Business Advice to SMEs: Human Resources and Employment
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Executive summary

The importance of small firms to economic development in advanced economies is well documented. They not only constitute the largest category of businesses numerically in the European Union, they also make the largest contribution to GNP and employ a high proportion of the labour force. In 2008, companies having 250 or fewer employees were responsible for 66% of all jobs and 58% of total business turnover (European Commission 2009).

Notwithstanding their importance, there exists concern about their high rate of failure, whether they are achieving their full potential, and their often less than satisfactory levels of productivity. In this context, the role of external business support has assumed some importance, effective small-firm performance being related to the availability of appropriate business advice. Nonetheless, small businesses appear to be reluctant advice seekers, not least in respect of those public services set up for their benefit. Of the sources of advice made available, the most used by companies tend to be accountants, banks and legal professionals.

Among the areas where small firms would appear to need support is that of human resources (HR) and employment. For example, finding and retaining skilled employees has been identified as one of the main challenges faced by UK small firms. Regarding compliance, small firms face an increasing burden of employment legislation. They are more likely than larger companies to experience employee claims against them and to lose cases at employment tribunals.

Small firms increasingly turn to external support in the HR and employment areas and, among the sources of external support, their accountant appears to play an important role, perhaps surprisingly given that accountants are usually associated with providing financially related advice. Thus, Blackburn and Hart (2002) found that accountants were the most frequently used external resource for advice on individual employment rights while Kersley et al. (2006) found that in the 2004 Workplace Employment Relations Survey the reliance on accountants for advice in this area had increased since the previous such survey in 1998.

THE CHANGING ROLE OF THE ACCOUNTANT

There has been a growing interest in accountants’ ability to play a wider support role for clients, moving beyond traditional compliance work. This interest has been related to the increase in the number of small firms enjoying audit exemption, the changing nature of competition and the effects of technological developments. The interest has developed at an international level because these developments are not peculiar to the UK. The increasing research in this area has focused on the reasons why small firms may turn to accountants for advice and how accountants can generate income from this development of their role. This research has not previously focused, however, on providing support in the HR and employment areas.

OBJECTIVES OF THE RESEARCH

The specific objectives of the research were to address the following questions.

- What type of advice and support in the HR and employment areas do accountants provide to SMEs?
- How does this role sit alongside the core competences and business activities of practices?
- What resources (people and materials) in the practice are used to provide HR and employment support?
- What external alliances are used to support the provision of HR and employment advice?
- Are there any ways in which accountants’ performance in this area could be improved?

METHODS

Given the exploratory nature of the research, a qualitative methodology was adopted. In-depth interviews were carried out with 20 small and medium-sized accountancy practices (SMPs), selected strategically to reflect size, geographical and professional body criteria. Respondents were contacted by ‘cold calling’ using membership lists from ACCA and the ICAEW. They were not identified because they were previously known to be involved in HR and employment support.

ADVICE PROVIDED

All practices provided advice to small-firm clients in the HR and employment areas, with a particular emphasis on employment procedures and their legal context. Clients’ trust in their accountant, his or her knowledge of their business, and the empathy derived from the fact that SMPs are small business themselves were key factors explaining why small firms approached the SMPs for support in these areas. In the case of the smaller practices, support was given because it was believed to be necessary to keep clients. In the case of larger practices it was part of a more strategic ‘one-stop’ approach and it was being promoted and developed as a separate income stream.

THE TYPES OF FIRM SEEKING SUPPORT

Larger small firms (20 or more employees) tended to be the clients most likely to seek support from accountants. They had more staff than micro-firms but could not justify the appointment of a qualified HR person. Micro-firms, particularly in blue-collar sectors such as construction, tended not to seek outside help (in itself a worrying finding).
DIFFERENT MODELS OF SUPPORT

Three different models of support for small-firm clients were identified. The larger practices employed qualified HR specialists to advise small-firm clients. A group of smaller practices had developed an HR support role provided by experienced staff as an adjunct to managing client payrolls. Managing payroll inevitably gave rise to questions about staffing, and non-accountancy staff associated with the payroll function sought to answer them. The smallest practices tended to provide more limited commonsense advice based on their knowledge and experience of procedures, before referring clients on to more specialist resources.

RESOURCES USED IN THE PROVISION OF SUPPORT.

The smaller practices tended to rely on their previous experience of working with small firms and as employers of staff themselves. They also turned to external sources of support such as online guides, helplines, specialist consultants and reciprocal relationships with solicitors. The bigger practices, where qualified staff were employed, tended to be more self-sufficient, turning to external support only occasionally, eg to specialist lawyers to represent clients at employment tribunals. They did, however, use the networks and continuing professional development (CPD) opportunities available from the professional body of their HR specialists (the Chartered Institute of Personnel and Development).

EXTERNAL ALLIANCES

In the case of those smaller practices that did not employ qualified HR staff, the practice role in relation to external specialists was largely that of a relatively passive broker. Even so, in a minority of cases some interesting examples of collaboration were identified that did give the potential for developing an income stream. These included subscribing to HR helpline services, which were, in turn, marketed to small-firm clients.

RECOMMENDATIONS

Given the inevitability that accountants will be a first recourse for many small firms in the HR and employment areas, a priority must be to enhance the effectiveness of their role.

- Smaller practices should consider developing a robust broker model to offer HR and employment advice more effectively and, thereby, generate income.
- Government and its agencies should recognise the accountants’ role in providing advice on HR and employment to SMEs, and ensure that accountants are a recognised stakeholder when seeking consultation advice and developing initiatives to support SMEs.
- Further research should be commissioned to facilitate a better understanding of the extent to which accountants provide HR and employment advice to SMEs.
- Further research should be commissioned to identify the characteristics of a robust broker role for practitioners in the provision of HR and employment support, which might at the same time improve the HR service they provide to small-firm clients and provide a steady income stream. Such research would of necessity involve some evaluation of the specialist providers to which practices can turn in the areas of HR and employment.
- From an SME perspective, there is a need to examine in more depth the impact of employment regulation on SME activities and their need for support and advice.
- The CIPD could usefully review the availability of appropriate continuing professional development for those members responsible primarily for providing HR support to smaller firms. Currently, to a large degree, CIPD support is geared to the professional operating in a large-organisation environment.
- The CIPD should consider the development needs of those non-professional staff employed by SMPs, often in a role associated with payroll management, who are responsible for giving HR and employment advice to smaller firms.

FUTURE RESEARCH

The report identifies a number of areas for future research.

- Testing the findings of this study quantitatively – measuring the degree to which the three models identified in this study are implanted in SMPs nationally.
- Examining the robustness internationally of the three models identified. To what extent are they a largely UK phenomenon or are accountants in other countries, facing similar pressures, also expanding into areas of support very different from their core competences?
- Researching existing alliances between accountants and specialist HR resources to move closer to identifying a broker role for SMPs that will provide an income source to accountants as well as an effective service to small-firm clients.
1. Introduction

This report presents the results of a project that has investigated the role of small and medium-sized accountancy practices (SMPs) in providing support to small and medium-sized enterprises (SMEs) in the areas of human resources (HR) and employment.

The report firsts considers several streams of literature on the role of SMPs in providing business advice, the need of SMEs for support in the areas of HR and employment, and evidence that SMPs are a significant source of such support. Building upon this literature the project examined the following questions.

- What type of advice and support in the HR and employment areas do accountants provide to SMEs?
- How does this role sit alongside the core competences and business activities of practices?
- What resources (people and materials) in the practice are used to provide HR and employment support?
- What external alliances are used to support the provision of HR and employment advice?
- Are there any ways in which accountants’ role in this area could be improved?

The report then outlines the research methodology employed in the project and the main findings of the research. Finally, the report discusses the implications of the findings and puts forward conclusions and recommendations.
2. Literature review

In most Western economies not only do SMEs constitute the largest category of businesses numerically, but they also make the largest contribution to GDP and employ a high proportion of the labour force. For example, in the European Union in 2008, companies having 250 or fewer employees were responsible for 66% of all jobs and 58% of total business turnover (European Commission 2009). Their contribution to job creation has been emphasised and they are seen as having particular advantages in their flexibility and capacity to adapt to rapidly changing markets.

There is not complete agreement on the definition of SMEs. The European Union defines small firms as those with 10–49 employees and medium-sized companies as those with 50–249 employees (companies with 1–9 employees being classified as micro firms). In the academic literature a variety of definitions are used. The US government definition (Small Business Administration 2010) has an upper limit of 500 employees and this definition is adopted by a number of studies (see Hendry et al. 1995; Kinnie et al. 1999). Other studies have concentrated on those firms with between 10 and 100 employees (eg Sels et al. 2006). In one study focusing on accountants as sources of business advice, small firms are defined as having 1–19 employees (Gooderham et al. 2004). These differences in definition need to be taken into account when considering previous research on the role of accountants in providing business support to SMEs.

Notwithstanding the importance assigned to the role of SMEs as a major source of ideas and employment, there exists concern about their high rate of failure, whether they are achieving their full potential and their often less than satisfactory levels of productivity (Birkett 2000; Mole et al. 2004; Faerns et al. 2005). In this context the role of the accountant as external business support and advice for SMEs has assumed some importance. The effective growth of SMEs has been related to their effective use of external advice (Berry 2006). This use has grown in part as a response to the increasing burden of regulation faced by SMEs (Blackburn et al. 2006).

