a CEO capacity

### **5.7.2 Challenges**

Threats to the firm include SARS penalties for late submission of tax returns. In addition, legal proceedings with ensuing penalties and interest may be instituted by clients if required deadlines are not met. A potential element of risk is the fact that he doesn't require representation letters from clients when finalising their financial statements.

### **5.7.3 Business Context:**

#### **5.7.3.1. Market-Service**

GR describes the current goals of his firm as providing "good service", with the underlying emphasis on quality and profit.

The firm provides an "in time" service to clients and focuses on adding value to the business of the client. Value adding is achieved by being hands on as to the tax affairs of the client and secondly by assisting clients with their profit management.

The scope and nature of the services offered are described as "general in every respect." The services offered are accounting, tax and internal control.

Accounting services consist of accounting and bookkeeping, financial statements and reporting. Tax services consist of compliance and planning. Internal control provides clients with Excel based cash flow management tools. This service is crucial to clients as it requires a hands-on approach to the operational management of the business for managing expenses. The firm does not offer specialist services such as estate planning, insurance or investments or the services of a tax specialist.

Eighty percent of the product offering is created as a result of legislation; the balance being a demand for advice on business improvement. If clients express a particular need, GR will innovate and create a specific product offering. His hands-on approach enables him to become aware of his clients' needs. The assistance he provides to clients to improve their systems of internal control is an example of an innovative product offering. This increases the efficiency of their businesses. The payment forms part of the annual fees.

If a client requires a multi faceted service not provided by the firm, GR does not accept the appointment. Clients' needs should be fully addressed. GR regards quality service, defined as fulfilling client expectations, as a "big thing".

In comparison to other accountants, the fees are average. Fees are not charged on the perceived value of work performed but rather based on either a fixed fee or a fixed hourly rate.

Requirements placed on clients as a result of tax legislation are the main driver for clients using an accountant. As a result, the business is more of a tax practice than an accounting practice. Having regulatory recognition as an accounting officer is not the main reason for clients utilising his services. Any change in legislation to make the appointment of an accounting officer obsolete, will only moderately affect the firm. In fact, GR believes client growth is due to the shortage of qualified accountants in the economy. This assures the firm of continuous work.

In order to keep abreast of technical development within the industry, he reads trade journals and discusses issues within his accountant network. Approximately half an hour per day is required to do this. Intimate knowledge of the client's business environment and industry is crucial.

#### **5.7.3.2. Competition**

The driving force of the practice is not competitiveness as there is already "too much work for everybody". Quality assurance is achieved through approval by GR before work is handed over to the client. Success is dependent on the personal relationship the owner has with current and potential clients.

#### **5.7.4 Organisational context**

Operations and Control: He does not use a project management tool to manage the workflow in the practice but rather relies on "human input and know-how". Urgency of a task prioritises the work. He admits that he cannot meet all deadlines to complete clients' work on time. " A potential element of risk is the

fact that he doesn't require representation letters from clients when finalising their financial statements..

Marketing of the firm: The owner has never advertised the services offered by the firm. He believes in word of mouth – “selling to your current clients, who in turn will sell your services to the next guy”. He does however, use a marketing manual to guide and aid him in his marketing efforts.

Technology: The firm makes extensive use of the latest software tools to aid in practice management and the performance of services to clients.

Qualification: Having regulatory recognition as an accounting officer is not the main reason for clients utilising his services. Having a degree and attending continuous development programs is important for running a successful practice. GR is a member of a professional body which allows him access to information. However, membership of a professional body is not regarded as being a significant contributor to client growth.

Intimate knowledge of the client's business environment and industry is crucial. He applies a holistic approach to servicing client needs by combining technical and tax knowledge.

## 5.7.5 Strategy-making process

### 5.7.5.1. Strategist

GR describes the current goals of his firm as “providing good service”, “helping people” and having a “humanitarian” interest, with the underlying emphasis on quality and profit. The personal relationship the owner has with current and potential clients is of great importance. It is also important to enjoy making money. “Your personality should be in tune with the work you are doing.” GR has a natural ability for accounting and is also “good with money”. His personal relationship with his clients is a definitive advantage. A further requirement is being involved with the businesses of the client and to “becoming a friend” of the client.

The practice aims to empower staff members regarding decision making. A good track record determines their level of authority. GR makes the final decisions.

He believes all accountants are quality driven and they want “100% quality”, making them “perfectionists”.

Risk to the practice is low as “accountants avoid grey areas”; however he does “push the limits, now and again”.

The quality of services rendered “will keep clients from running away”.

The owner’s inclination to be “humanitarian” and his subsequent passion to “help people” determines the firm’s strategy. Since the firm is in a

“developmental” phase and a comfort zone, a growth or expansive oriented strategy is not followed. Increasing the size of the firm would require the appointment of more staff. This in turn will make administration of the practice more difficult. GR prefers to remain “hands on” in the business, rather than becoming a manager only.

He identifies a merger with another practice as a possible exit route. However, he believes that the practice will be able to continue even without his presence.

#### **5.7.5.2. Sequence of actions**

During March each year the owner conducts a one day review of salaries, budgeting and workloads. This is followed by brief “chats” with each staff member. During the reviews consideration is given to the fees that the firm charges, hours available to perform work and the productivity potential of each staff member.

The owner spends one day annually rethinking procedures to improve operations and revenue. This process is not done in writing.

GR believes that “each job is different; you can’t follow the same pattern for each client”. When performing the initial analysis of a new client, the practice makes an immediate decision on the process best fit to meet the requirements of each individual business.

Decision making is reactive due to the large workload of the practice.

With regard to existing clients, GR initially spends half an hour to “chat with a client to identify problems”. The first year of working with a new client is critical in obtaining a clear understanding of the underlying fundamentals of the client’s business.

## **5.8 Firm MS**

### **5.8.1 Background**

The MS Firm is situated in Pretoria and has been in operation since 1994. The practice currently employs only one staff member and has an average number of fifty clients.

### **5.8.2 Business Context:**

#### **5.8.2.1. Market-Service**

In order to ensure alignment and consistency, the owner believes that any idea related to a new or an existing service offering, must include an awareness of both external (the environment) and internal (the firm’s capability) factors.

Initially this firm developed a strategy for each client which detailed specific services to be delivered and fees to be generated from these services. However, it was then found that the strategy so designed was too rigid.

This rigidity leads to distress as the practice has no control over the client to ensure that he/she achieves the expected growth levels. If the client does not grow according to the predictions of the practice, the latter cannot generate the expected fees. Furthermore, the rigid determination of fees does not make

provision for calculation of fees according to the perceived value of the service delivery.

Consequently, the firm had to adopt a new strategy toward maximising value from clients. The main aim is to increase the client's ability to improve their business models and deliver higher revenue. The practice has moved away from seeking an increase in the number of clients.

The firm is seen as providing a framework for clients in order for them to improve their business. The owner does not become involved in the running of a client's business as this is the responsibility of the client.

A most important strategy with regard to the delivery of both basic and advanced services is creating trust in the practice. The practice therefore aims to provide clients with peace of mind. This is deemed even more important than continuous contact with the client. Achieving a high level of trust requires a high level of experience in the specific services offered. Clients are able to focus their thinking on increasing the performance of their businesses, when they have peace of mind and enjoy the benefit of such experience.

Offering basic accounting services such as bookkeeping and providing subsequent management reports is essential in running a practice, but does not add value. Applying the information gained from such an analysis to improving the business of the client is the key to maintaining and gaining clients. Additional services provided include, a focus on trusts and an emphasis on

improving the client's business performance. The owner believes that a successful practice should be innovative with regard to additional services other than that of basic accounting. This requires the acquisition of specialist knowledge of the industry in which the client's business operates.

The firm's clients are willing to pay higher fees compared to those of other accountants, owing to their strong belief in the ability of the practice. The more a client believes in the ability of the practice to deliver in terms of a specified service, the higher the fee that may be charged and vice versa. This practice does not compete according to the level of fees charged, as this would require an increase in the number of working hours. MS believes in controlling the quality of output. Clients pay for this quality and not only for the actual service delivered.

The only environmental factor that influences the choice of the firm's strategy, is "survival", *i.e.* the lifestyle of the owner determines the strategic direction of the firm.

#### **5.8.2.2. Competition**

Competitors: The owner does not believe that his practice has competitors.

#### **5.8.3 Organisational context**

Marketing of the firm: The practice does not advertise but makes use of newsletters to inform clients of developments within their industry. Most important is not a specific form of communication but the interest shown by the practice in the business of its clients. Such initiatives increase the level of trust

that clients have in the practice and establish an image of success for the practice. This creates a feeling of superiority within clients as they believe they are receiving a higher level of service compared to services received by clients of other accounting firms.

**Operations and Control:** The focus of the practice is not on effective cost management but on increasing the firm's revenue generating capability. This is achieved by choosing the right type of client and ensuring the quality of output.

**Qualifications:** The owner's excellent negotiation skills as well as his specialised degrees and qualifications enable him to achieve in line with expectations. This also differentiates the practice from others. Membership of an institute such as SAIPA provides societal recognition of his abilities.

#### **5.8.4 Strategy-making process**

##### **5.8.4.1. Strategist**

MS believes in a fluid strategy rather than one that is rigid in its formulation and implementation. One element that determines the strategy of the practice is the personal needs of the owner. The owner needs to maintain a certain level of lifestyle and this means the attainment of a specific level of revenue. As a result the focus is not on increasing the number of clients but being selective in choosing the right type of client from whom the required fees may be generated. Clients are therefore chosen based on an alignment between the client's needs and the ability of the firm.

In addition he believes that he has the ability to evaluate a situation and determine the type of opportunity available. His religious faith forms the core strength of his practice. A key capability of the practice is the owner's discipline in delivering services to clients within time and quality constraints.

The practice prefers existing clients to new ones as the former are seen to be more stable and willing to accept its relatively higher fees.

Clients enjoy easy access to the owner, who feels that they prefer personal involvement by the owner, rather than that of a staff member.

In a practice that provides mass accounting services to a broad client base productivity is delivered by personnel, while in this practice the purpose of personnel is to enhance the ability of the owner in delivering services.

#### **5.8.4.2. Sequence of actions**

MS does not follow a formal process to develop a written strategy as he believes there are too many variables that influences the firm's strategy. He mentally formulates a core structure of what his strategy ought to be. This is performed on a daily basis for each individual client.

This process follows four steps: 1) Determining market need; 2) Considering internal capabilities in terms of staff and structure; 3) Considering external requirements related to customer needs as well as regulatory and quality requirements; 4) Appointing a manager to control the tasks identified.

Two key role players have been identified in the strategy-making process, being an “idea governor” and an “idea implementer”. The role of the former is to generate new ideas to either provide a new service or to improve an existing one. The role of the latter is to give effect to the ideas of the “idea governor”. This framework allows the owner to assist the “idea implementer” by providing guidance and direction as the owner has a broad view of the operations and end goals of the system.

## **Chapter 6. ANALYSIS OF RESULTS**

### **6.1 Introduction**

The objective of this chapter is to discuss the results obtained in terms of the research questions and the relevant literature reviewed and thus to determine whether the research objectives have been met.

### **6.2 Data received**

As discussed in Chapter 3, seven research questions were developed to determine whether professional accountants exhibit coherent business strategies and strategy-making processes; and if they do, to determine the forms these strategies and strategy-making processes take. Qualitative research was conducted to explore these research questions. An additional question was developed to compare the emerging theory with existing theoretical typologies. Questions 9 through 10 form part of Chapter 7 and have guided the presentation of the study findings.

An inductive - deductive approach was used to collapse multiple indicators into a single construct for strategy content and process respectively. The emerging theory was continually compared to the data. As detailed in Chapter 4 the process of analysis consisted of two main parts.