Research on the use by SMEs of external advice has identified a number of difficulties. SME owners tend not to be well informed about support services available and make relatively little use of them. In addition, there is substantial evidence to suggest that SMEs are often reluctant advice seekers. Blackburn and Hart (2002) argue that this is because of the opportunity costs of searching for advice, employers’ scepticism of the advice that is available, and the concern that going outside the firm may be perceived as a sign of weakness – so much so that some have called this a ‘fortress mentality’ (Curran and Blackburn 1994). Gibb (2000) and Curran (2000) point to the limitations of ‘official’ advice, arguing that the advice services tend to be continued because of a paternalistic view that SMEs need them and that most top-down small business advice is based on large-firm practices. Bacon and Hoque (2005) question the effectiveness of the voluntary model of small business advice and argue that small firms are unlikely to take external advice without coercion, eg the need to comply with legislation or the demands of dominant customers. Skinner et al. (2003) stress the importance to SME owners of their own personal communication network as a source of support: the peers and professionals with whom they develop and sustain relationships that are often based on interdependence and maintained on an informal basis.

Owing to the importance of their support role for SMEs there has been an increasing research interest in accountants as a source of business advice. The initial entrée of the accountant into the SME has normally been through the provision of accounting services in the area of compliance work. The support given by the accountant can then often expand to other areas. Thus, Doving et al. (2004) list the following as among the services provided by accountants to SMEs: inheritance/generation transfer/owner transference; business structure; budgeting; pensions; marketing/sales/strategic planning; secretary to company boards; administrative routines/IT; management/organisation/HRM; training and skills development; remuneration schemes/salary administration; valuation of firms/mergers/demergers.

There has been a growing interest among accountants themselves in playing a support role beyond traditional compliance work. This interest has been related to the increasing numbers of SMEs that enjoy audit exemption, the changing nature of competition and the effects of technological developments. As Martin (2004) suggests, on the basis of interviews with 53 SMPs, the smaller accountancy firms, particularly, will be much less profitable unless they can find a sustainable niche, or act in cooperation with other small firms. Among the factors that encourage SMEs to turn to accountants for business advice, the existence of a high level of trust in the relationship figures prominently. Gooderham et al. (2004), in their telephone survey of 320 SMEs, report that it is the
quality of the personal relationship between the owner-manager and the accountant (and not the length of time the relationship has existed) that determines whether the accountant is used as a resource. Owner-managers tend to trust accountants because of the quality of the services, the latter have provided in the accounts area and because they are regulated. A similar conclusion is reached by Blackburn et al. (2009). They show that compliance work provides a foundation upon which the accountant can build additional services, including business advice, to the SME. It is the experience of compliance work that builds up the trust necessary for the provision of a wider range of services to the SME, although the trust can take years to develop. In addition, both accountants and their SME clients emphasised the importance of empathy to the development of successful client relationships and the provision of business advisory services, empathy being described as understanding and genuinely caring about clients’ interests and, therefore, requiring the accountant to take time to understand clients’ business and personal needs.

A study employing a theoretical framework derived from the sociology of the professions argues that auditing differs in important ways from other professions. In a comparative study of the legal, accountancy and engineering professions, Malhotra and Morris (2009) suggest, for example, that auditing has members from a wider range of social origins and a lower level of jurisdictional control than the legal profession. Whereas the latter has been able to defend its jurisdictional boundaries and sustain its internal solidarity, auditing has had to pursue an expansionary jurisdictional approach, reducing the degree of social closure and legitimating the presence of multidisciplinary professional specialisations in accounting firms. While in the legal profession face-to-face interaction between the client and the lawyers is relatively limited, over time, collaboration and interaction with the client have become important in delivering audit services. This change has come about, in part, as accounting expanded to include non-audit services that required greater interaction with the client, but it came to permeate the audit side of the business as well. Finally, in relation to the nature of knowledge, whereas engineering has a predominately technical knowledge base supporting a bureaucratic structure and low levels of task autonomy, the formal structure of the audit process provides only a loose framework for the exercise of judgement. The application of systems is influenced by auditor judgements of the reasonableness of clients’ statements, by client relationships and by the auditor’s knowledge of similar businesses. Therefore, a sufficient degree of uncertainty exists in the nature of knowledge and its application to require substantial discretionary judgement to be exercised. It is argued that these characteristics of the accountancy profession make it more likely to develop a wider and more diversified range of activities than other professions.

Although there is evidence about the general importance of the accountant’s support role for SMEs, a number of factors related both to the nature of the accountancy practice and the SME would seem to determine the likelihood that a wider business support role will develop.

A study of small-firm accountants as business advisers in Norway and Scotland (Doving et al. 2004) identifies a number of characteristics positively associated with practices’ engagement in general business support.

• Having a strategic intent to seek out new markets through launching new services. Research would suggest there often exists a lack of confidence on the part of small and medium-sized practices (SMPs) about developing new services, and considerable doubt about whether they will be able to persuade small firms to pay for them. Sometimes giving business advice is a way of keeping SMEs as clients (Devi and Samujh 2010).

• Having a high proportion of partners who are educated to degree level.

• Having a personnel policy and a human resource plan.

• Having a significant proportion of non-accountancy professionals who can provide additional services.

• Having a higher number of external alliances, which can be used as a resource.

• Having a larger number of partners, thus providing more scope for the development of specialisation in the provision of services in addition to standard accounts. Heterogeneous practices tend to be the most successful at developing wider business services.

Other characteristics of practices that successfully develop a general business support role for SMEs would seem to include:

• being highly competent in the delivery of traditional accountancy services — the quality of the delivery of standard accountancy services creates the potential for delivering advisory services (Bulukin et al. 2005)

• regarding client relationships, and the trust that underpins these, as their most important competitive advantage (Bulukin et al. 2005)

• having formal agreements with clients to meet on a regular basis to discuss how to enhance value creation (Lund and Gooderham 2004)

• interacting with clients on the basis of taking them ‘beyond’ their current position rather than merely communicating to them the state of the business as it is (Lund and Gooderham 2004)
• employing not only specialists in standard accountancy services but also individuals with different and complementary competences (Eisenhardt and Martin 2000)

• ensuring the regular development of the practice’s human capital and developing external alliances with other services providers such as banks and lawyers (Eisenhardt and Martin 2000).

This last point is taken up by Devi and Samujh, whose Malaysian study (2010) shows that SMPs may outsource some business advisory services to take advantage of external expertise, thus overcoming their knowledge limitations and acting as a one-stop-shop to provide referrals. This confirms the Australian study by Leung et al. (2008), which indicates that 51% of accountants in the authors’ survey employed the services of specialist advisers to assist their SME clients and 79% referred their clients to external advisers for regulation-related services.

The nature of these characteristics suggest that it is the larger SMPs that are more likely to develop successful business support services for SMEs, and additional research by Martin et al. (2007) supports this. The latter show that in the case of sole practitioners and small practices (one or two partners) in the firms in their sample, work was largely compliance driven and business advice was provided, at most, on an ad hoc basis, whereas in the case of the larger practices, typically, business advice represented 10%-50% of total fee income and it was an aspiration for most practices that it should contribute 50% or more. Blackburn et al. (2009) show that large practices tend to be able to provide a wider portfolio of services while smaller practices tend to use a referral network of complementary advisers.

Research also suggests that some SMEs are more likely to be receptive to business support from accountants than others. A key factor appears to be size. The smaller the SME, the less likely it is that advice will be sought. Owner-managers of the smallest firms tend to be most concerned about maintaining their autonomy and resist external help. Thus, Gooderham et al. (2004) report that the SMPs in their sample that had been most successful in developing a wider business support role were practices where most clients had at least 21 employees. They also suggested a number of other SME characteristics that were conducive to seeking business support.

- The SME must assess the statutory services provided by the accountant as being of high quality.
- The SME must be ambitious to grow, have strategic intent and the capacity to absorb the advice received.
- SMEs facing competitive pressure were often more willing to receive support.

An area where there would appear to a strong and continuing need for SMEs to receive external support is that of HR and employment. There is evidence that there is a need for SME performance to be significantly strengthened in these areas. Finding and retaining skilled employees has been identified as one of the main challenges faced by UK SMEs, third in importance behind achieving enough sales and planning for the future of the business (Berry 2006). At a European level, 47% of small firms have indicated that they have problems in recruiting and retaining appropriately qualified staff (Observatory of European SMEs 2007). Similar results can be found in North American research (Deshpande and Golhar 1994; Hornsby and Kuratko 1994). Small firms seem to give low priority to introducing high-performance work practices (Stirpe et al. 2008). SMEs face an increasing burden of compliance with employment legislation. They are more likely than larger firms to experience employee claims against them (particularly wages and breach of contract cases). They are also more likely to lose at a tribunal, where they often find that their interpretation of procedural propriety differs from that of the tribunal and that what is reasonable in their own terms (for example, having the same manager dismiss a worker and hear an appeal), may not stand up to scrutiny (Saridakis et al. 2008). A recent ACAS report has stressed the need of SMEs for support aimed at solving workplace issues such as employee grievances and disciplinary issues (Harris et al. 2008).

Finally, other writers comment upon the poor health and safety record of SMEs (Walters 2001) and their poor record of investment in training and development (eg Brown and Keep 1999, Matlay 2004), although this last claim is challenged by Kitching (2007), who argues that most surveys concentrate on measuring external training while the strength of SMEs lies in facilitating experiential learning.