The first comprised within-case and cross-case analysis. The aim of this part was to identify patterns of strategy content and strategy process within each firm that was interviewed and then to identify similarities and dissimilarities

related to the identified constructs across cases. Dissimilarities are used to further develop the construct into the emerging theory. Appendix 2 and 3 contain a tabular representations of the analysis performed in this part.

Questions posed to the firms were loosely structured. Although Appendix 2 and 3 used existing theory as a framework for analysis, grounded theory does not bind the analysis to these theories. The aim was to explore the concepts of strategy and strategy process as they emerged from the interviews.

The second part comprised a comparison of the emerging theory with the literature reviewed. Similarities and dissimilarities are identified and this process increased the internal validity of the emerging theory. The inductive - deductive process followed allows for the evaluation of cases from different perspectives, which increased the reliability of the emerging theory.

### **6.3 What is the strategy-making process in professional services firms and what factors impact this process?**

#### **6.3.1 With-in case analysis**

##### **6.3.1.1. Introduction**

A summary of the within-case analysis is provided in Appendix 2. The issues facing all the firms were conceptualised as dynamic and complex due largely to the changing legislative environment, customer needs and staff shortages. As these were similar across all firms they are not presented within each case.

### 6.3.1.2. Firm WE

The personal and cognitive characteristics of the owner may be characterised as “empowering-relational”. This was evident from his focus on both the needs of customers and the empowerment of staff to achieve those needs. This approach also implied an alignment between services offered and personality.

The concepts induced to describe strategy formulation are an organic, participative process. Planning was not a formal process, plans were not written, and organisational members were expected to inform management of the direction the firm should take. Strategic implementation was intuitive. The source of which was constant monitoring of environmental changes.

**Table 17: Firm WE: Concepts related to Strategy Process**

Strategy Process factors	Concepts
Formulation	Organic and participative
Implementation	Intuitive
Influencing factors <ul style="list-style-type: none"> <li>- Strategist</li> <li>- Issues</li> </ul>	<ul style="list-style-type: none"> <li>- Empowering relational</li> <li>- Dynamic and complex</li> </ul>

### 6.3.1.3. Firm SO

The personal and cognitive characteristics of the owner may be characterised as “dominant-relational”. A strong customer focus was evident. In addressing the needs of the customer the owner delegated work to organisational members but strongly directed their actions.

The concepts induced to describe strategy formulation were a formal, participative process. Organisational members partook in the formulation of a written business plan. Strategic implementation was intuitive. The source of which was constant monitoring of environmental changes.

**Table 18: Firm SO: Concepts related to Strategy Process**

Strategy Process factors	Concepts
Formulation	Formal and participative
Implementation	Intuitive
Influencing factors - Strategist - Issues	- Dominant-relational - Dynamic and complex

#### **6.3.1.4. Firm LL**

The personal and cognitive characteristics of the owner may be characterised as “dominant-relational”. A strong customer focus was evident. In addressing the needs of the customer the owner did not delegate work to organisational members but preferred a hands-on approach. The relationship approach adopted required an alignment between the personality of the owner and the choice of service offering.

The concepts induced to describe strategy formulation were an organic, participative process. Organisational members of the firm were outsourced bookkeepers; the owner relied on these bookkeepers to maintain his relationship with his clients. Strategic implementation was intuitive. The source

of which was constant monitoring of environmental changes and customer needs.

**Table 19: Firm LL: Concepts related to Strategy Process**

Strategy Process factors	Concepts
Formulation	Organic and participative
Implementation	Intuitive
Influencing factors <ul style="list-style-type: none"> <li>- Strategist</li> <li>- Issues</li> </ul>	<ul style="list-style-type: none"> <li>- Dominant-relational</li> <li>- Dynamic and complex</li> </ul>

#### **6.3.1.5. Firm GR**

The personal and cognitive characteristics of the owner may be characterised as “dominant-relational”. A strong customer focus was evident. In addressing the needs of the customer the owner did not delegate work to organisational members but preferred a hands-on approach. The relationship approach adopted requires an alignment between the personality of the owner and the choice of service offering.

The concepts induced to describe strategy formulation were an organic, non-participative process. The owner assessed the environment and informed organisational members of the direction of the firm. Strategic implementation was intuitive. The source of which was constant monitoring of environmental changes and customer needs.

**Table 20: Firm GR: Concepts related to Strategy Process**

Strategy Process factors	Concepts
Formulation	Organic and non-participative
Implementation	Intuitive
Influencing factors <ul style="list-style-type: none"> <li>- Strategist</li> <li>- Issues</li> </ul>	<ul style="list-style-type: none"> <li>- Dominant-relational</li> <li>- Dynamic and complex</li> </ul>

#### **6.3.1.6. Firm MS**

The personal and cognitive characteristics of the owner may be characterised as “dominant-relational”. A strong customer focus was evident. In addressing the needs of the customer the owner did not delegate work to organisational members but preferred a hands-on approach. The relationship approach adopted required an alignment between the personality of the owner and the choice of service offering.

The concepts induced to describe strategy formulation are an organic, non-participative process. The owner assessed the environment and informed organisational members of the direction of the firm. Strategic implementation was intuitive. The source of which was constant monitoring of environmental changes and customer needs.

**Table 21: Firm MS: Concepts related to Strategy Process**

Strategy Process factors	Concepts
Formulation	Organic and non-participative
Implementation	Intuitive
Influencing factors <ul style="list-style-type: none"> <li>- Strategist</li> <li>- Issues</li> </ul>	<ul style="list-style-type: none"> <li>- Dominant-relational</li> <li>- Dynamic and complex</li> </ul>

### **6.3.1.7. Conclusion**

The pattern that emerged from the inductive process that was followed to form emerging concepts revealed that, although strategy process factors of “strategy implementation” and “issues” were similar for all the firms; how strategies were formulated and the personality and cognitive characteristics of the owner differed substantially.

### **6.3.2 Cross-case analysis**

#### **6.3.2.1. Introduction**

A summary of the cross-case analysis is provided in Appendix 3. The analysis of the strategy processes revealed significant similarities and dissimilarities. Dissimilarities related mainly to the personal and cognitive characteristics of the owner; and the formulation of decisions.

#### **6.3.2.2. Strategy formulation**

Most of the respondents revealed that they did not follow a formal process to plan. According to the owner of firm WE his firm had a long term plan but this was not in a written format. Three of the respondents agreed that if the firm provided a good service it would be able to maintain itself. However one firm

indicated that a formal planning process was followed and the resulting plan was also in a written format. Firms also differed on whether the process followed included organisational members in its formulation or excluded them.

The following table contains the abridged comments of some of the respondents related to these issues and their emergent concept:

**Table 22: Respondents' abridged comments on Strategy Formulation**

Firm	Concepts	Incidents
WE	Organic	Although the owner was aware of the popular belief that successful people have a view of the future and written plans on how to get there; and recommends to his clients and listeners to his radio talk shows that all business should have business and strategic plans, his firm currently has neither of these.
SO	Formal	The result of all the above is an 80 page company policy document. The owner advised that one should first decide on a structure and then policies. All staff were involved in the goal-setting process; which led to the formulation of a formal goal statement.

In formulating their strategy some respondents included staff members in setting the goals of the firm this could be described as a bottom-up approach. In contrast other respondents used a top-down approach.

The following table contains the abridged comments of some of the respondents related to these issues and their emergent concept:

**Table 23: Respondents' abridged comments on participation in Strategy Formulation**

Firm	Concept	Incident
WE	Participative	The owner considered that he should let staff inform management of the direction and actions the firm should undertake
MS	Non-participative	The owner mentally formulated a core structure of what his strategy ought to be. This was performed on a daily basis. This process was undertaken for each individual client.

### 6.3.2.3. Strategist

The majority of the firms viewed the owner as the main driver of the firm. They did not believe that the practice would be able to survive without the owner being present to monitor and guide the firm and the owner thus adopted a dominant role in establishing goals for the firm. However, the role of one of the respondents was seen as being that of facilitating goal setting by organisational members.

The following table contains the abridged comments of some of the respondents related to these issues and their emergent concept:

**Table 24: Respondents' abridged comments on role of Strategist**

Firm	Concept	Incident
WE	Facilitate	The motivation for the above statement was the fact that the owner discouraged uniformity of thinking. To quote the owner "believes in developing staff personality and does not try to destroy it". ..He views the use of the four words as implying similar thought and action – he is opposed to this view. His position is that staff should be "let loose to be innovative" as the Ceo should not do all the thinking. The more innovative staff members are the more income is generated by the practice.
SO	Dominant	...believed that the firm was dependent on the owner's continued involvement and would not be able to survive without it.

## **6.4 What are the key elements of strategy and what influences these elements?**

### **6.4.1 With-in case analysis**

#### **6.4.1.1. Introduction**

A summary of the within-case analysis is provided in Appendix 2. The pattern identified from the in-depth interview and subsequent induction to the representation contained in Appendix 2 revealed the following concept of strategy for each of the five firms:

#### **6.4.1.2. Firm WE**

The competitive advantage of the firm was its relationship with its clients. The cornerstone of this relationship was described as communication, accessibility, competence and adaptability. According to the respondent “this success is attributed to two key success factors – communication from the firm to clients and client accessibility to the owner”.

The legislative monopoly of being recognised as an accounting officer and tax practitioner provided entry into the profession but was not seen as ensuring success. The firm was seen as an access point to other growth opportunities as the owner views the firm as a source of other related opportunities: “one cannot become rich by only operating a practice”. As a result the owner of the practice owned associate businesses in the following areas: insurance and investment; arrangement and structuring of finance; and structuring of Black Economic Empowerment (BEE) transactions

The key constructs of strategy content as well as the associated strategy processes are depicted in the following table which was induced from Appendix 2:

**Table 25: Firm WE: Abridged comments on Strategy Content**

<b>Strategy Content</b>	
Competitive advantage	Relationship (Communication, accessible, competence, adaptable)
Environment	Volatile
Competitors	No
Fees	Value based – calculated on perceived value and not at a fixed rate per hour
Services	Generic (50%) and specialist (50%)
Marketing	External to prospective clients and internal to current clients
<b>Structure</b>	
Quality control, Co-ordination, Operations, Performance measures Staff	Integrated; primary role is to support the client relationship  35
<b>Strategy process</b>	
Formulation	Organic and participative
Implementation	Intuitive
Influencing factors Strategist Issues	Empowering relational Dynamic and complex
<b>Performance</b>	
	<b>R200 000 profit per month</b>

#### 6.4.1.3. Firm SO

The competitive advantage of the firm was its relationship with its clients. The cornerstone of this relationship was described as communication, accessibility, competence and adaptability. According to the respondent “even if legislation were to change to remove the exclusive recognition provided to Accounting Officers as report providers to Close Corporations this will not affect her business. The relationship she has with clients is not dependent on her

appointment as accounting officer. “...clients stay because they feel happy and are able to trust the practice”

Similar to firm WE, the firm was seen as an access point to other growth opportunities as the owner views the firm as a source of other related opportunities: “a separate business, of which the interviewee is the only partner, provides training services to the clients of the accounting firm’.