Among the external sources of support to which SMEs turn for help in the HR and employment areas, accountants would appear to figure prominently. This is, perhaps, surprising, given that much of the business advice supplied by accountants to SMEs could be categorised as financial support (eg tax, access to finance, valuing the business), which is considerably closer to the core auditing area than HR and employment. Nonetheless, a review of the literature on the business services provided by accountants to SMEs (Devi and Samujh 2010) identifies a number of areas related to HR and employment including: management/organisation/HRM, training and skills development, remuneration schemes/salary administration, help with succession planning. In a study of Norwegian and Scottish accountants (Doving et al. 2004) four of the 15 areas of business support for which bills were raised were HR and employment related.
Studies of the sources to which SMEs turn for HR and employment support confirm the role of accountants. Blackburn and Hart (2002) show that at the time of their study accountants were the most frequently used external body for advice on individual employment rights, with 46% of companies accessing accountants (as against 21.5% accessing ACAS). Although new forms of advice, including websites, were of growing importance, the most popular ways of receiving advice were by telephone and then face to face with professionals. The direction of these findings is confirmed by the results of the Workplace Employment Relations Survey 2004, as reported in Kersley et al. (2006). The reliance on external accountants for advice on HR and employment had increased among private sector firms from 14% in 1998 to 19% in 2004. In most cases it was the smaller, and not the larger, firms in the private sector that had sought external advice. Similarly, Blackburn et al. (2006) report that those accountants in their sample who gave advice to SMEs on employment matters had experienced an increase in requests for advice.

Accountants, of course, only one of several available sources of external advice in the HR and employment areas, albeit one of the most used by SMEs. Other sources cited include solicitors, government departments such as the Department for Business, ACAS, chambers of commerce, employers’ associations and local support agencies such as Business Link. Accountants also increasingly face competition in the area from specialist HR consultancies or insurance firms specialising in HR, which have grown substantially in the past decade. Such organisations provide, among other services, procedural advice backed up by an insurance policy to cover clients who implement the advice (in this context their conservatism has been criticised by SMEs – they are too focused on procedural compliance at the expense of the development of ‘positive’ people management practices) (Harris et al. 2008). In some cases it is likely that accountancy practices play the role of a hub in a referral network of advisers, as discovered by Blackburn et al. (2006) in the context of the provision of general regulatory advice. This reflects a lack of expertise on the part of the accountant to provide the full range of support.

Just as in the case of more general business support, some SMEs would appear to be more open to seeking external advice in HR and employment than others. Again size appears to be a key factor. Larger SMEs have to deal with a broader range of issues, such as employment rights, simply because they employ more people. They are more likely to have experienced employment disputes or been taken to a tribunal and therefore had their awareness level of HR and employment issues raised. Blackburn and Hart (2002) suggest that firms with 20 or more workers have reached the size at which the need to be au fait with HR and employment issues becomes more obvious. Data from WERS 2004 indicate that within the SME sector in 2004 it was the bigger firm managers who were most likely to use external advice on employment relations, reflecting the greater complexity of managing a larger business (Forth et al. 2006). The profile as well as the size of the labour force could also be relevant. Thus Bacon and Hoque (2005) found that the strongest overall predictor of SME interest in HR was the skill mix of the labour force. SMEs with a high proportion of low-skilled workers were the least likely to have adopted HR practices.

This review of the literature has, therefore, identified that HR and employment are areas where SMEs need external support. It has also established that many accountants provide support in this area to a significant number of SMEs. Even so, we have little knowledge about how and why they do it. Several writers have commented upon our limited knowledge about the information and knowledge systems that enable accountants to meet different client needs, the methods they use to access specialist knowledge, and the nature of the advice given (Gibb 2000; Martin 2004; Martin et al. 2007).

These questions, which it is important to investigate further in relation to business advice in general, are particularly pertinent in the case of HR and employment advice, because these are areas that, at first consideration, might appear far removed from accountants’ core competences. If accountants are a significant resource for SMEs in the HR and employment areas it is important to find out more about their role in this respect, not least in order to help reach an assessment of whether it can or should be enhanced. This involves focusing on the following questions.

- What type of advice and support in the HR and employment areas do accountants provide to SMEs?
- How does this role sit alongside the core competences and business activities of practices?
- What resources (people and materials) in the practice are used to provide HR and employment support?
- What external alliances are used to support the provision of HR and employment advice?
- Are there any ways in which accountants’ performance in this area could be improved?
3. Research methods

A qualitative methodology was adopted. The limited knowledge about the role of accountants in providing HR and employment support to SMEs and the need to unpick the relationships between accountants and SMEs in this area meant that an exploratory study based on a limited number of in-depth, semi-structured, face-to-face interviews was considered to be most appropriate. Twenty interviews were carried out. Some triangulation of data was achieved by discussing the data in a number of ‘expert’ interviews with representatives from professional bodies and HR consultancies.

**CHARACTERISTICS OF RESPONDENT PRACTICES**

Every effort was made to ensure that the respondent practices were representative of various sizes and geographical locations, and both professional bodies. Size, in particular, was considered to be an important variable, because previous research (e.g., Ram and Carter 2001) has identified the influence of practice size on the business services provided. The practices chosen were spread throughout England to reduce the likelihood of bias towards the characteristics of practices in any particular geographical area. It was also perceived as important to ensure that a significant number of respondents had in-house professionally qualified HR staff to provide a comparator with other practices less involved in the area. The tables 3a, 3b and 3c indicate the distribution of the respondent practices according to these variables.

Identifying respondent practices proved to be more difficult than first envisaged. Initially it was expected that the professional bodies would be able to recommend practices with an involvement in providing HR and employment support for interview. This proved not to be the case because the professional bodies did not have this information. As a result, most practices were obtained by the researchers by cold calling practices using the registers of ACCA and the ICAEW. The cold calling took into account the need to have a range of practices of a certain size and geographical location (information available from the registers), and the need to have a reasonably equal divide between the two professional bodies.

Researchers typically initiated each cold call by explaining the nature of the project and asking to speak to the partner (or other member of staff) most likely to be familiar with HR and employment support. Interestingly, the adoption of this approach to identifying respondents increased the representativeness of the data, by providing a more random sample than if the respondents were known to provide HR and employment support; some practices contacted explained they did not provide HR and employment advice and did not wish to be involved in the research; in some cases it proved impossible to speak to the relevant partner; and in other cases sole practitioners said that they were too small to be relevant to the study. Around 60 practices were contacted by this method.

In the case of all the practices that did not have in-house professionally qualified HR staff, the interviews were carried out with practice partners. In respect of the other six practices, in two the interviews were carried out with both a partner and HR specialist, and in four with an HR specialist. Respondents were provided beforehand with information on the areas to be covered in the interview.

It was explained at the beginning of the interview that the focus was on the practices’ role in supporting small firms. For the purpose of this research, SMEs were defined as those with up to 100 employees. All respondents indicated that this group formed the vast majority of their clients. As has already been discussed there is no agreement in the literature on the definition of an SME. In adopting the upper limit of 100 employees, the researchers were taking into account evidence that it tends to be the larger SMEs that seek external advice (Blackburn and Hart 2002; Martin et al. 2007). It was important, therefore, to include this group within the focus of the study.

An interview schedule provided a structure for the interviews (see Appendix 1). An example transcript is attached (see Appendix 2). The interviews lasted about 60 minutes and took place in the respondent practices’ offices between August and December 2009.

Each interview was audio recorded, transcribed and saved as a separate anonymised word processed file. A deductive approach was adopted in relation to the data. A framework for analysis based on themes derived from the five research questions (see page 5) was used and units of data were categorised and integrated into these themes. Within each of these themes, sub-themes were identified and the data were categorised accordingly.

**Table 3a: Number of partners in the practice**

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**Table 3b: Location**

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<tr>
<td>South west</td>
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<tr>
<td>South central</td>
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</tr>
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<td>Midlands</td>
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<td>North</td>
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**Table 3c: Professional body**

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<td>ACCA</td>
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<td>ICAEW</td>
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4. Findings

INTRODUCTION

The first parts of this chapter examine the demand for support from small-firm clients in the areas of HR and employment and why clients approach SMPs for support in areas so distant from their central competences.

The chapter then goes on to consider the three different models of SMP response to this demand that are indicated by the data:

- minimalist model (eight respondents); the response of the smallest practices who were most cautious about getting involved in the HR area
- qualified HR model (six respondents); bigger practices which employed qualified HR staff and were fully involved in HR support
- payroll model (six respondents); practices which had developed HR support activity because of their responsibility for client payrolls.

Finally, the section considers future developments in the areas that were discussed in the interviews.

THE DEMAND FOR HR AND EMPLOYMENT SUPPORT

Respondents as a whole indicated that small-firm clients did approach them for advice on HR and employment issues, confirming the findings of Blackburn and Hart (2002) and Forth et al. (2006). The most frequent types of advice sought by clients of accounting practices cover HR policies and procedures, contractual obligations and employment legislation. This emphasis is evident even in the case of those practices that provided a full range of HR services. Advice on remuneration structures and recruitment, particularly of financial staff, is also sought by clients, but not so frequently.

The interest in HR and employment policies and procedures displayed by SMEs is probably a response to the increasing burden of employment regulation faced by small firms, as pointed out by Blackburn et al. (2006). This is illustrated by the following comments from a practitioner.

A lot of our clients don’t actually employ anybody – they wouldn’t touch it with a barge pole because the risks are too great, ‘we are not in the business of employing someone’. They deliberately keep the size of the business down.