The key constructs of strategy content as well as the associated strategy processes are depicted in the following table which was induced from Appendix 2:

**Table 26: Firm SO: Abridged comments on Strategy Content**

<b>Strategy content</b>	
Competitive advantage	Relationship (Communication, accessible, competence, adaptable)
Environment	Volatile
Competitors	No
Fees	Fixed fee – calculated on a fixed rate per hour; reviewed periodically
Services	Generic (70%) and specialist (30%)
Marketing	Internal to current clients; word of mouth
<b>Structure</b>	
Quality control, Co-ordination, Operations, Performance measures Staff	Integrated; primary role is to support the client relationship  20
<b>Strategy process</b>	
Formulation	Formal and participative
Implementation	Intuitive
Influencing factors Strategist Issues	Dominant-relational Dynamic and complex
<b>Performance</b>	
	<b>R50 000 profit per month</b>

#### 6.4.1.4. Firm LL

Similar to firms WE and SO, the competitive advantage of the firm was its relationship with its clients. The cornerstone of this relationship may be induced to also consist of communication, accessibility, competence and adaptability. However less attention was given to communication. According to the respondent the firm is “differentiated based on timeous service delivery; the level of fees charged; the owner’s personality and relationship with clients”

The owner does not use the firm as a tool to start related businesses.

The key constructs of strategy content as well as the associated strategy processes are depicted in the following table which was induced from Appendix 2:

**Table 27: Firm LL: Abridged comments on Strategy Content**

<b>Strategy content</b>	
Competitive advantage	Relationship (accessible, competence, adaptable)
Environment	Volatile
Competitors	Yes – accountants compete based on fees
Fees	Fixed fee – calculated on a fixed rate per hour; reviewed periodically
Services	Generic (60%) and specialist (40%)
Marketing	Internal to current clients; word of mouth; Occasional seminar presentation to prospective clients
<b>Structure</b>	
Quality control, Co-ordination, Operations, Performance measures Staff	Integrated; primary role is to support the client relationship  2
<b>Strategy process</b>	
Formulation	Organic and participative
Implementation	Intuitive
Influencing factors Strategist Issues	Dominant-relational Dynamic and complex
<b>Performance</b>	
	<b>R50 000 profit per month</b>

#### 6.4.1.5. Firm GR

Similar to firms WE, SO, and LL, the competitive advantage of the firm was its relationship with its clients. The cornerstone of this relationship may be induced to also consist of communication, accessibility, competence and adaptability. However, less attention was given to communication. According to the respondent the firm is “Success is dependent on the personal relationship the owner has with current and potential clients”.

The owner does not use the firm as a tool to start related businesses. The key constructs of strategy content as well as the associated strategy processes are depicted in the following table which was induced from Appendix 2:

**Table 28: Firm GR: Abridged comments on Strategy Content**

<b>Strategy content</b>	
Competitive advantage	Relationship (accessible, competence, adaptable)
Environment	Volatile
Competitors	No
Fees	Fixed fee – calculated on a fixed rate per hour; reviewed periodically
Services	Generic (100%)
Marketing	Internal to current clients; word of mouth;
<b>Structure</b>	
Quality control, Co-ordination, Operations, Performance measures Staff	Integrated; primary role is to support the client relationship  3
<b>Strategy process</b>	
Formulation	Organic and non-participative
Implementation	Intuitive
Influencing factors Strategist Issues	Dominant-relational Dynamic and complex
<b>Performance</b>	
	<b>R50 000 profit per month</b>

#### **6.4.1.6. Firm MS**

According to the respondent the firm was successful because it is able to maintain the trust of clients.

According to the respondent: “The aim of the practice is therefore to provide clients with peace of mind. This is even more important than being in continuous contact with the client ..... to achieve this high level of experience in the type of services delivery is required...”

Obtaining and maintaining client trust was the result of the ability of the firm to provide services that improve the business’s performance for the firm’s clients. The focus was therefore not on the specific services that are offered but on offering them in such a fashion that they improve a client’s business performance. This requires knowledge of the factors that influence a client’s business.

According to the respondent: “..excellent negotiation skill of the owner. ... requires the acquisition of specialist knowledge of the industry in which the clients business operates..”

Competitive advantage may therefore be described in terms of relationship and competence (knowledge and exposure). As a result of this the firm was able to charge a higher fee than the average firm. The value that a client attaches to the work performed determines the level of fee charged.

The key constructs of strategy content as well as the associated strategy processes are depicted in the following table which was induced from Appendix 2:

**Table 29: Firm MS: Abridged comments on Strategy Content**

<b>Strategy content</b>	
Competitive advantage	Relationship (accessible, competence, adaptable)
Environment	Volatile
Competitors	No
Fees	Value based – calculated on perceived value and not at a fixed rate per hour
Services	Generic (50%) and specialist (50%)
Marketing	Internal to current clients; word of mouth;
<b>Structure</b>	
Quality control, Co-ordination, Operations, Performance measures Staff	Integrated; primary role is to support the client relationship  1
<b>Strategy process</b>	
Formulation	Organic and non-participative
Implementation	Intuitive
Influencing factors Strategist Issues	Dominant-relational Dynamic and complex
<b>Performance</b>	
	<b>R50 000 profit per month</b>

## 6.4.2 Cross-case analysis

A summary of the cross-case analysis is provided in Appendix 3.

### 6.4.2.1. Environment

All respondents agreed that legislative changes and shortage of support staff were the main external factors with which their firms had to contend. However

all firms continuously monitored legislative changes so as to amend or extend their service offering.

According to one respondent “Although frequent legislative updates are a challenge the firm uses the change in legislation as an opportunity”. The reason being that legislative changes that require SMEs to issue compliance reports presented the firm with an opportunity to expand its service offering to include assistance with these reports.

Legislative changes do not only have an effect on the business of the firm’s clients. All respondents took note of the recent proposal in the draft Company Bill that could remove their legislative monopoly in terms of their accounting officer reporting function. However, it was argued that credit providers such as banks and SARS will continue to rely on the services provided by an accountant to prepare financial statements for clients. In addition one respondent argued that “a change in legislation might also be beneficial as this could potentially remove the deadwood from the profession”.

Although legislative changes were identified as one of the main drivers of uncertainty for the firms, a large percentage of their work is as a result of the legislative changes. One respondent commented that “...80% of the product offering is as a result of legislation; the balance being a demand for advice on business improvement...” This percentage did however vary considerably across the firms.

There was disagreement amongst the correspondence on the issue of competitors. Most firms did not think that their practices had any competition.

They argued that: “personality is more important than competition” or “...not regarded as a threat” as there are “only a few accountants and too much work”.

Only one firm believed it had competitors and that the source of the competition was “fee based”.

Three of the respondents viewed their firms as a source of alternative income. Only two of these earned significant income from their related businesses.

#### **6.4.2.2. Services**

All respondents offered similar generic services to their clients; all of the respondents utilised some form of outsourcing. Respondents agreed that their service offering required knowledge, experience and exposure to increase understanding of the clients’ needs and to improve decision-making speed. Specialist services were provided by most of the respondents, however the ratio between generic and specialist services differed substantially. One firm indicated that no specialist services were offered.

Most firms proactively searched for additional services to offer their existing clients. One respondent however indicated a reactive approach “if clients express a particular need, firm will innovate and create a specific product offering”.

Most firms defined their firm in broader terms than only offering accounting services and rather defined themselves as business advisors. Two firms however defined themselves in terms of legislation.

Three firms calculated their fees based on a fixed hourly rate, with the remaining two firms determining their fees on the value that a client attached to the work performed.

#### **6.4.2.3. Technology and Operations**

Performance measures, operations, supervision, quality control, co-ordination, and technology characteristics were similar across all respondents.

#### **6.4.2.4. Marketing**

One respondent focussed the firm's marketing attention on both external and internal clients, whereas rest of the respondents marketed their services primarily to their current client base. Two of these purposely limited their number of clients and only selected stable and successful clients. The means utilised for advertising purposes also differed. One respondent advertised on a national radio station. Others utilised technology such as SMS, email and electronic newsletters to communicate with their current clients.

#### **6.4.2.5. Qualifications**

All the respondents regarded a relevant formal qualification as necessary to successfully start and manage a firm. However none of the respondents believed that being a member of a professional body would increase their client base. The benefit of such a membership was the information the professional

body provided that could increase the firms understanding of its environment. Ongoing education was however regarded as essential.

## **6.5 What existing theoretical typologies on strategy and strategy-making processes come closest to describing the phenomena of strategy?**

### **6.5.1 Strategy process**

Similar to the box-exploring studies described by Hutzschenreuter and Kleindienst (2006:698), the preceding part of the analysis done during this study described phenomena and developed concepts related to the three identified strategy process factors.

The analysis performed in this study revealed similarities with some of the findings presented by the authors. The findings reported by Hutzschenreuter and Kleindienst (2006) describe:

- 1) The strategy process as an evolutionary, iterated process of resource allocation, guided evolution, following an organic perspective, as shaping conversations;
- 2) Strategy formulation as transmutation of concepts *i.e.* strategy is result of formal strategic planning and decisions made outside of plan and later incorporated into plan; and
- 3) Strategy implementation as presenting a source of advantage.

Similar to the findings presented in the linkage-exploring studies described by Hutzschenreuter and Kleindienst (2006:698), the analysis for this study revealed that an “uncertain environment requires intuition and personal sources of information to enhance decision making speed... environment characteristics influences strategic context so that strategic context may be path dependent *i.e.* organisation develop a dominant logic which informs responses...cognitive model of strategist, and not evaluation of objective information, influences strategic choices”.

It may therefore be argued that the perspectives that are most appropriate to study strategy process of small professional firm are the cognitive and organic perspectives as presented by Hutzschenreuter and Kleindienst (2006).

The analysis of this study however differed from the findings of Hart and Banbury (1994) that the larger the firm size the more formal, symbolic and participative the strategy making processes will become. This study found that the approach adopted depended on the personal characteristics of the owner of the firm.

This study tended to agree with Hart and Banbury (1994) that top management’s in-depth knowledge of the firm gives them the ability to analyse information more quickly than their competitors. A dynamic and complex environment did not determine the type of strategy-making capability adopted by the firm.

### 6.5.2 Strategy content

The literature review as presented in Chapter 2 contains four generic strategies with which the emerging theory will be compared. The purpose was to identify similarities and dissimilarities. Any dissimilarity was further assessed via a re-examination of the evidence and the conflicting research. This process was necessary to improve internal validity and generalisability and consisted of establishing and validating relationships between the categories with reference to emerging theory and the strategy literature (Bakir and Bakir, 2006).

By applying grounded theory the following categories were developed from the concepts as stated in Appendix 2 and 3. These categories will be compared to current theory to establish a core category. The categories are depicted in the following table:

**Table 30: Categories of an emerging theory of strategy content**

	Service and market	Practical competence	
Want to do...	Volatile Competitors Basic Specialist	Continuous learning Knowledge driven Value Compulsory Outsource Monitor Progressive systems External and internal marketing	Have to have...
Improve if ...	Proactive Diversity Value Adaptive Training Entrepreneur	Communication Accessibility Relationship	Competitive advantage if...
	Entrepreneurial approach	People skills	

The table depicts that if a firm wanted to compete effectively in a volatile environment by providing generic and specialist services the minimum requirements are knowledge and experience, a pricing mechanism that resonates with customers (whether fixed fee or based on perceived value), a stable and progressive operational system, an external and internal marketing program, monitoring of the environment, and utilising selective outsourcing to enhance the firms capabilities. A firm could improve on this business model if it developed new and related service offerings for its current customers, being adaptive to the needs of customers, and defines its business in broader terms that just an accounting firm. If the firm wanted to obtain a long-term advantage its should develop and constantly use effective means to communicate with clients, be accessible to clients and build strong relationship with clients based on trust and timeous delivery of services.

The generic strategies that were used for the comparison are those of Porter (1980), Miles *et al* (1978), Maister (1993) and Kay (1993).