The advice sought on contractual obligations and employment legislation concerned in the main: hiring and firing, contracts of employment, obligations in relation to sick pay; maternity/paternity pay/leave; and the minimum wage. The questions from clients are typically related to their need for help in deciding whether to take someone on, how to deal with someone who is being difficult or how to make someone redundant.

This focus on employment legislation is concerned with compliance. It puts the accountant in the position again of helping with compliance – analogous with their more traditional accounting roles, such as auditing. It also supports the conclusions of Bacon and Hoque (2005) that small firms are more likely to seek external support if there is some element of coercion involved.

As far as other areas are concerned, advice sought in relation to remuneration structures includes that on setting up bonus and incentive schemes, which may include share option programmes. Support and help in the recruitment of staff, not surprisingly, tended to be more frequently sought with skills in finance and related tasks. Clients often recognised the importance of employing staff with good financial skills and the replacement of these employees was therefore a concern, as illustrated by the following comment.

So this client phones me up and says ‘my life has come to an end. I’m about to die. Tim has given his notice in. Tim who has been with me for six years and runs the finances’. So my first task is to assure her that her life has not come to an end and that change can sometimes be for the better and to advise her on the steps she now needs to take to replace this individual.

Size, age and relationships with the client were cited as influencing the extent to which advice is sought.

If you are talking about an employer who has only got five employees, some of whom are family, some who’ve been there for 30 years, they are not going to have many HR issues anyway.

The smaller the firm the more limited is the advice that will be sought.

So very small firms [with] up to 10 staff, they want the very basics, contracts of employment, and the very basics of the employment package in terms of handbooks, policies and procedures. If you are talking about slightly larger small firms, it could be anything: disciplinary, more in terms of training, anything.

The type of firm most likely to seek advice was the small firm employing 20 or more employees, and this reflects the research by Gooderham et al. (2004). These firms tend to have a range of HR problems but are not big enough to employ an HR specialist or formally outsource work to a specialist HR organisation.
Initially the advice sought by clients is what could be described as commonsense advice, not specifically legal advice. This is illustrated by the following comment from an interviewee.

If there is an issue they discuss this with us as a business person, for example, what would I do if I was in their shoes? That’s really the issue here. They don’t consider I will advise them on how to deal with a tribunal – they don’t have that vision or objective. What they are looking for is – ‘if this happened to you, how would you deal with it?’ It is a commonsense discussion about an issue.

In general, there was no correlation between the sector in which a client of the practice operated and the frequency and nature of advice provided by the practice, although the smaller blue-collar businesses, such as those in the construction industry, were less likely to see the importance of needing advice, echoing the research of Bacon and Hoque (2005). The following comment from an interviewee illustrates this point.

The blue-collar proprietors, running blue-collar businesses, tend to be slightly cavalier about the work generally and employment law in particular, you know they grew up in a world where they were hired and fired at will and that is the way they expect to continue.

This view is perhaps a function of the age of the client – the older clients who ‘grew up in a world...’.

The frequency and extent of advice requested was inevitably influenced by the degree to which practices promoted the HR and employment areas. It was, however, also determined by the management style of the owner. The more enlightened businesses sought help and could be contrasted with those clients who think a problem will not occur and if it does they can manage the problem themselves.

Most practices did recognise a change in the nature of advice over the last year. More clients have been making redundancies and have been asking advice on the subject. The following comment from a practitioner illustrates the changing nature of the advice.

The thing changed in September [2008] – recruitment, which had been very buoyant until that time, fell off a cliff and went to almost nothing but was replaced by people saying ‘I need to slim my organisation and trim my staff’. We spent the last quarter of 2008 and the first half year of 2009 providing redundancy advice and helping organisations to slim themselves down.

It is important, however, not to overemphasise this change in the frequency and nature of advice. Several interviewees pointed out that redundancy probably has not been as much of an issue as in the case of medium-sized and larger firms. Small firm clients only take on staff if they really need them. For example, one respondent contrasted the behaviour of his clients with larger companies that employ people ‘on a whim’. The following comment illustrates this point:

a lot of these people [his clients] are in it for the long run and they employ people because they have got a certain amount of work they need to have done...and they will try and ride it out and say, ‘well, we’ve got a bit of a dip here but it will come good again’.

For most clients the HR area is a reactive one – it is not one of their main areas of focus when they go into business and its marginality means that problems arise. Another practitioner commented:

client SMEs invest a lot in marketing but everyone takes for granted they are a wonderful employer – six months later we receive a phone call that something [in the HR area] has gone pear shaped.

WHY CLIENTS APPROACH SMPS FOR SUPPORT ON HR AND EMPLOYMENT ISSUES

There are several reasons why advice and help are sought on HR and employment issues from an accounting practice. It is important to recognise that supply of these services is mainly demand led, reflecting the findings of Blackburn et al. (2009). It does not occur as a result of marketing by the SMP. It is invariably the client who raises the issue with the practice. Exceptions to this are discussed below in the context of the qualified HR and payroll models.

Trust between the practitioner and the client was cited by most interviewees as the reason why clients sought advice from their accountant: one interviewee commented, ‘trust in the advice we give them – if there’s not something in that we may as well pack up’.

This trust between client and practitioner is contrasted with other sources of advice.

The relationship...is fundamentally [built] on trust and it is somehow a deeper trust between accountant and the business than the banker and business or the solicitor and the business and that made the delivery of HR consultancy more naturally placed within the accounting practice rather than in the solicitor’s practice or within the banking organisation, although the banks and solicitors’ practices have tried to develop HR.

This lack of trust in other agencies extended to government bodies: ‘The idea of a government helpline would not be used by my clients because they don’t trust them and they do not want to give information away’.

As also pointed by Gooderham et al. 2004 and Blackburn et al. 2009, trust emerges because of the other services and products purchased over time from the practitioner, including traditional accounting compliance work.
The relationship between the practitioner and the small firm is seen as more than just a supplier/client relationship and in this context it is not surprising that issues of HR and employment are raised. Accountants are seen as peers by small firms – as business partners who experience similar HR and employment problems. Clients often begin the request for help by saying ‘if this happened to you’, suggesting a recognition that it is one SME talking to another about common problems.

SMEs want to talk to other SMEs and SMPs are SMEs. They regard me and my firm as business partners and I have educated them into maintaining a dialogue about their business as things happen.

Another practitioner emphasised this point.

My clients phone me up about everything and ask where should they go on holiday, where is a good place to buy flowers…it’s the kind of relationship an accountant has or should have with their clients beyond just compliance…we are very involved in helping them to develop their businesses so recruitment is a very important part of it because people you employ are the key to your business so it’s just natural that they would like to talk to us about these sort of things.

Other comments displayed the unique nature of the relationship.

We are not off the shelf, we’re local, we actually go and do the handholding

What they like about our service is we know their business, it’s a very personal service, a kind of family thing.

Thus the accountant will often be the first person to be consulted by small-firm clients on HR and employment issues, even if the latter are later referred to other services.

An advantage which small firms see in using their accountant is the latter’s commonsense language. Clients would prefer documents, such as contracts, to be supplied by a practitioner rather than obtaining copies from the Internet. They find these types of document complex and difficult to read. Accountants can provide a translation into a language they understand.

The internet would be the first port of call – but I am not sure it is – I think people would rather see somebody who can just tell them and maybe provide the correct letters and templates and things like that.

This ability of the accountant to explain things in terms that the client can understand was emphasised by various respondents.

It’s so nice to talk to a human person, because basically when you talk to a solicitor you get this jargon thrown at you.

The advantage of accountants generally is that they tend to be general practitioners so clients can go to them to talk about anything. Solicitors tend to be more specialist.

There is also some evidence to suggest that accountants are used for HR and employment advice because they are less expensive than other sources: ‘Why do they use our services? Otherwise, they would have to pay a solicitor... they are getting free legal advice’.

**THE MINIMALIST MODEL**

In the smaller practices (eight) with between one and three practitioners, no staff specialising in employment issues were employed. The provision of support in the HR area did not tend to be actively promoted. The provision was just part of the service offered to clients. It was more likely to be client-driven, demand-led, and reactive. New clients were picked up because they wanted tax and accountancy advice, not HR. HR was seen as a subsidiary area and a part of the general service given.

These smaller practices got involved in providing advice and support to clients in relation to employment and contract law.

They ring and say, ‘…I’ve got this employee…I want to get rid of him’. We would sort of say, ‘hang on, you can’t just dismiss them, there are various procedures you have to do, various warnings, written warnings’, etc: give them a rough outline of what they need to do, if they want to then take it further and actually go down the route, I would probably say to them, look we have got this helpline, give them a ring, run it past them.

A representative of one practice mentioned that it was particularly proactive on employment contracts: ‘we ask clients to make sure they have that [employment contract] in place because it is a statutory requirement’.

The involvement in giving contract advice could arise from the audit process.

Sometimes it is something we would pick up on in an audit because we have to look at the employment side and we see the employees have not got any employment contracts, and then they will come back and say, ‘what do I have to do?’
Advice on contract law would often arise when a sole trader was considering employing someone. The practitioner would go through the implications of this and the different obligations that it might involve; for example, health and safety issues.

Sometimes the support would involve accompanying clients to meetings with specialists.

A couple of companies have had problems with employees and basically wanted to get rid of them – and what was the best way to go about it? So we referred them to a lawyer just round the corner and I sat in on the meeting – to give confidence and more background.

If ACAS got involved we would sit in with the client with ACAS.

Other HR areas on which practices advised occasionally were recruitment, succession planning and remuneration. In relation to recruitment, respondents indicated they were often involved in the recruitment of clients’ financial staff and might advise clients more generally on possible sources of recruitment they could try. Practices could also act initially as a filter in the process of the selection of employees.

If they want to get a bookkeeper in, we would always offer ourselves to sit through interviews, to interview bookkeepers, because we know more about what the client really needs.

What we have done is contacted recruitment consultants on their behalf, we’ve vetted the CVs that have come in, conducted the first round of interviews and passed over to them the ones we felt more appropriate for the appointment.

Succession planning is a subject in which many practices involve themselves at the practice level and, therefore, they are in a good position as a small business to give advice on the subject: ‘I spend my life doing it’.

In relation to remuneration, advice on the tax implications of particular approaches to remuneration, not surprisingly, was generally given. Another area was the design of bonus schemes

One of the clients wanted to motivate his sales force and asked me whether I could help set up a structure for the bonus scheme itself, but actually when I discussed it with him it became evident he wanted to make it so complex that the staff would never actually get a bonus, which is the typical problem of bonus schemes as the employer does not want them to cost anything and the employee wants it to be a God-given right.

Estimates of how often they were approached for support varied significantly:

- not very frequently
- five or six times a year per partner
- once a week
- across the firm, probably one a week
- all the time.

It was among the small practices that most reservations were expressed about practitioners getting involved in the areas of HR and employment.

What people look to us for is financial help. I make sure I stay clear of it. It’s not covered by my PI insurance...most of us accountants are not good with people and prefer things like tax...where we don’t have to relate to people too much.

Another, practitioner commented: ‘It [an HR offering] would dilute the strength of the [existing] offering’.

The lack of the necessary skills and knowledge was seen as a major constraint in offering HR support and this was often a function of the size of the practice.

Micro firms like mine are unlikely to offer HR advice because it is not in our skill set

I recognise the practice does not have the knowledge or skills...worried about litigation for giving incorrect advice...could refer to specialists but wouldn’t do it because we have a policy of not taking commission from referrals...

Threat of litigation is a constraint...a growing worry...insurance.

An issue – a discrimination case – can escalate to exceed the expertise available.

We stick with what we are good at.

There is also a concern by practitioners about the reputation of their business when they move away from their traditional offerings:

...recruited someone for client to operate IT...it all went wrong...and damaged our reputation...

We are very much a reputation business – that keeps us out of HR advice.

These comments from the smaller practices express caution and would imply they do not get involved in offering HR advice. Nonetheless, in most cases they thought they were obliged to provide some support.
Given the competitive nature of the market in which they operated, they did not think they could refuse to respond to client pressure or to engage in some dialogue with small-firm clients who had problems in the area. As suggested by Bulukin et al. (2005), it was a way of keeping clients 'locked into' the practice and meeting their clients' expectations of the business relationship. The support tends to be given directly by the partner who has previously dealt with the client, and is largely based on his or her own experience. The key issue for the smaller practices was to be clear on how far they should sensibly go in this dialogue.

Most practices seemed to be comfortable giving general advice on employment procedures, often based on their own experience as employers, agreeing with the findings of Martin (2004). They were being asked to exercise the same mix of knowledge, procedures and judgement referred to by Malhotra and Morris (2009) in the context of auditing. It was another type of compliance work. Practices typically have model letters and contracts available, which they provide to clients. These documents tend to be drawn from websites to which the practices have access or are what are used by the practice itself: 'Employing people... that is where we speak from knowledge...we have done the research ourselves and taken advice. Grey areas we would refer'.

Practices were less at ease, however, giving detailed guidance on specific problems. Taking redundancy as an example, practices were generally comfortable about indicating the procedures to be followed and the potential costs but would not get involved in individual disputes between the client and the employee. Equally, while comfortable in providing advice on the content of grievance/disciplinary procedures, they would be reluctant to get involved in handling particular grievances.

To be honest we could not deal with a grievance or dismissal because we would not know the circumstances – all we would do is advise them of what the process was that they needed [ed] to go down.

Respondents expressed caution about how far they could go in providing help and stressed the importance of limiting their responsibility.

Sometimes we will give the client a template of a contract...but it always goes with the caveat that you ought to have this looked at by an employment lawyer.

Employment law is a highly dangerous area and we accept no responsibility for it – it is at your own risk – it tends to be over the phone so it makes it harder to discuss as you don’t get all the full facts...we try not give an advice without a caveat; we see [that] they understand the costs of sacking someone.

This caution about giving ‘legal’ advice appeared to be very much related to practitioners’ awareness of their professional ethics and the professional codes of conduct to which they worked through their professional bodies. Thus, when they thought they did not have the expertise they would not provide the advice sought from the client.

The insurance implications of getting too involved in complicated issues were also stressed. Although a practice’s professional indemnity insurance might cover it for running a payroll service, getting involved in the detailed application of employment law for a client would not be covered.

Respondents pointed out that the level of advice given before referral also depended to some extent on the client.

It depends on how well you know the client, it is about knowing your client because it’s about assessing risk, how complicated the case might be and how likely the client is to come back and blame you if it all goes wrong.

Nonetheless, even in cases where detailed advice was not provided by the practice, practitioners emphasised the value to the client of being referred to a source of support. One respondent commented: ‘Even if the advice I am giving is “I can’t help you, you need to speak to an employment lawyer”, it’s still good advice’.

Various policies were followed in relation to charging fees for HR and employment support. For some practices the advice tended to be seen as part of the practice’s general service to existing clients – part of ‘keeping them on board’. In some cases, the practice absorbs the fee into regular charges, with the exception of specific jobs such as finding a financial controller. One said, ‘We charge for payroll...it would be difficult to bill because clients come to expect practices to give informal advice in these areas’.

Another practitioner implied that the geographical region was an important factor in clients’ willingness to pay for such services: ‘In a working-class town like Swindon, clients are not as willing to pay as they would [be] in the south east’.

Some practices are not transparent regarding charges. This is perhaps because the client may complain and expect practices to give informal advice on these issues free of charge.

If [HR and employment advice] doesn’t attract fees but it probably helps to justify the fees for other things – because it’s peripheral so we are looking towards billing for...accounts, etc...no idea how much work actually goes directly on it.

One practice said that they charge for anything that takes at least 15 minutes; if advice relating to a HR matter took 15 minutes, clients would be charged but it would not be separately referred in the bill: it would be in a box described as extras. Clients pay without querying.

Not surprisingly, respondents found it difficult to estimate the contribution of the HR and employment areas to fee income.
In providing support to clients, as mentioned earlier, practitioners depend a lot upon the experience residing in the practice. Nonetheless, they also need to use a variety of other resources, particularly given the frequency with which regulations and legislation change. One example of an external resource used by respondents was Crone's Employers' Electronic Guide, which has basic information on legal obligations such as holidays, etc. A practitioner receiving a query from a client would check out the answer on the electronic guide to make sure they had the facts right. Letter and contract templates are also sourced in this way to maintain consistency and keep up to date with legislation. Some practices subscribe to help lines or have relationships with HR consultancies, eg Payroll Alliance, Peninsula, Pinnacle, which keep them up to date with changes in employment law and provide other HR advice. Sometimes resources such as reference material and help lines in the HR area were available as part of wider business and tax resource services to which practices subscribed, eg CCH, Abbey. The charges for the use of these resources did not tend to be passed on to clients. Practices also received free newsletters from solicitors on employment law issues, while one practice used clients with established HR departments as a source of advice that could be drawn on.

A common external resource used by practices is training. This could be provided as part of more general accountancy courses that a practice attended, eg sessions on employment law. More often it was in the form of stand-alone seminars. One practitioner went to seminars organised by employment lawyers (Howells Percival) four times a year as well as attending a one-day conference every year on HR issues. Mercia Training was an organisation mentioned by several practices as a training resource which included HR topics among its offered services. One practice sent staff on their courses every year. Another practice indicated that, as well as taking advantage of Mercia's training provision, it occasionally rang them up for advice on an HR issue.

Government and public resources such as ACAS were mentioned by some practices. Practices received material from them and filed it away for reference. The ACAS website was also used. Reaction to ACAS was mixed. One practice was extremely positive: ‘Yes (ACAS) – quite helpful – they play everything by the book – they are not biased – they just tell you as it is’. By contrast, another respondent was critical of ACAS.

In the smaller practices, without any HR specialists, practitioners were reasonably clear about the point at which they needed to refer the client on for more specialist help.

If we do have any grievance handling queries, we tend to pass them on and suggest they speak to their lawyers. That is certainly an area we would not be comfortable with.

We'd help them but not take on the responsibility for doing the whole lot; say you want to know how to term this, draft it and send it to us and we'll look at it but we do not take the strain of the legal advice...if it is at all difficult we say you need to go to an employment lawyer.

In these circumstances, practitioners believed they had a responsibility to find specialist help for their clients when they could not provide the support in house. This broker role was seen as part of their service to clients. In referring clients to external resources in this way, practices are playing a role noted by other researchers – acting as a one-stop shop (Leung et al. 2008) or as the hub in a referral network of advisers (Blackburn et al. 2006). The specialist resources used tended to be HR consultancies and helplines, as mentioned above, and local solicitors. In most cases, practitioners knew local solicitors specialising in employment law to whom they could refer clients. These were loose relationships, although often long standing, and based on past experience, local knowledge and mutual self-interest.