According to Porter (1980) competitive strategy is taking offensive or defensive action to create a defendable position in the industry. This will enable a firm to cope successfully with the five competitive forces in a given industry. The ultimate goal is a superior return on investment for the firm. Porter (1980) identified three generic strategies that could be applied in any given industry to outperform competition. These are known as cost leadership, differentiation, and focus.

However, Porter (1980) is of the opinion that “the best strategy for a given firm is ultimately a unique construction reflecting its particular circumstances”. This applies especially to an industry such as the small professional accounting industry that provides personal and relational services.

This statement by Porter (1980) contradicts the statement by Love *et al* (1995) that generic strategies are not suited to the analyses of strategies of professional service firms. Love *et al* (1995) preferred the framework as presented by Kay (1993) as they believed better reflects the characteristics of professional service firms.

According to Porter (1980) there are five competitive forces that drive industry competition: 1) rivalry among existing firms; 2) bargaining power of buyers, 3) threat of a substitute service; 4) bargaining power of suppliers; and 5) threat of new entrants. A competitive strategy should be able to assist a firm in overcoming these forces.

There are similarities between the barriers of entry as proposed by the emerging theory and that of Porter (1980). These are product differentiation such as customer loyalty, customer service, and service differences. Porter (1980:9) views product differentiation as the most important entry barrier for “public accounting” firms. There was also agreement with regard switching costs, government policy as some of the services provided by the firms stems from a legislative monopoly, and experience.

The emerging theory differed from Porter (1980) with regard the intensity and rivalry among existing competitors as none of the firms viewed competition to be a significant factor in their business. Although one respondent did compete on price, the general lack of competition was believed to be the result of industry structure: high qualification levels to become a professional accountant, limited entry of new learners that study accounting, and emigration of qualified accountants.

The emerging theory incorporated the three approaches to establish a competitive strategy as proposed by Porter (1980). It incorporated positioning by focussing on capabilities, it influenced the balance by focussing on experience, exposure and knowledge, and it promoted exploiting change by recommending a proactive and a diversified approach.

The emerging theory assumed primarily a focused strategy; however it also mooted a differentiation across the market. The emerging theory supported a combinatorial generic strategy approach whereas Porter (1980) advises against such an approach.

The emerging theory found support in the framework as provided by Kay (1993). The framework identifies distinctive capabilities to be: architecture (relationships and trust); reputation (communication); innovation (new product and delivery mechanisms); and strategic assets (legislative monopoly and sunk costs). These were clearly evident in the emerging theory.

Miles *et al* (1978) proposes four strategic typologies. The analyser typology seemed to fit best with the emerging theory. This typology addressed the questions of how to simultaneously locate and exploit new product and market opportunities and to a firm base of traditional products. Its operational systems were stable and flexible and its matrix structure of administration supported both the stable and dynamic areas of operations. According to Miles *et al* (1978) there should be a match between the management approach and the typology. Based on the differing strategy process approaches identified the emerging theory should also support this notion.

Maister (1993) argues that there are three key benefits that clients seek from a professional firm: expertise, experience and efficiency. In addition each individual client may prioritise these in a different sequence. Maister (1993) discourages firms from trying to incorporate these three approaches into a single firm. Firms should decide which type of client they need to pursue and organise their strategy and structure accordingly. A different approach requires different staffing requirements, marketing tools, pricing structures, promotional structures, governance structures, and leadership styles. Choosing between the differing approaches is the result of two recent phenomena: increased customer sophistication and increased competition. However those firms that do try and attempt to incorporate all three approaches should consider establishing divisions between the different operating groups. Although the emerging theory does not distinguish between the approaches it is appropriately flexible to be able to be applied within each approach.

## 6.6 Conclusion

The broad research objective was to establish whether small professional accounting firms exhibit coherent business strategies and strategy-making processes, and if they do, to explore the form of these strategies and strategy-making processes.

Similar to the findings of Love *et al* (1995) this study found that it is meaningful to conceive of strategy among small professional service firms despite the particular character of these firms.

## **Chapter 7. CONCLUSION AND RECOMMENDATIONS**

### **7.1 Introduction**

The industry within which Professional Accountants (SA) operate is facing significant environmental change. Proposed legislative changes to the Companies Act will, if enacted, de-regulate the reporting function of accounting officers, a significant part of the business of an accounting firm. Similar proposed changes to the tax legislation will see increased competition in the delivery of tax services. In addition clients of accounting firms are become increasingly discerning of the services provided to them and the threat of a large outsourcing firm entering the South African market to offer services to the SME sector is always a possibility. It is also expected that the availability to the firms of qualified support staff will remain limited.

The purpose of this study was to explore the response of small professional accounting firms to these environmental pressures. More specifically to explore whether professional accountants have coherent business strategies and strategy making processes, and if they do, to explore what forms these strategies and strategy making processes take. A prior basis of analysis was not selected. It was hoped that an emerging theory would present itself after a comparison with various existing theories on strategy.

### **7.2 The research and key findings**

Eight research questions were formulated to determine the strategy content and strategy process activities, if any, of small professional services firms and to

determine if an emerging theory of strategy content and process could be formulated.

Questions 1 and 2 explored strategy making; Questions 3 and 4 explored strategy content; Questions 5 to 7 explored the impact of competition, environment and internal capabilities on strategy content and process; Question 8 explored the relationship of the emerging theory of strategy to existing theory; and Questions 9 and 10 explored new typologies that could be proposed, and how they could add value.

The iterative approach, based on grounded theory, that was followed as part of the analysis resulted in Questions 5 to 7 being explored as part of the analysis of Questions 1 to 4. Grounded theory allows for the re-formulation of research questions. Questions 9 and 10 are discussed in Chapter 7.

An emerging theory was evident from the analysis of the research results. The strategy processes of small professional accounting firms were found to follow a cognitive and organic perspective. The personal and cognitive characteristics of the owner were the major determining factor that influenced and determined the actions and decisions of firms. This was particularly useful in a dynamic and complex environment. As a result the owner of the firm was seen as the primary determinant of the strategy of the firm.

The analysis of strategy content resulted in an emerging theory as depicted in Table 30. The analysis revealed four core categories that constituted small professional service firm strategy:

- 1) Choice of service and market;
- 2) Practical competence;
- 3) Entrepreneurial approach; and
- 4) People skills.

These should be seen as a framework to answer the following questions:

- 1) Decide what services to provide and which markets to enter;
- 2) Identify what is needed to compete at a basic level;
- 3) Improve service delivery by searching for new service offering for clients and consider alternative areas of expansion; and
- 4) Obtain a long-term advantage by building a relationship with your client.

### **7.3 Key shortcomings of the research and areas for further research**

The research only explored five small professional accounting firms that operated within a single industry. The research could be expanded to other service industries and could include members of other professional bodies.

The sample was limited to the owners of the accounting firms. Further research could include other organisational members; and even the clients of the firms.

The transferability of the core category as an explanation of strategy was not tested on other small professional accounting firms. Although external validity was proven with regard to theory comparison, further testing would significantly improve the external validity.

The research did not link performance to a particular strategy process or content chosen by a firm. The success of different content and process approaches was not explored.

The analysis was based on a single data source. Future research should include multiple data sources.

#### **7.4 Understanding the implications and recommendations**

- 4) Current models of strategy process places the CEO or strategist within the strategy process. However with regard small professional services firms it may be argued that the owner is both part of the business context and the process. The owner of a small professional firm affects and is affected by the process. All of the respondents chose a certain profit level in line with a certain chosen lifestyle. The primary goal of the firm was not growth but the ability to sustain a chosen lifestyle.
- 5) Obtaining distinctive capabilities depended on the personal characteristic of the owner. This personal involvement did imply that distinctive capabilities would be unique for each company. However, competitive advantage is not just the result of a resource based view of the firm. The firms are positioned within a legislative monopoly and within a market where demand exceeds supply.

- 6) All the respondents stated that the purpose of their firms was to enable the owner to maintain a chosen lifestyle. This might explain why none of the firms were dominant players within their industry. Conducting research into how professional service firms could migrate to become larger firms, as well as conducting research to establish the reasons that prohibit these firms to grow, would be interesting.
- 7) Relationship seemed to be the capability that provided the key to the success of the firms.
- 8) Understanding the concept of strategy and process with regard to small professional accounting firms is a worthwhile exercise. Such an understanding could enhance the ability of other practitioners to improve their business performance, and that of their clients. Given the importance of the SME sector to a developing economy, focusing more research on this topic appears necessary.
- 9) The emerging theory could assist practitioners to better conceptualise the strategy. They should focus their attention on strategy implementation rather than engage in lengthy planning processes.

## **7.5 Closing remarks**

Bakir and Bakir (2006:153) believe the strategy field to be fragmented, complex and elusive. They believe the cause of this fragmentation to be the conflict between “purposeful strategy” and “unintended organisational strategies” Hutzschenreuter and Kleindienst (2006) believe the field of strategy process research to be characterised by plurality of concepts and frameworks.

It is hoped that this study contributed to making the field less ambiguous by focussing on a particular industry and the actual practices of related-to-strategy process and content. This study found support for the notion that strategy process and content should be studied together.

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## Appendix 1: Framework that guided the In-depth Interview Process

The framework used to develop response cards to guide the interview process was developed on the following basis:

### Strategy Content: The wheel of competitive strategy (Porter, 1980)



### Strategy Process:

The variables as suggested by Miller (1978) were used to guide questions on strategy making.

These variables were described as follows by Miller (1978):

V 19 Product-Market Innovation	Gauges innovativeness in terms of the number and novelty of new products and services which are introduced, and the new markets which are entered.
V20. Adaptiveness of Decisions	Concerns the responsiveness and appropriateness of decisions to external environmental conditions



V21. Integration of Decisions	Concerns the degree of complementarity of actions in one area of the firm with those in other areas ( <i>i.e.</i> , divisions, functions).
V22. Analysis of Major Decisions	Involves the amount of systematic thought and deliberation devoted to a problem and the array of proposed responses.
V23. Multiplexity of Decisions	Concerns the breadth of the range of factors addressed in making strategic decisions.
V24. Futurity of Decisions	Concerns how far ahead the firm looks into the future in planning its strategies and operations.
V25. Proactiveness of Decisions	Deals with how the firm reacts to trends in the environment: does it shape the environment (high score) by introducing new products, technologies, administrative techniques, or does it merely react.
V26. Industry Expertise of Top Managers	Scores top manager's familiarity with their products and markets.
V27, Risk Taking	Rates the degree to which managers are willing to make large and risky resource commitments <i>i.e.</i> those which have a reasonable chance of costly failure.
V28. Consciousness of Strategies	Concerns the degree of top managers' conscious commitment to an explicit corporate strategy ( <i>i.e.</i> a set of objectives coupled with a number of stated favoured means for attaining these).