How long has the arrangement existed? Twenty, thirty years – a long time – the two senior partners were personal friends and ended up having mutual clients – it was informal. Any accounting issues they would refer to us...we pick their brains and clients will pay them direct.

Even so, the reluctance of clients to pay the fees expected by solicitors was emphasised – that was one of the reasons why clients often wanted to make do with the ‘informal advice’.

As soon as a solicitor says that is 160 sterling an hour, end of conversation, they will baulk at that; they say, ‘look, it’s a phone call here – can you sort it out?’

In most cases practices did not tend to make any income from brokering the relationship between their clients and specialist resources. They are doing clients a good turn and getting credit for it. The exceptions were practices that promoted a helpline as part of their overall package to clients and included a charge for it.

Some reservations were expressed about companies providing specialist HR services, seeing them as too cautious in their advice because of fears about liability, reflecting the conclusions of Harris et al. (2008).

They are not always as commercial as you would be if you were to make that decision yourself. If you know you have got to get rid of that employee, then you have to get rid of them or it can affect the business going forward; you have got to deal with the fallout afterwards.
THE QUALIFIED HR MODEL

Of the 20 practices that were interviewed, six employed HR professionals. The six practices had respectively 150, 90, 17, 17, 8 and 5 partners. These practices tended to see their involvement in HR and employment more strategically as part of a one-stop-shop approach to clients, promoting the areas as any other strand of business advice. The development of HR and employment services was part of a decision to seek to provide a full range of support to small-firm clients.

*We want to become a broader-based advisory practice.*

Absolutely – we should be doing it – it is a business need, we are accountants – we are there to answer our client’s business requirements.

The practices moved in this direction because existing clients were seeking HR and employment support. By expanding the services of the practice it was, however, also possible to obtain new clients.

*It was a conscious decision when I [an HR specialist] was brought on to the board, that they were getting a lot of general enquiries because some businesses for whatever reason [say] ‘I don’t want a lawyer I just want some general advice’.*

Respondents pointed to the competitive advantage they perceived that they had over other HR consultants:

*Our clients can shop around for any HR package if you like, but we are in a unique position, they are already in-house, they already like our service, we know their business.*

Although the practices saw the development of HR and employment support as being of strategic significance, their mode of entry into it was sometimes opportunistic. For example, one practice had appointed an HR specialist to deal with internal affairs and then had realised this gave them an opportunity to develop an HR service for clients. Another, smaller, practice had had a long-standing referral relationship with an HR consultant. Seeing the demand in the area they then established a joint venture with the consultant, with the income of the joint venture split 50/50 between the two.

Inevitably, in the practices in this category a more substantial range of HR support tended to be offered. They sought to deal with all queries in house. They provided hands-on advice on disciplinary and redundancy issues.

*I have actually coached them through the consultation meetings they have to have or the disciplinary meeting – what they can say and/or can’t say and followed it up with templates of letters that I produce.*

The joint venture referred to above specialised in recruitment. Its prospectus offered recruitment of directors, management, non-executive directors, MBO candidates, part-time financial controllers, financial directors, psychometric testing, outplacement and handling redundancy.

Some of the practices with a bigger group of HR specialists offered various comprehensive services to clients, enabling them to outsource all or part of their HR. A practice with six professionally qualified HR staff and a number of other associates provided:

- a compliance service which makes sure the client has all the documentation (policies, contracts of employment, procedures, letters, etc) in place that they need as a small business
- an HR administration service, involving an HR database to manage starters, leavers, sickness, holidays, etc managed either by the client or the practice, and
- an advice service providing support in areas such as performance management, discipline, redundancy from beginning to end, available either on an ad hoc or subscription basis.

In a ‘Rolls Royce’ version of this service, clients could also talk to an advice line staffed by six employment lawyers and access a website with all relevant documentation and best practice guides. Clients taking this version were also protected by an insurance policy covering worst-case scenarios. For example, if a client had to meet the costs of defending a claim in an employment tribunal, the insurance would pay for the cost of defending that case.

The same practice provided recruitment, remuneration planning and development programmes for clients in areas such as performance management, strategic development and communications, delivered by workshops. A respondent gave a typical example of their work.

*We have a client with 60 staff with no procedures, contracts of employment, employment structure at all. We went in, we did an employment audit, we had a look at what was in place, and now they have procedures in every part of the firm. We have looked at health and safety, we’ve got contracts of employment in place, employee handbooks, all the processes and procedures.*

Respondents stressed the advantages of the integrated service such practices can provide.

*We have a very large client – they buy another business and suddenly have 40 extra staff. They need some payroll services so the senior partner dealing with them will bring the payroll department into the meeting. Then the HR person is called in to advise on how to manage the staff – so in the room we have the senior partner, payroll and HR represented.*
The specialist providers emphasised the frequency with which clients sought help: ‘All day every day – we have got 150 clients who we work with on this kind of basis [HR support] all the time’.

The level of business generated owed a great deal to the active promotion of HR and employment services. Partners were encouraged to promote the HR service during their general contact with clients. Direct promotion of the services took place through mailings and via vehicles such as employment law seminars to which potential clients were invited: ‘Most partners, when they see new clients, hand brochures out. We have brochures in reception, they say, “hang on, we are here to provide HR as well”’.

[Clients for HR support] may come via the general practice, managers and partners, alternatively they may attend seminars with us quite regularly, we have a newsletter and we do a lot of marketing. Obviously it is on the website and sometimes they will come directly.

And that’s funnily enough how we attract a lot of our HR clients, because after that kind of session [employment seminar], they all want to sign on for the services.

In contrast to those practices fitting into the minimalist model, practices with qualified HR staff put an emphasis on HR services as a separate income stream within the practice. For one practice: ‘HR is number two after financial and accounting issues – it is what the client needs’.

Practices worked with some clients on an annual fee basis while in other cases the arrangement was more ad hoc.

We either charge an hourly rate or what we have is a 12-month support plan where they pay an annual subscription on a monthly basis where they get a list of services.

It was not always easy, however, to tie in clients to an annual subscription service: ‘Customers do not see a need for the service until it comes up and they have a problem... they only want to pay when they need it’.

Notwithstanding the comprehensive service these practices offered, and their qualified staff, there were limits to their role. For example, they would refer clients to recruitment agencies for specialist services. Although their emphasis was on managing situations such as redundancy and dismissal so as to avoid legal remedies, this was not always possible. On occasions when HR interventions would not work any more, an employment lawyer had to be involved (respondents commented on the present litigious culture that sometimes made the involvement of lawyers inevitable). The practices would not go as far as representing clients at employment tribunals. They would also tend to involve lawyers in the drawing-up of legal agreements.

There are things we would naturally ask a solicitors’ practice to do, we would not for example, draw up a compromise agreement, we would always get that legally drawn up.

Practitioners were also less comfortable getting involved in health and safety issues, because of their technical nature.

The HR staff in the practices emphasised the importance of their professional body, the CIPD, its programme of continuing professional development and its website. They attended CIPD branch meetings and from previous roles they had acquired a network of HR contacts on whom they could draw. As far as employment law was concerned, they all tended to have good contacts with specialist lawyers to whom they could turn for advice or access to specialist seminars. As one of the practitioners pointed out: ‘the amount of free advice out there is quite astonishing to my mind. I don’t think I have paid for anything since I have been here’.

These practices relied less on external resources than did other practices in the study but they still bought in courses and training packages, and, in some cases, subscribed to a service of HR and legal updates. One practice bought in the expertise of a team of solicitors to provide a 24-hour-a-day helpline. Another worked closely with ACAS.

They have quite a lot of information – I work with them in terms of mediating in a dismissal – what generally happens is someone has a grievance and they go to unfair dismissal – so the employer contacts ACAS and at the same time gives me a ring and I speak to ACAS.

Another firm worked with ACAS to run joint seminars for clients, although one of its practitioners lamented: ‘ACAS has now changed its business model and [we] are now becoming competitors’.

THE PAYROLL MODEL

Alongside the provision of a payroll service to clients, a third group of practices had developed an identifiable HR and employment support role, albeit without qualified staff. Six practices clearly fell into this model. They had thirteen, five, five, four, three and one partners respectively. There seemed to be a consensus among these respondents that if a practice offers a payroll service the demand for HR advice will follow. Because payroll involves dealing with clients’ staff, inevitably questions in relation to staffing will be first raised with the practice in its ‘payroll guise’.

It’s [HR advice] a part of being an accountancy practice especially if you are doing payroll. We have always done payroll and it’s bound to be an issue...

Payroll is the biggest function in our business; with it comes HR issues.

We have 100 payroll clients – basic HR arises automatically – the difficult issues we refer to ACAS or lawyers.
For those practices that had not taken the decision to develop HR as a major income stream and appoint HR specialists, payroll seemed to represent an entrée into the area. Practices with payroll services seemed to represent a ‘half way house’ between those with HR specialists and those in the minimalist category.

In these practices the staff running the payroll function were generally used to dealing with requests for advice on a number of basic HR issues; for example, statutory sick pay, statutory maternity pay, holidays, minimum wage, disciplinary and grievance procedures. The practices would also keep clients updated on changes in statutory legislation and regulation. The staff directly concerned did not tend to be HR qualified but their experience helped to make up for this: ‘Does he have an HR qualification? Well not a formal one but he has been in the firm 20 years’.

Practices in this category were comfortable with being involved in HR and employment: ‘I think we should be involved...we should at least act as a middle man in this area’; ‘We see it as a natural progression’.

Nonetheless, in some cases they did recognise the need to upgrade competence in the area: ‘I don’t think we are good enough – we are not qualified legally...it’s got more complicated and we have to get better’. It was among this group that one encountered practices that were considering employing an HR specialist but that were worried about the investment required, particularly with reference to insurance costs.

Practices fitting into the payroll model tended to promote and make some charge for HR services but not as prominently as those practices with qualified HR staff. The practice literature would make some reference to specific services such as compliance with employment legislation and help with recruitment and staffing issues:

*When we go out to potential users we always tell them [about HR] and we put it in writing that they are entitled to this support – they get a little glossy leaflet.*

Another practice saw the advertising of its payroll service as in a sense promoting the HR role, seeing the latter as part of payroll. Another practice saw advertising its HR role via employment seminars as a useful way of promoting the practice generally:

*mainly employment law updates – the last one was six months ago – there were around 200 people there – most of them clients – we have done that four times in the last two years.*

The approach to billing for these services varied. In some practices, help in the HR area tended to be bundled into the general charge for payroll services: ‘I would charge for the payroll function and other HR advice would be billed under this heading’.

Other practices do bill separately for HR services: ‘...then they know they are paying for it – the client should respect you for charging for such advice’.

It is billed separately and that is the reason why we divided the HR function into a subsidiary – the clients were not recognising the value of the advice received.

For another practice, charging depended on the nature of the service.

*If it is a query as part of the payroll service it is covered by the quarterly fee to payroll – if it is an ad hoc one off, eg we interview five people, it is billed by our hourly rate.*

Like those practices in the ‘minimalist’ category, practices with strong payroll functions relied on external resources as well. They referred clients to specialist helplines and HR consultants such as those mentioned above. In most cases no income was generated from the referral process for the practice but there were exceptions. In one case, as part of their general fee to the practice, clients were given access to a helpline giving free legal advice on employment issues and contract law. The practice subscribes to this service as part of its professional indemnity package. Clients are given the telephone number of the helpline and reminded to use it if they have detailed HR queries. The practice pointed out that this service was a useful marketing tool when talking to potential clients. The same practice also offered clients a subscription to a newsletter on employment issues, which was written by an external consultant.

Another practice made two services available to clients, depending on their size. For large firms, 10 employees and above, they referred clients to the HR helpline of Abbey tax protection. In the case of smaller clients, the practice was a member of a network of accountants, the Probiz network, which provided a number of value-added services, including an HR package. Clients were encouraged to sign up to this package for £10–£50 per month. In was, in effect, an insurance policy. The practice paid a subscription to Probiz to enable its clients to access the service. The availability of these services was promoted by the practice in seminars for clients. They were seen as additional services offered by the practice.

A couple of practices mentioned using ACAS.

*Most of the [client] queries are resolved by a quick phone call or meeting with an ACAS representative – I would say two-thirds are resolved that way but they may need more specialist advice – if ACAS feel this could go to a tribunal, they would step out, would not take sides, so the employer would need to see a lawyer.*
FUTURE DEVELOPMENTS

Not surprisingly, most reservations about developing the HR and employment support role were expressed by those smaller practices falling into the minimalist model. They tended not to be convinced about the merits of expanding their business, because they did not want to lose control of the practice and wanted to know all that was going on: ‘...a move to HR would result in taking your eye off the business’.

The practices most interested in further development in the HR and employment areas were those following the payroll model. They saw the potential for expanding involvement through the professional development of payroll staff. There was scope for increasing involvement in recruitment and succession planning. Several mentioned the concept of providing a one-stop shop for clients.

Nonetheless, they shared some general concerns with smaller practices. There was some nervousness about the market and what further development might involve. They were worried about whether the market would support their employing an HR specialist, given the reactive approach of small-firm clients to HR and their reluctance to recognise in advance that they needed external support in the area. Some were concerned that, by appointing an HR specialist, they could lose control of their relationship with clients or that the specialist would not have the in-depth knowledge of clients that the practitioners possessed.

These doubts were possibly enough in some cases to prevent the developments in this area of work that have been seen as preconditions for the increasing involvement of practices in giving business advice more generally – the development of a strategic focus on doing this and the proactive use of external alliances to develop their own resources and capability to provide advice (Doving et al. 2004). In support of this final point, it is significant that the smallest practice (with eight partners) to develop a specialist offer did so by taking direct advantage of an HR consultant to establish a joint venture.

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Those practices that already employed HR-qualified staff, having taken the plunge, were not looking back and were, on the whole, optimistic about the market and considering expansion:

*I think the needs are as great as any [for] large organisation [because] whether they employ 15 people or 500 people you’ve still got the same potential to get it to right or wrong...and it still has the same incredible positive or catastrophic impact on the business.*

*It remains to be seen over the next three to four years whether or not we are right and [whether] if [the HR offer] has got a level of uptake among the SME community that we think it will have.*

These practices were focusing upon how to refine their offer and innovate. One practice was planning to develop training on basic HR processes for small-firm managers, providing breakfast briefing meetings for clients on health and safety on a regular basis and establishing a website on employment law which clients could access directly. Another practice had developed and now offered a stress management tool. They saw a demand for this tool and an opportunity to expand their market by promoting the tool to current clients and to others who were currently not clients. Other practices saw the opportunity to take advantage of a demand for training in employment law and exciting potential in developing their website for clients.

There was mixed support for a greater involvement of the accounting professional bodies in the areas of HR and employment.

It was, for example, generally argued that there was a need for the professional bodies to be clearer with regard to the ethical, legal and insurance position of members who offer HR and employment services.

Other suggestions included the creation of a HR Faculty (ICAEW) with appropriate CPD; expanding the syllabus of examinations to having a specialist paper in HR- and employment-related subjects; and CPD and seminars.

Nonetheless, there were reservations.

*It’s got to be better than what’s out there [to be worthwhile].*

*What worries me is professional indemnity insurance – if they looked at that [on the basis of] giving legal advice and the premium doubled or trebled then I think that is just going to kill it dead.*

*If the professional body gave this support my fees would rise!*

*The ICAEW would only be able to give generic advice – but the advice that is required relates specifically to the client’s situation.*

Practitioners did not believe that the professional bodies were proactively encouraging their members to expand their services from the traditional compliance work that accountants offer. It was argued that ACCA should put more emphasis upon advising SMPs that there are other services they can offer.

The larger practices pointed out that with their own specialist sources of technical advice they have probably got more specialist and technical knowledge than the professional bodies in the HR area.
5. Discussion and conclusions

This research is the first to examine the type and nature of HR and employment advice provided to SMEs and offers important insights into the nature of the relationship between the accounting practitioners and their client SMEs. Additionally, the research identifies the motives and demand for such advice.

Is it a matter for concern that, as this and other studies suggest, small firms turn to accountants for support on HR and employment, areas so distant from their core business? In the case of those practices with qualified HR staff the answer is clearly no. In these cases small firms are likely to benefit from the holistic approach of the practices and the sharing of knowledge between accountant and HR specialist.

In the case of other practices, mainly those with a minimalist offering, the answer is also probably in the negative. Most partners seemed cautious about their role and aware of their professional limitations in the HR area, taking appropriate steps to refer people to specialists when necessary. Small firms have a lot to gain by using as their first recourse someone who has a good understanding of their business and some, albeit limited, experience of employment issues. The more practical approach, from a policy perspective, would therefore be to examine ways in which the support role of those practices without qualified HR specialists can be improved. The study points to a number of ways the support role could be consolidated. These include:

- the development of a tested model for the brokerage role, which offers client satisfaction and at the same time an income stream for practitioners
- addressing an HR development need for those non-qualified, albeit experienced, staff who are associated with the payroll function and who provide quite specialised procedural advice to clients
- examination by the professional accountancy bodies of the support provided to members in the HR and employment areas.

This study provides evidence that some practices are interested in widening their business advice role in relation to small firms, although the sense of urgency in this respect varied considerably. The study also displayed, in the form of those practices with HR-qualified staff, that a significant stream of income can be developed by adding the payroll function and whose development needs have already been referred to above. It is among these practices that the most interest in the further development of the HR role was encountered. Nonetheless, given their caution about investing, as the larger practices had done, in qualified HR staff, the short-term answer might lie in staff development in the HR area for staff associated with payroll, or in the type of joint venture arrangement established by one of the practices in the study. They do not seem ready for the kind of multi-disciplinary professional development typical of the larger practices.

When we turn to the smaller practices, their internal development in the HR area is less clear. Their interest in moving in this direction was limited, above all, by an awareness of their own limitations in the area. As discussed above, researchers have identified a range of preconditions for practices to widen their business support role for small firms (eg having strategic intent, employing specialist non-accounting staff and being more proactive in their engagement with clients). These preconditions seem unlikely to develop in the smaller practices – in fact, efforts to become more sophisticated in this respect might be counterproductive if it means they lose their commonsense, experience-based small-business approach, which gives them such credibility in the eyes of their clients. Certainly, exhortation to such practices to change and develop a wider range of services is, as Blackburn and Jarvis (2010) point out, unlikely to be sufficient. The most realistic option for this group would seem to be to identify an efficient broker model in relation to an external HR resource. This might provide a limited income stream but, equally importantly, could help to tie in clients to the practice more effectively (which seems to be the reason practices of this type get involved in providing HR advice in the first place).