## Appendix 2: Within-Case Analysis Tool for five Firms

WITHIN-CASE ANALYSIS TOOL: FIRM WE			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE

OVERVIEW			
Date started	1966		
Location	Pretoria		
Business Form	CC		
Members	1		
Staff	35		
Expansive	Yes	Believes firm is understaffed	The firm is however understaffed due to a current staff shortage experienced in the accountancy industry in South Africa. An ideal staff contingency would be 57
Branches	Yes	Nationwide presence	
Performance	R 2,000,000	Lifestyle driven	The reason for this figure was given as "a nice figure to have"
Challenges		Legislative changes; Shortage of support staff; Opportunities	The owner believes that the economy in which the firm operates is volatile due to continued changes in legislation, a shortage of accountants and support staff. However it was also stated that lots of work are available for accounting firms.
BUSINESS CONTEXT			
Environment	Volatile  Monitor  No competitors	Legislative changes; Shortage of support staff; Opportunities  Amend service offering  Personality more important than competition	Legislative changes are monitored and the service offering of the firm is amended accordingly  personality is more important than competition

### WITHIN-CASE ANALYSIS TOOL: FIRM WE

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Services	Proactive	Active search for "add-on" selling opportunities;	the former is to identify additional sources of income that may be generated from a particular client; and also to train support staff to identify these opportunities themselves
	Basic (50%)	Bookkeeping; preparation of financial statements; tax compliance	The service offering consist of 50% bookkeeping work
	Specialist (50%)	Trusts; Analysis; finance structuring	Other 50% is evenly distributed between: analysis and interpretation of financial information; specialist services consisting mainly of services related to Trusts; and statutory reporting services.
	Outsource	Specialist accounting and tax planning	On those areas such as tax and accounting standards the owner relies on subject area experts
	Diversify	Define your firm broadly i.e. business advisors vs accounting officers	In the view of the owner the accountant practice is seen as the source of other related opportunities. It was identified that one cannot become "rich" by only operating a practice....The owner of the practice owns associate businesses in the following areas: insurance and investment; arrangement and structuring of finance; and structuring of Black Economic Empowerment (BEE) transactions
	Continuous learning	Experience and exposure	Strengths of the firm were identified as the experience and exposure obtained from the number of years in practice
	Disadvantage	Size; big enough for competitions to see	Weaknesses are believed to be the size of the firm. The number of support staff employed coupled with the firms large profitability makes the firm visible to competition
	Knowledge driven	Improve understanding of environmental variables and improve decision making speed	This enables a wider understanding of environmental variables affecting the firm. The result is a quick reaction time to change
	Value	Higher fee; Based on perceived value	The firm charges a higher than average fee in comparison to other firms
Competitive advantage	Communication and availability		This success is attributed to two key success factors – communication from the firm to clients and client accessibility to the owner.

## WITHIN-CASE ANALYSIS TOOL: FIRM WE

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
	Adaptive	Spare capacity allows for aligning services to changes in legislation	Legislative changes are monitored and the service offering of the firm is amended accordingly. The owner believes the firm has the capacity to adapt overnight. Staff utilisation is deliberately kept below full capacity. This resulting spare capacity allows the firm to manoeuvre in line with environmental requirements.
	Economic conditions	Not source of growth	key success factors – communication from the firm to clients and client accessibility to the owner
Related Business	Entrepreneur	Firm is source of opportunities; Provides regular income stream	In the view of the owner the accountant practice is seen as the source of other related opportunities. It was identified that one cannot become “rich” by only operating a practice.
<b>ORGANISATIONAL CONTEXT</b>			
Performance measures	Integrated	Throughout the organisation	productivity measurements are performed throughout the organisation
Operations	Integrated	Clear and streamlined	...client information and requirements are captured onto a database which is accessed by the support staff...The clients are viewed as active participants in this process ...the purpose is to reduce the amount of administrative work of the firm
Mentors	Involved	Supervise work; Remunerated	Mentors are appointed to supervise, train and assist a maximum of 4 support staff each...Fees generated from the work performed for a client is distributed to the mentors based on their control function
Quality control	Integrated	Separate function: Bureau of standards and analyse client-staff relationship; Regularity of payments	An overarching quality control mechanism is used to ensure that work is performed on schedule and to the required quality. This was referred to as the “Bureau of Standards”...Client analysis stated as being important. This takes the form of analysing the client-support staff relationship continually. For this purpose regularity of fee payments and complaints received are monitored.

## WITHIN-CASE ANALYSIS TOOL: FIRM WE

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Co-ordination	Integrated	Operational procedures and training sessions	Achieved via regular training sessions...distribute brochures. The firm also uses the fee level as a marketing technique
Marketing	External and internally focussed	Radio talk show; Brochure; Fees	appear on radio talk shows
Technology	Progressive	Appointed CIO; latest technology	Outsourced Chief Information Officer (CIO). The practice does use the latest practice related software and hardware
Qualification	Compulsory	Expert knowledge to operate in dynamic environment	Have expert knowledge on the value added services offered by the firm such as trusts and finance structuring. Words such as "with regard to Trusts very few accountants will be able to tell me how they work" or "I saved one client millions of rands due to my knowledge of partnership law".
Staff	In-house	35 full time employees	
<b>STRATEGY MAKING</b>			
Strategist	Empower	Discourages uniformity of thinking	The motivation for the above statement was the fact that the owner discourages uniformity of thinking. In his words he "believes in developing staff personality and does not try to destroy it". ..He views the use of the four words as implying similar thought and action – he is opposed to this view. His position is that staff should be "let loose to be innovative" as the Ceo should not do all the thinking. The more innovative staff members are the more income is generated by the practice.
	Low risk appetite	Age and current success of business	The owner declared a very low appetite for risk taking
	Alignment	Align personality of owner and types of service offered	was stated as a lack of alignment between the personality of the owner and the nature of the work

<b>WITHIN-CASE ANALYSIS TOOL: FIRM WE</b>			
	<b>CONCEPTS</b>	<b>SUMMARY OF INCIDENTS</b>	<b>EVIDENCE</b>
	Co-operative	Depend on staff to bring in profit	It was however identified that to maintain this kind of profit it was important to obtain and retain staff.
	Customer focused	Rather than focussing inward it is more important to emphasise customer needs	According to the owner the content and volume of information does not increase the client base but rather communication and accessibility.
Issue	Dynamic and complex	Legislative changes and staff shortage	The owner believes that the economy in which the firm operates is volatile due to continued changes in legislation, a shortage of accountants and support staff. However it was also stated that lots of work are available for accounting firms.
Sequence of actions			
• Strategy formulation	Participation	Bottom up approach to setting goals	; but should let staff inform management of the direction and actions the firm should perform
	Organic	Planning not a formal process; Long term plan but not written;	He believes that any firm should have a long term plan to determine where the firm is going. He does not believe that, as he termed it, a 360% analysis is useful i.e. considering all possible service offerings available to the firm. Although the owner is aware of the popular believe that successful people have a view of the future and written plans on how to get there; and recommends to his clients and listeners to his radio talk shows that all business should have business and strategic plans, his firm currently has neither of these. Apparently in the early stages of the development of the firm the owner did operate according to a written plan, but as the firm grew and became more successful the firm became less inclined to develop explicit strategic plans.
• Strategy implementation	Speed of decision	Have to implement solutions rapidly	The firm's environment was described as both dynamic and complex. Analysis of problems and the related suggested solutions are performed "on the fly".
	Quality of decision	Size allows for understanding of environmental variables	Have an advantage over other accounting firms. Its size, organisational structure and service offering allows it to have time available to increase managements and organisational members knowledge base. This enables a wider understanding of environmental variables affecting the firm. The result is a quick reaction time to

**WITHIN-CASE ANALYSIS TOOL: FIRM WE**

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
			change.
	Adaptive	Spare capacity allows for aligning services to changes in legislation	Legislative changes are monitored and the service offering of the firm is amended accordingly. The owner believes the firm has the capacity to adapt overnight. Staff utilisation is deliberately kept below full capacity. This resulting spare capacity allows the firm to manoeuvre in line with environmental requirements.



WITHIN-CASE ANALYSIS TOOL: FIRM SO			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE

OVERVIEW			
Date started	1988		
Location	Johannesburg		
Business Form	CC		
Members	2		
Staff	20		
Expansive	Undecided	Either stop to practice or seek partnerships	If she ever decides to expand in the future she will rather consider becoming the largest shareholder in the business and offering minority shares to other potential partners.
Branches	No		
Unbundling	Yes	Merger not a success; Merger 2004	However the merger was not a success and the practice is in the process of splitting...It did not contribute to the growth of the practice but rather resulted in it being hampered and negatively affected
Performance	R35000 plus additional	Lifestyle driven	she knows that she has the potential to take the business "further" – but don't know if she can "do it" as she is "tired";
Challenges	Dynamic	Legislative changes; Shortage of support staff; getting structure right; Identifying appropriate partners	"Huge problem of staff shortage" and "huge amounts of legislation that was promulgated in the last few years" and getting the organisational structure right....Sourcing such partners from the current staff members was not successful.
Clients	SME		The firm provides accounting and related services to the Small Medium Enterprise (SME) sector if the economy
BUSINESS CONTEXT			

WITHIN-CASE ANALYSIS TOOL: FIRM SO			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Environment	Volatile	Legislative changes; Shortage of support staff; Opportunities	Although frequent legislative updates were identified as a challenge, the firm uses the change in legislation as an opportunity. Legislative changes that require SME's to issue compliance reports present the firm with an opportunity to expand its service base to include assistance with these reports. SO believes that the above is evidence of their adaptive system.
	Monitor	Amend service offering	Although frequent legislative updates were identified as a challenge, the firm uses the change in legislation as an opportunity.
	No competitors	More work than accountants	These are not regarded as a threat as there are "only a few accountants and too much work"
Services	Proactive	Active search for "add-on" selling opportunities;	Legislative changes that require SME's to issue compliance reports present the firm with an opportunity to expand its service base to include assistance with these reports. SO believes that the above is evidence of their adaptive system.
	Basic (70%)	Bookkeeping; preparation of financial statements; tax compliance	General accounting and related services constitute about 70% of the total service offering and the balance may be regarded as specialist work.
	Specialist (30%)	Trusts, wills, estate and tax planning; financial control; business intelligence	General accounting and related services constitute about 70% of the total service offering and the balance may be regarded as specialist work.
	Outsource	Related service offerings are referred to third party	Other related services such as insurance and investment services are not directly provided by MBS; these services are referred to an outside associate of the firm
	Diversify	Define your firm broadly i.e. business advisors vs accounting officers	SO does not regard the practice as being dependent on the recognition she has as an Accounting Officer in terms of the Close Corporation Act...A separate business, of which the interviewee is the only partner, provides training services to the clients of the accounting firm.
	Continuous learning	Experience and exposure	Strengths of the firm were identified as the experience and exposure obtained from the number of years in practice

WITHIN-CASE ANALYSIS TOOL: FIRM SO			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
	Disadvantage	Size; big enough for competitors to see	<del>Weaknesses are believed to be the size of the firm. The number of support staff employed coupled with the firms large profitability makes the firm visible to competition</del>
	Knowledge driven	Improve understanding of environmental variables and improve decision making speed	. A benefit of being a member of SAIPA is that SAIPA provides analysis of environment. This enables her to offer clients quality and value as she is able to provide "real business advice".
	Value	Fixed fee billing; Good service means low cost and high quality;	"Good service" in relation to the value that clients perceive they get from the practice. Value was defined as "low cost and high service level". ...how the firm's service offering differed from other accountants - "Don't know, I think all do generally the same thing"...Clients stay because they "feel happy" and are able to trust the practice...fees are charged at a fixed rate
Competitive advantage	Communication and availability		In this way information on compliance deadlines are communicated to her clients. This was explained as relating to good communication i.e. "sell yourself".
	Adaptive	Personality allows adaptability	Her personality aids the firm in being adaptive.
	Relationship	Success depends on client relationship not external recognition such as Accounting Officer	Even if legislation where to change to remove the exclusive recognition provided to Accounting Officers as report providers to Close Corporations this will not affect her business. The relationship she has with clients is not dependent on her appointment as accounting officer. ...Clients stay because they "feel happy" and are able to trust the practice.
	Training	Provides related training services to clients	SO believes that her ability to provide high quality training gives her an edge over other accountants. As SME owners don't understand figures and financials there is a big demand for quality training. She also believes that the good service that she provides motivates clients to stay.
	Economic conditions	Growth due to economic conditions	The source of client growth was identified as the environment
Related Business	Entrepreneur	Firm is source of opportunities; Provides regular income stream	A separate business, of which the interviewee is the only partner, provides training services to the clients of the accounting firm.

## WITHIN-CASE ANALYSIS TOOL: FIRM SO

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
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### ORGANISATIONAL CONTEXT

Performance measures	Integrated	Throughout the organisation	In addition the practice uses Costume – a time management software; she also monitors staff productivity.
Operations	Integrated	Clear and streamlined	The current structure took two years to develop, however this was something the SO was particularly proud of...structure was explained as consisting of three sections: 1) Tax department, Accounting Department and Administrative department. Each department is headed by a senior staff member who reports to the owner
Mentors/Managers	Involved	Supervise work; Remunerated	She manages staff by delegating responsibility to line managers; managers hold weekly meetings with their staff.
Quality control	Integrated	Delegated to managers with monthly report backs	She manages staff by delegating responsibility to line managers; She holds monthly management meetings; managers hold weekly meetings with their staff.
Co-ordination	Integrated	Operational procedures and training sessions	She manages staff by delegating responsibility to line managers; She holds monthly management meetings; managers hold weekly meetings with their staff.
Marketing	Internally focussed	Relies on primarily word of mouth but also location; Focus on current clients via sms and emails; Operational focused	The firm does not advertise its services but relies on word of mouth for client growth; however a small number of clients are “walk-in” as the practices are situated next to a school... use emails and SMS to inform clients of operational requirements
Technology	Progressive	latest technology	up to date with the latest software and hardware

WITHIN-CASE ANALYSIS TOOL: FIRM SO			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Qualification	Compulsory	Expert knowledge to operate in dynamic environment	Having a degree is very important for success. However membership of a professional body is only of personal importance...A benefit of being a member of SAIPA is that SAIPA provides analysis of environment. This enables her to offer clients quality and value as she is able to provide "real business advice".
Staff	In-house	20 full time employees	
	<del>Co-operative</del>	<del>Depend on staff to bring in profit</del>	<del>It was however identified that to maintain this kind of profit it was important to obtain and retain staff.</del>
	Customer focused	Meets with clients and role of managers to support client	She meets with all new clients before they are allocated to a department; she uses this opportunity to explain the organisation to them; she explains to the client that they will be allocated to a manager; it is explained that the role of the manager is to "hold the clients hand";
	Relationship	Success depends on client relationship	The relationship she has with clients is not dependent on her appointment as accounting officer....Clients stay because they "feel happy" and are able to trust the practice.
	Delegate	Work load should be distributed	So describer her management style as "delegator". She also doesn't have a problem in "bringing in more people" as partners; 3 partners would be ideal
	Dominant	Practice resolves around her	SO believed that the firm is dependent on her continued involvement and would not be able to survive without her.
Issue	Dynamic and complex	Legislative changes; staff shortage; future existence	Although frequent legislative updates were identified as a challenge, the firm uses the change in legislation as an opportunity.

**WITHIN-CASE ANALYSIS TOOL: FIRM SO**

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Sequence of actions			
• Strategy formulation	Participation	Bottom up approach to setting goals	In October each year the firm issue a questionnaire to staff. The firm request their input
	Formal	Planning formal process; Long term written plan;	The result of all the above is an 80 page company policy document. She advised that one should first decide on a structure and then policies. All staff is involved in the goal setting process; which leads to the formulation of a formal goal statement.
• Strategy implementation	Speed of decision	Have to implement solutions rapidly	SO believes that she has the ability make quick decision; decision are guided by the following principles: responsibility-authority-accountability
	Quality of decision	Informed by principles	Decisions are guided by the following principles: responsibility-authority-accountability.
	Adaptive	Compliance deadlines requires adaptability	SO believes that due to the dynamic environment of her practice her personality aids the firm in being adaptive. This is important as compliance deadlines places strain on the systems of the firm. She believes that "out of the box thinking" is required to remain adaptive

WITHIN-CASE ANALYSIS TOOL: FIRM LL			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE

OVERVIEW			
Date started	1996		
Location	Johannesburg		
Business Form	CC		
Members	2		
Staff	2		
Expansive	No	Does not want to expand	Does not like to delegate; does not like labour issues; lifestyle driven
Branches	No		
Unbundling	Yes	Merger not a success; Merger 2004	However the merger was not a success and the practice is in the process of splitting...It did not contribute to the growth of the practice but rather resulted in it being hampered and negatively affected
Performance	50000pm	Lifestyle driven	The owner believes that you need to determine the lifestyle you want to lead and then align the type of practice with the chosen lifestyle.
Challenges	Dynamic	Legislative changes; getting right type of client	legislative changes will become more of a focus area for the practice
Clients	SME	Range of turnover and type of business entity	The range of turnover of his clients are between R80 000 to R35 000 000 per annum. However the majority of clients are between the R350 000 to R10 000 000 level of turnover per annum. This wide range is the result of the way the owner builds the practice. His practice is not dependent on one type of client.
Number of clients	130		

## WITHIN-CASE ANALYSIS TOOL: FIRM LL

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
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### BUSINESS CONTEXT

Environment	Volatile	Legislative changes; Opportunities	A possible challenge in the future could be the way in which legislation amends the reporting liability of clients i.e. if accounting officer reports are no longer required for Close Corporations. However banks and SARS will continue to rely on the services provided by an accountant. A change in legislation might also be beneficial as this could potentially remove the deadwood from the profession.
	Monitor	Performs environmental scanning	become aware of key issues; once these are identified he performs further research on his own to increase his understanding of the issues....The owner keeps his knowledge updated by reading business and finance orientated online websites and hard copy newspapers and journals
	Yes Competitors	Fee based competition	The owner did view other practices as competitors. The source of competition was described as "fee based"...He believes that the market will "choose the best service provide"
Services	Proactive	Active search for "add-on" selling opportunities;	Decision whether to introduce new or amended service offerings is influenced by changes in legislation. Such changes are analysed and a service offering developed dependant on client needs.
	Basic (60%)	Bookkeeping; preparation of financial statements; tax compliance	service offering of the practice as 60% performing statutory work such as compliance with tax requirements and completion of financial statements and books to trail balance
	Specialist (40%)	Consulting services	40% of services relates to providing consulting services.
	Outsource	Related service offerings are referred to third party	Clients with specialist needs are referred to expert; the practice des not earn a referral fee
	Diversify	Define your firm broadly i.e. business advisors vs accounting officers	However LL doesn't feel threatened with regard to competition as "banks and businesses themselves still require financial statements and SARS requires tax practitioners". He believes that the market will "choose the best service provide".

## WITHIN-CASE ANALYSIS TOOL: FIRM LL

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
	Continuous learning	Experience and exposure	Such changes are analysed and a service offering developed dependant on client needs. He views the practice as adaptive to legislative changes due to the research focus of the practice
	<del>Disadvantage</del>	<del>Size; big enough for competitors to see</del>	<del>Weaknesses are believed to be the size of the firm. The number of support staff employed coupled with the firms large profitability makes the firm visible to competition</del>
	Knowledge driven	Improve understanding of environmental variables and improve decision making speed	The owner uses CPD event organised by SAIPA to become aware of key issues; once these are identified he performs further research on his own to increase his understanding of the issues.
	Value	Fixed fee; low cost and high quality	According to LL it is not possible to differentiate a firm based on the preparation of financial statements alone...The value added services that he provides include giving direction to clients in terms of financial management and by giving business advice to clients...In addition his fees were described as below average as "this is what is expected of professional accountants"
Competitive advantage	<del>Communication and availability</del>	-	<del>In this way information on compliance deadlines are communicated to her clients. This was explained as relating to good communication i.e. "sell yourself".</del>
	<del>Adaptive</del>	<del>Personality allows adaptability</del>	<del>Her personality aids the firm in being adaptive.</del>
	Relationship	Success depends on client relationship	differentiated based on timeous service delivery; the level of fees charged; the owner's personality and relationship with clients
	Training	Advise on starting and running a business	He believes it is important to advise clients on how to start and manage a business and explain to them the implications of their choices...the client understands the importance between alignment between his personality and lifestyle with the choice of business and entity type; These value added services results in clients experiencing growth due to his role to "make the client think"
	Compliance service	Keep clients on the right path	LL believes that clients stay with the practice as a result of the practice providing an "all inclusive and timeous guidance that keep clients on the right path".
	Economic	Growth not result of economy	The growth is not due to the general economic growth experienced in South

WITHIN-CASE ANALYSIS TOOL: FIRM LL			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
	conditions		Africa
Related Business	Entrepreneur	<del>Firm is source of opportunities; Provides regular income stream</del>	<del>A separate business, of which the interviewee is the only partner, provides training services to the clients of the accounting firm.</del>
ORGANISATIONAL CONTEXT			
Performance measures	Integrated Owner/manager	<del>Throughout the organisation</del>	<del>In addition the practice uses CQTime—a time management software; she also monitors staff productivity.</del>
Operations	Integrated	Clear and streamlined	Operational aspects of the practice follow a standard sequence.
Mentors/Managers	Involved Owner/manager	<del>Supervise work; Remunerated</del>	<del>She managers staff by delegating responsibility to line managers; mangers hold weekly meetings with their staff.</del>
Quality control	Integrated Owner/manager	<del>Delegated to managers with monthly report backs</del>	<del>She managers staff by delegating responsibility to line managers; She hold monthly management meetings; mangers hold weekly meetings with their staff.</del>
Co-ordination	Integrated Owner/manager	<del>Operational procedures and training sessions</del>	<del>She managers staff by delegating responsibility to line managers; She hold monthly management meetings; mangers hold weekly meetings with their staff.</del>

### WITHIN-CASE ANALYSIS TOOL: FIRM LL

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Marketing	Primarily internally focussed	Primarily relies on word of mouth but also holds information sessions with existing and potential clients; Location and networking	Growth experienced by the firm is due to: "word of mouth". His existing clients refer other potential clients to his practice. However the owner does arrange information sessions with groups of potential and existing clients and utilises these as networking events. ...physical location; use networking
Technology	Progressive	latest technology	The practice is technology driven and applies office automation tools as far as possible.
Qualification	Compulsory	Expert knowledge to operate in dynamic environment	The owner regards membership of a professional body as important as this provides him with: 1) Summarised technical news related to the practice; 2) Representation with government and other stakeholders; 3) Information on new development; 4) A link to industry experts; 5) Having a formal qualification such as a degree is important as this give you a wider scope
Staff	Controlled outsourcing	LL and wife are only full time employees; bookkeepers are outsourced	The firm employs his wife as the one full time person that specialises in tax. The practice uses a 4 – 5 outsourced bookkeepers....The process he follows now entails inviting a client to meet himself and an identified bookkeeper. Once the client and bookkeeper are introduced they determine their own working relationship.

### STRATEGY MAKING

Strategist	<del>Drives goals</del>	<del>Needs to appoint managing partner but at minority shareholding</del>	<del>SO described her long term vision as that: she needs a managing partner if the business is to grow further; she is "tired" and don't have time to "drive it" any more;</del>
	Low risk appetite	Organic firm growth	The practice was described as "low risk".
	Alignment	Align personality of owner and types of service offered	The owner believes that you need to determine the lifestyle you want to lead and then align the type of practice with the chosen lifestyle.

### WITHIN-CASE ANALYSIS TOOL: FIRM LL

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
	Co-operative	Depend on staff to bring in profit	It was however identified that to maintain this kind of profit it was important to obtain and retain staff.
	Customer focused	Meets with clients on initial contact	The practice has one owner whose role is to make initial contact with the client and determine the type of services needed by the client. ..LL view of himself is that of a "helper" to his clients...
	Relationship	Success depends on client relationship	The reasons for this was given as his believe in having a personal relationship with clients and that clients do not want to be exposed to "layers of business" when interacting with a firm
	Delegate/ Retain	Prefers doing work himself	does not want to obtain more capacity as LL "does not like to delegate"
	Dominant	Practice resolves around him	Partnership is not an option as this brings with it "too much hassles" in the sense that he cant understand why "other people don't want to work as hard as himself". He wants to continue to provide a "personal and all inclusive service".
	Selective/ Hand on	Limit number of clients	Does not want to obtain more capacity as LL "does not like to delegate". In addition LL prefers to have fewer clients but ones that will provide stability to the practice ...The owner does not have an appetite for labour relation issues; this influenced his decision to make use of outsourced staff. Trust, with regard the "ownership" of the client remaining with the practice, governs his relationship with the outsourced bookkeepers.
Issue	Dynamic and complex	Legislative changes; right number and type of clients	legislative changes will become more of a focus area for the practice
Sequence of actions			
• Strategy formulation			
	Participation Owner = firm	Bottom up approach to setting goals	In October each year the firm issue a questionnaire to staff. The firm request their input

WITHIN-CASE ANALYSIS TOOL: FIRM LL			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
<ul style="list-style-type: none"> <li>Strategy implementation</li> </ul>	Formal/Organic	Provide good service and practice will maintain itself	As long as the practice provides a quality service it will be able to make money. The result of providing a quality service is that the practice “grows by itself”....determining the type of practice he wanted to have:1) He talked with other practitioners and other experts at SARS and thought these discussions determined the need of he wanted to address. This process occurred during the years 1994 – 1996;
	<del>Speed of decision</del>	<del>Have to implement solutions rapidly</del>	<del>SO believes that she has the ability make quick decision; decision are guided by the following principles: responsibility-authority-accountability</del>
	Quality of decision	Informed by principles	Three important concepts that contribute to success in a practice: 1) rationally consider the demands required of a particular engagement before accepting such an engagement. This requires having competence in and understanding of your industry and clients; 2) Be selective of the clients that you want to work with; you will need to grow with and understand your clients; this requires people skills;
	Adaptive	Compliance deadlines requires adaptability	Such changes are analysed and a service offering developed dependant on client needs. He views the practice as adaptive to legislative changes due to the research focus of the practice; in addition currently he makes choices based on cost and deadline analysis.

WITHIN-CASE ANALYSIS TOOL: FIRM GR			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
<b>OVERVIEW</b>			
Date started	2000		
Location	Johannesburg		
Business Form	CC		
Members	1		
Staff	3	2 full and 1 part time	
Expansive	No	Does not want to expand	lifestyle driven
Branches	No		
Unbundling	Yes	Merger not a success; Merger 2004	However the merger was not a success and the practice is in the process of splitting...It did not contribute to the growth of the practice but rather resulted in it being hampered and negatively affected
Performance	40000pm	Lifestyle driven	
Challenges	Dynamic	Penalties for late submission	SARS penalties for late submission ...doesn't require representation letters from clients when finalising their financial statements
Clients	SME	Range of turnover and type of business entity	The range of turnover of his clients are between R80 000 to R35 000 000 per annum. However the majority of clients are between the R350 000 to R10 000 000 level of turnover per annum. This wide range is the result of the way the owner builds the practice.
Number of clients	300		



WITHIN-CASE ANALYSIS TOOL: FIRM GR			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE

BUSINESS CONTEXT			
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Environment	Volatile	Legislative changes; Opportunities; Differing customer needs	Requirements placed on clients as a result of tax legislation are the main driver for clients using an accountant. ...80% of the product offering is as a result of legislation; the balance being a demand for advice on business improvement...GR believes that "each job is different; you can't follow the same pattern for each client".
	Monitor	Performs environmental scanning	To keep abreast of technical developments within the industry, he reads trade journals and discusses issues within his accountant network.
	No Competitors	Too much work for everybody	The driver of the practice is not competitiveness as there are already "too much work for everybody".
Services	Reactive	Client initiate action to address need	If clients express a particular need, GR will innovate and create a specific product offering
	Basic (100%)	Bookkeeping; preparation of financial statements; tax compliance; internal control	The services offered are accounting, tax and internal control. ..The firm does not offer specialist services such as a tax specialist, estate planning, insurance or investments.
	<del>Specialist (0%)</del>	<del>Consulting services</del>	<del>40% of services relates to providing consulting services.</del>
	Outsource	<del>Related service offerings are referred to third party</del>	<del>Clients with specialist needs are referred to expert; the practice does not earn a referral fee</del>
	Diversify Focussed	Defined in terms of legislation	If clients express a particular need, GR will innovate and create a specific product offering...Requirements placed on clients as a result of tax legislation are the main driver for clients using an accountant...an accounting officer is not the main reason for clients utilising his services

## WITHIN-CASE ANALYSIS TOOL: FIRM GR

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
	Continuous learning	Experience and exposure	He reads trade journals and discusses issues within his accountant network. This takes about ½ hour per day.
	<del>Disadvantage</del>	<del>Size; big enough for competitors see</del>	<del>Weaknesses are believed to be the size of the firm. The number of support staff employed coupled with the firms large profitability makes the firm visible to competition</del>
	Knowledge driven	Improve understanding of environmental variables and improve decision making speed	Intimate knowledge of the client's business environment and industry is crucial.
	Value	Immediate service; Fee average; Fixed rate	Value adding is achieved by being hands on as to the tax affairs of the client and secondly by assisting clients with their profit management. ...In comparison to other accountants, the fees are average. Fees are not charged on the perceived value of work performed but rather based on either a fixed fee or a fixed hourly rate...regards quality service, defined as fulfilling client expectations, as a "big thing"
Competitive advantage	<del>Communication and availability</del>	-	<del>In this way information on compliance deadlines are communicated to her clients. This was explained as relating to good communication i.e. "sell yourself".</del>
	<del>Adaptive</del>	<del>Personality allows adaptability</del>	<del>Her personality aids the firm in being adaptive.</del>
	Relationship	Success depends on client relationship	Success is dependant on the personal relationship the owner has with current and potential clients
	Training	Advise on starting and running a business	assisting clients with their profit management
	Compliance service	Keep clients on the right path	Requirements placed on clients as a result of tax legislation
	Economic conditions	Growth as result of economy	In contrast to the above, GR believes client growth is due to the shortage of qualified accountants in the economy. This assures the firm of continuous work
Related Business	<del>Entrepreneur</del>	<del>Firm is source of opportunities; Provides regular income stream</del>	<del>A separate business, of which the interviewee is the only partner, provides training services to the clients of the accounting firm.</del>

**WITHIN-CASE ANALYSIS TOOL: FIRM GR**

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
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**ORGANISATIONAL CONTEXT**

Performance measures	Integrated Owner/manager	<del>Throughout the organisation</del>	<del>In addition the practice uses CQStime—a time management software; she also monitors staff productivity.</del>
Operations	Integrated	manual oversight	He does not use a project management tool to manage the workflow in the practice; he rather relies on “human input and know how”. ...that he cannot meet all the deadlines to complete clients’ work
Mentors/Managers	Involved Owner/manager	<del>Supervise work; Remunerated</del>	<del>She managers staff by delegating responsibility to line managers; mangers hold weekly meetings with their staff.</del>
Quality control	Integrated Loosely structured	Relies on manual intervention and memory	A potential element of risk is the fact that he doesn’t require representation letters
Co-ordination	Integrated Loosely structured	Immediate problems get first attention	Urgency of a task prioritises the work
Marketing	Primarily internally focussed	Primarily relies on word of mouth	Never advertised the services offered by the firm. He believes in word of mouth – “selling to your current clients, who in turn will sell your services to the next guy”.
Technology	Progressive	latest technology	makes extensive use of the latest software tools

### WITHIN-CASE ANALYSIS TOOL: FIRM GR

	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Qualification	Compulsory	Expert knowledge to operate in dynamic environment	Having a degree and attending continuous development programs is important for running a successful practice...member of a professional body which allows him access to information
Staff	<del>Controlled outsourcing</del>	<del>LL and wife are only full time employees; bookkeepers are outsourced</del>	<del>The firm employs his wife as the one full time person that specialises in tax. The practice uses a 4—5 outsourced bookkeepers....The process he follows now entails inviting a client to meet himself and an identified bookkeeper. Once the client and bookkeepers</del>

### STRATEGY MAKING

Strategist	Goal	Service, quality, profit	current goals of his firm as providing “good service”, with the underlying emphasis on quality and profit....accountants are quality driven and wants “100% quality
	Low risk appetite	Organic firm growth	Risk to the practice is low as “accountants avoid grey areas”;
	Alignment	Align personality of owner and types of service offered	It is also important to have fun whilst making money. “Your personality should be in tune with the work you are doing.”
	<del>Co-operative</del>	<del>Depend on staff to bring in profit</del>	<del>It was however identified that to maintain this kind of profit it was important to obtain and retain staff.</del>
	Customer focused	Focused on custom needs	providing “good service”, “to help people” and having a “humanitarian” interest...being “humanitarian” and his subsequent passion to “help people” determines
	Relationship	Success depends on client relationship	Success is dependant on the personal relationship the owner has with current and potential clients
	Delegate/Reta in	Prefers doing work himself but also empowers	GR prefers to remain “hands on” in the business, rather than becoming a manager only. ..The practice aims to empower staff members regarding decision making.

<b>WITHIN-CASE ANALYSIS TOOL: FIRM GR</b>			
	<b>CONCEPTS</b>	<b>SUMMARY OF INCIDENTS</b>	<b>EVIDENCE</b>

	Dominant	Practice resolves around him	However he believes that the practice will be able to carry on even without him being present
	Selective/Hand-on	Limit number of clients	Does not want to obtain more capacity as LL "does not like to delegate". In addition LL prefers to have fewer clients but ones that will provide stability to the practice ... The owner does not have an appetite for labour relation issues; this influenced h
Issue	Dynamic and complex	Clients needs differ	GR believes that "each job is different; you can't follow the same pattern for each client".
Sequence of actions			
<ul style="list-style-type: none"> <li>• Strategy formulation</li> </ul>			
	Not participative	Top down approach	During March of each year the owner conducts a one day review of salaries, budgeting and workloads. This is followed by brief "chats" with each staff member. During the reviews consideration is given to the fees that the firm charges, hours available to perform work and the productivity capability of each staff member. The owner spends one day annually rethinking procedures to improve operations and revenue. This process is not written down.
<ul style="list-style-type: none"> <li>• Strategy implementation</li> </ul>			
	Formal/Organic	Provide good service and practice will maintain itself	GR will innovate and create a specific product offering
	Speed of decision	Have to implement solutions rapidly	When performing the initial analysis of a new client, the practice makes an immediate decision on the process best fit to the requirements of each individual business.
	Quality of decision	Informed by principles	Three important concepts that contribute to success in a practice: 1) rationally consider the demands required of a particular engagement before accepting such an engagement. This requires having competence in and understanding of your industry and client

<b>WITHIN-CASE ANALYSIS TOOL: FIRM GR</b>			
	<b>CONCEPTS</b>	<b>SUMMARY OF INCIDENTS</b>	<b>EVIDENCE</b>
	Adaptive	Compliance deadlines requires adaptability	GR will innovate and create a specific product offering



WITHIN-CASE ANALYSIS TOOL: FIRM MS			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
<b>OVERVIEW</b>			
Date started	1994		
Location	Pretoria		
Business Form	CC		
Members	1		
Staff	1	2 full and 1 part time	
Expansive	No	Selective of type of client	lifestyle driven
Branches	No		
Unbundling	Yes	Merger not a success; Merger 2004	However the merger was not a success and the practice is in the process of splitting...It did not contribute to the growth of the practice but rather resulted in it being hampered and negatively affected
Performance	100000pm	Lifestyle driven	The owner needs to finance a certain level of lifestyle
Challenges	Trust	Maintaining trust and understanding of client business	
Clients	SME	Range of turnover and type of business entity	-
Number of clients	50		
<b>BUSINESS CONTEXT</b>			

WITHIN-CASE ANALYSIS TOOL: FIRM MS			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Environment	Volatile	Legislative changes; Opportunities; Differing customer needs	The main aim is to increase the ability of clients to improve their business models so as to deliver higher revenue. The practice has moved away from seeking an increase in the number of clients.
	Monitor	Performs environmental scanning	The main aim is to increase the ability of clients to improve their business models so as to deliver higher revenue. The practice has moved away from seeking an increase in the number of clients.
	No Competitors	Service and relationship	The owner does not believe the practice has competitors
Services	Proactive	Client focused	The main aim is to increase the ability of clients to improve their business models so as to deliver higher revenue. The practice has moved away from seeking an increase in the number of clients.
	Basic (50%)	Bookkeeping; preparation of financial statements; tax compliance; internal control	Providing basic accounting services such as writing up the books of clients and providing subsequent management reports
	Specialist (50%)	Consulting services	additional services provided include a focus on trusts and an emphasis to improve client's business performance
	<del>Outsource</del>	<del>Related service offerings are referred to third party</del>	<del>Clients with specialist needs are referred to expert; the practice does not earn a referral fee</del>
	Diversify Focussed	Defined in terms of legislation	The owner believes that to be successful a practice should be innovative with regard to the additional services provided to clients other than basic accounting services. This requires the acquisition of specialist knowledge of the industry in which the clients business operates.
	Continuous learning	Experience and exposure	The aim of the practice is therefore to provide clients with piece of mind. This was described as even more important as continues contact with the client...a high level of experience in the type of services delivered is required
	<del>Disadvantage</del>	<del>Size; big enough for competitions to see</del>	<del>Weaknesses are believed to be the size of the firm. The number of support staff employed coupled with the firms large profitability makes the firm</del>

WITHIN-CASE ANALYSIS TOOL: FIRM MS			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
			<del>visible to competition</del>
	Knowledge driven	Improve understanding of environmental variables and improve decision making speed	Excellent negotiation skill of the owner. ...requires the acquisition of specialist knowledge of the industry in which the clients business operates
	Value	Trust; Value pricing	pay higher fees in comparison to other accountants due to their strong believe in the ability of the practice
Competitive advantage	Communication and availability	Trust; accessible	generation of trust in the practice was described as the only strategy
	<del>Adaptive</del>	<del>Personality allows adaptability</del>	<del>Her personality aids the firm in being adaptive.</del>
	Relationship	Success depends on client relationship	The generation of trust in the practice was described as the only strategy of the practice both with regard the delivery of basic and advanced services. ..The aim of the practice is therefore to provide clients with piece of mind. This was described as even more important as continues contact with the client.
	Training	Advise on starting and running a business	Applying the information gained from such an analysis to improving the business of the client is the key to maintaining and gaining clients
	<del>Compliance service</del>	<del>Keep clients on the right path</del>	<del>Requirements placed on clients as a result of tax legislation</del>
	Economic conditions	Growth as result of economy	The main aim is to increase the ability of clients to improve their business models so as to deliver higher revenue. The practice has moved away from seeking an increase in the number of clients.
Related Business	Entrepreneur	Firm is source of opportunities; Provides regular income stream	<del>A separate business, of which the interviewee is the only partner, provides training services to the clients of the accounting firm.</del>

WITHIN-CASE ANALYSIS TOOL: FIRM MS			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
<b>ORGANISATIONAL CONTEXT</b>			
Performance measures	Output focussed	Throughout the organisation	<del>In addition the practice uses CQTime—a time management software; she also monitors staff productivity.</del>
Operations	Integrated	manual oversight	productivity is delivered by personnel; however in his practice the purpose of personnel is to enhance the ability of the owner
Mentors/Managers	Involved Owner/manager	Supervise work; Remunerated	<del>She managers staff by delegating responsibility to line managers; mangers hold weekly meetings with their staff.</del>
Quality control	Integrated Loosely structured	accessible to small number of clients	Focus of the practice is not on effective cost management but on increasing the firm's revenue generating capability. This is achieved by choosing the right type of client and ensuring the quality of output
Co-ordination	Integrated Loosely structured	Differentiate roles	In addition this framework allows the owner assist the “idea implementer” by providing guidance and direction as he is able to have broad view of the operations and end goals of the system
Marketing	Primarily internally focussed	Primarily relies on word of mouth	The practice does not advertise ... use of newsletters to inform clients of developments within their industry... not the form of communication but the perceived interest shown ... Such initiatives increases trust in practice and aids in establishing an image...clients avoidably compare his practice with competitors
Technology	Progressive	latest technology	makes extensive use of the latest software tools

WITHIN-CASE ANALYSIS TOOL: FIRM MS			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
Qualification	Compulsory	Expert knowledge to operate in dynamic environment	Excellent negotiation skill of the owner. ...requires the acquisition of specialist knowledge of the industry in which the clients business operates
Staff	Controlled outsourcing	LL and wife are only full time employees; bookkeepers are outsourced	The firm employs his wife as the one full time person that specialises in tax. The practice uses a 4 – 5 outsourced bookkeepers....The process he follows now entails inviting a client to meet himself and an identified bookkeeper. Once the client and bookkeeper
STRATEGY MAKING			
Strategist	Goal	Trust	generation of trust in the practice was described as the only strategy
	Low-risk appetite	Organic firm growth	Risk to the practice is low as “accountants avoid grey areas”;
	Alignment	Align personality of owner and types of service offered	Strategy of the practice was revealed as being the personal needs of the owner.
	Co-operative	Staff is a tool	productivity is delivered by personnel; however in his practice the purpose of personnel is to enhance the ability of the owner in delivering services
	Customer focused	Focused on custom needs	Applying the information gained from such an analysis to improving the business of the client is the key to maintaining and gaining clients.
	Relationship	Success depends on client relationship	accessible to clients as he believes that clients do not want to work with a staff member
	Delegate/Retain	Delegates and remains involved	productivity is delivered by personnel; however in his practice the purpose of personnel is to enhance the ability of the owner in delivering services
	Dominant	Practice resolves around him	productivity is delivered by personnel; however in his practice the purpose of personnel is to enhance the ability of the owner in delivering services

WITHIN-CASE ANALYSIS TOOL: FIRM MS			
	CONCEPTS	SUMMARY OF INCIDENTS	EVIDENCE
	Selective/Hand on	Limit number of clients	As a result the focus is not on increasing the number of clients but to be selective in choosing the right type of client ...The practice prefers existing clients to new as these are seen to be more stable and willing to accept the practice's relatively higher fees
Issue	Dynamic and complex	Clients needs differ	This requires the acquisition of specialist knowledge of the industry in which the clients business operates
Sequence of actions			
<ul style="list-style-type: none"> <li>Strategy formulation</li> <li>Strategy implementation</li> </ul>	Not participative	Top down approach	He mentally formulates a core structure of what his strategy ought to be. This is performed on a daily basis. This process if performed for each individual client.
	Formal/ Organic	Provide good service and practice will maintain itself	This owner beliefs in a fluid strategy rather than one that is rigid in its formulation and implementation
	Speed of decision	Have to implement solutions rapidly	He mentally formulates a core structure of what his strategy ought to be. This is performed on a daily basis. This process if performed for each individual client.
	Quality of decision	Informed by principles	Two key role players were identified in the strategy making process. These were identified as an "idea governor" and an "idea implementer". ...this framework allows the owner assist the "idea implementer" by providing guidance and direction
	Adaptive	Compliance deadlines requires adaptability	consideration of external i.e. the environment and internal i.e. firm capability factors so as to ensure alignment and consistency

**Appendix 3: Cross-case analysis to identify similarities & dissimilarities**

**STRATEGY PROCESS:**  
**Cross-case analysis to identify similarities & dissimilarities**

**Category: Strategist** **Similarities**

Firm	Concepts	Summary of incidents
WE	Low risk	Age and current success of business
GR	Low risk appetite	Organic firm growth
LL	Low risk appetite	Organic firm growth

WE	Alignment	Alignment Personality and services
SO	Relationship	Success depends on client relationship
LL	Alignment	Align personality of owner and types of service offered
LL	Relationship	Success depends on client relationship
GR	Alignment	Align personality of owner and types of service offered
GR	Relationship	Success depends on client relationship
MS	Goal	Trust
MS	Alignment	Align personality of owner and types of service offered
MS	Relationship	Success depends on client relationship

WE	Customer focussed	Not inward focus, focus on customer
SO	Customer focussed	Meet with clients
LL	Customer focused	Meets with clients on initial contact
GR	Customer focused	Focused on custom needs
MS	Customer focused	Focused on custom needs

**Category: Strategist** **Dissimilarities**

Firm	Concepts	Summary of incidents
WE	Facilitates goals	Empower Discourages uniformity of thinking
SO	Drives goals	Co-operative Depend on staff for profit
SO	Dominant	Owner main driver of business
LL	Dominant	Practice resolves around her
GR	Dominant	Practice resolves around him
GR	Drives goals	Service, quality, profit
MS	Dominant	Practice resolves around him

**STRATEGY PROCESS:**

**Cross-case analysis to identify similarities & dissimilarities**

WE	Delegate	Depend on staff for profit
SO	Delegate	Work load should be distributed
LL	Retain	Prefers doing work himself
GR	Delegate/Retain	Prefers doing work himself but also empowers
MS	Delegate/Retain	Delegates and remains involved

LL	Selective/Hands on	Limit number of clients
GR	Selective/Hands on	Limit number of clients

**Category: Issue**

**Similarities**

Firm	Concepts	Summary of incidents
WE	Dynamic and complex	Legislative changes and staff shortage
SO	Dynamic and complex	Legislative changes; staff shortage; future existence
LL	Dynamic and complex	Legislative changes; right number and type of clients
GR	Dynamic and complex	Clients needs differ
MS	Dynamic and complex	Clients needs differ

**Category: Issue**

**Dissimilarities**

Firm	Concept	Summary of incident
WE	Organic	Planning not a formal process; Long term plan but not written;
LL	Organic	Provide good service and practice will maintain itself
GR	Formal/Organic	Provide good service and practice will maintain itself
SO	Formal	Planning formal process; Long term written plan;
MS	Formal/Organic	Provide good service and practice will maintain itself

WS	Participation	Bottom up approach to setting goals
SO	Participation	Bottom up approach to setting goals
LL	Participation Owner = firm	
GR	Not participative	Top down approach
MS	Not participative	Top down approach

**STRATEGY PROCESS:**

**Cross-case analysis to identify similarities & dissimilarities**

**Category: Sequence of actions - Strategy implementation**

**Similarities**

<b>Firm</b>	<b>Concept</b>	<b>Summary of incident</b>
WE	Speed of decision	Have to implement solutions rapidly
GR	Speed of decision	Have to implement solutions rapidly
SO	Speed of decision	Have to implement solutions rapidly
MS	Speed of decision	Have to implement solutions rapidly

WE	Quality of decision	Size allows for understanding of environmental variables
SO	Quality of decision	Informed by principles
LL	Quality of decision	Informed by principles
MS	Quality of decision	Informed by principles

WE	Adaptive	Spare capacity allows for aligning services to changes in legislation
SO	Adaptive	Compliance deadlines requires adaptability
GR	Adaptive	Compliance deadlines requires adaptability
LL	Adaptive	Compliance deadlines requires adaptability
MS	Adaptive	Compliance deadlines requires adaptability