The provision of HR and employment law advice by accounting practices to SMEs can be seen as a part of the shift in the nature of the work of these practices from an emphasis on traditional accounting compliance work, such as auditing, to providing a wider business support and advisory role to their SME clients. This is not to say all professional accounting practices have moved in a similar fashion. Currently, there is little evidence as to the extent of this shift towards the provision of a wider service to SMEs. What is apparent, however, from independent evidence, is that external accounting practices are the main providers of business advice, including HR and employment procedures, to SMEs. This seems to be a growing trend. One can only conclude, therefore, that, in the absence of some quantitative survey of accounting practices, examining the nature of their work, it is common to find accounting practices providing business advice to their SME clients.

There are many reasons given for this shift in the nature of the work of accounting practices. Two of the most influential are, first, the introduction of the audit threshold, which has meant that not all small companies are now required to have a statutory audit of their annual financial reports and, secondly, developments in information technology that have resulted in a reduction in the time to complete compliance type work and administration issues. Nonetheless, in the context of this study, the shift would also appear to have been encouraged by the growing amount of regulation in areas such as employment, which many have described as burdensome in terms of compliance and complex in nature. This has particularly affected smaller business entities as they tend not to have
the internal resources to deal with such demands. It has also presented accountants with the opportunity to become involved in providing another compliance service. In this sense the accountant’s role has similarities with its traditional one. It could be argued that practising accountants have an aptitude and expertise, developed initially through financial regulation, which they have then adapted to enable them to respond to and manage another, quite different, form of regulation.

Trust, arising particularly from the compliance relationship, has been recognised as underpinning the relationships between SMEs and SMPs revealed in this research and in other similar research on business advice and support provided by accountants. Another factor that helps to build this trust is the acknowledgement by SME clients that SMPs have very similar characteristics and needs as SMEs – some would say that SMPs are in fact SMEs themselves. From the interviews it is apparent that this recognition of the similarity of SMPs and SMEs has given SMPs significant credibility in the eyes of SMEs.

This discussion has already raised a number of issues from the study that point to the need for further research and development, eg the identification of a broker model that can generate income for SMPs. Even so, a consideration of the limitations of the study suggests additional areas that require investigation. Most obviously this was a limited exploratory study. It is suggested that its findings do put forward patterns of SMP involvement in HR support that it would be useful to examine on a wider international survey basis to test the robustness of its conclusions. Secondly, data were collected from only one stakeholder in the area of HR support for small firms, SMPs. There is clearly the need to examine the perspectives of other interested parties, HR consultants, HR and accounting professional bodies, and above all small firms themselves, to see how they perceive the SMP role and its potential development.

It is also important to keep in a realistic context the significance of the results. In all the practices, even the largest, HR was a minor area of provision compared with the financial services support they provided, and practices face considerable competition from other, specialist, sources in providing HR support to small firms.

**RECOMMENDATIONS**

This discussion of the results of the study gives rise to a number of recommendations.

- Professional accountancy bodies should enhance the provision of products and services to members in respect of HR and employment issues.
- Professional accountancy bodies should review their continuing professional development offering to members in the areas of HR and employment.
- Professional accountancy bodies should clarify, from an ethical perspective, the extent to which practitioners can offer an HR and employment service to clients.
- Smaller practices should consider developing a robust broker model to offer HR and employment advice more effectively and so generate income.
- Government and its agencies should recognise the accountants’ role in providing advice on HR and employment law to SMEs, and ensure that accountants are a recognised stakeholder when seeking consultation advice and developing initiatives to support SMEs.
- Further research should be commissioned to facilitate a better understanding of the extent to which accountants provide HR and employment advice to SMEs.
- Further research should be commissioned to identify the characteristics of a robust broker role for practitioners in the provision of HR and employment support, which might, at the same time, enable them to improve the HR service they provide to small-firm clients as well as providing a steady income stream. Such research would of necessity involve some evaluation of the specialist providers to which practices can turn in the areas of HR and employment.
- With regard to SMEs, there is a need to examine in more depth their needs in respect of HR and employment regulation and the provision of advice from all sources.
- The CIPD could usefully review the availability of appropriate development opportunities for those professionals responsible for primarily providing HR support to smaller firms.
- The CIPD should consider the development needs of those non-professional staff employed by SMPs, often in a role associated with payroll management, who are responsible for giving HR and employment advice to smaller firms.
6. References


Observatory of European SMEs (2007), Analytical Report, Flash Barometer Series No. 196 (European Commission).


INTRODUCTORY STATEMENT

We are engaged in research supported by ACCA into the role of small and medium-sized practitioners in providing advice and support to small firms in the areas of human resources and employment issues – including relevant legislation.

The aim of the interview is to ask you about your experience in these areas. One of the main aims of the research is to identify how practitioners can be supported in this role.

To ensure that the record of the interview is as accurate as possible, I would like to tape record it. The tapes will be anonymous; neither you nor the practice will be identified through the tapes, or in any subsequent report.

(Emphasise the importance and value of having a full record – in the event of refusal, take notes, emphasising that it may be a bit slower).

QUESTIONS

First a few questions about the practice.

How many partners?

Number of small-firm clients (definition of small: fewer than 100 employees).

What type of advice or support does your practice provide to small firms in the HR and employment areas, eg recruitment, succession planning, training and development, performance management, remuneration, grievance handling, employment law?

How often do you tend to provide it?

Has it changed in nature or amount as a result of the economic crisis?

For how long has the practice been involved in these areas of work?

Why did you get involved in the first place, eg a desire for new business, because particular skills emerged in the practice?

Tell us a bit about the circumstances in which the request for support is likely to occur.

What evidence is there of take-up of the advice and of its producing results?

Are there any plans for changes in the future, eg additional services, ending this activity?

Is this a regular part of your service?

Do you advertise it?

Do you know if other similar practices are involved in providing this kind of support?

Is there much competition from other practices?

Why do you think small firms use your services in these areas?

Do they use other agencies as well?

Are some small firms more likely to seek this kind of help than others?

Do these areas of work attract fees?

All of it?

What percentage of the firm’s fee income does it form?

How is it billed for?

Is the advice and support provided by someone specific in the practice – does someone specialise in these areas?

What are the qualifications and experience of personnel who are involved in providing this support?

Are any particular resources or materials used to help provide the support, eg printed material, DVDs?

Does the practice take advantage of any particular agencies, eg ACAS, legal firms, in providing this support?

How are they used?

Could ACCA or ICAEW play any role in this?

Thinking about small firms generally, what are their main needs and problems in relation to HR and employment issues?

Are there any ways in which your practice’s competence in providing the service could be improved, eg training, materials, support from other agencies?

Could ACCA or ICAEW play any role in this?

CONCLUDING REMARKS

That is the last question – are there any other points you would like to make that you think have not been covered?

Are there any questions you would like to ask me?

Thank you very much for your time – it has been very useful.
Appendix 2: example transcript, 19 November 2009

Location: Cheshire

Practice size: eight partners – ACCA member

Q. Would you say that small firms figure highly among your clients? We are using a definition of small as being fewer than 100 employees.

A. Yes, definitely – they are the majority.

Q. How many staff do you employ in addition to the partners?

A. I think we have 55 staff – there’s just over 60 of us in total.

Q. What kind of queries do you get from small-firm clients in the HR area?

A. Yes – they might ask us about recruitment – to help them to recruit the right person – so we do get involved in helping to interview staff and reviewing CVs for them, that sort of thing. We often get a call regarding redundancy – things like that, maternity pay, sick pay, those sorts of thing. Minimum wage is another. We have a payroll bureau so we are dealing with a lot of payroll anyway. So things like that we can deal with.

We are also involved in succession planning – there are serious HR issues involved in that – I have got a meeting with a client a week on Monday regarding exit planning – MBO would be the best way for them but are the senior managers up for it? There are two of their sons working in the business – they very keen – but still quite inexperienced – so you’ve got all of these things – that is a business that has an HR director – so...there [are] lots of things to talk about with them.

Obviously, the thing for us is where it stops being an accounting matter and becomes a legal issue and that’s where we are very aware of our limitations really. We do have a number of complementary services that we tap into that are not effectively in house where – one of them is a tax investigation/insurance package which clients pay for and what that is (this is not relevant to HR) they pay an insurance premium if you like – so if they have a full investigation by the revenue then that pays for our fees in dealing with that investigation. Now, with that there is a legal help line so clients are able to ring that help line if they have an issue with redundancy or things like that. Minimum wage is another. We have a payroll bureau so we are dealing with a lot of payroll anyway. So things like that we can deal with.

We deal with corporate finance work so we might be dealing with acquisitions, disposals, mergers, so there are TUPE [Transfer of Undertakings (Protection of Employment) Regulations] issues and things like that, and that is quite a specialised area, so we may bring in a lawyer who can deal with the TUPE side of things. So we can deal with things in a number of different ways. So the key thing is that we can offer some broad advice to clients because we know, broadly, what issue they should be considering, but when it is of a legal nature we make sure they get some specialist advice.

Q. In relation to recruitment, can we just clarify the practice’s role? You would tend to deal with that internally? Is that just in relation to finance personal?

A. No – it’s not just in relation to finance personnel – it generally is but it could be anyone – you have come to see us at a time – I see you’ve picked up a leaflet there – we have actually just – only last week or the week before – launched a new company – we actually have [practice name] Human Resources Ltd – so it is quite a convenient time to come – now what this is – and the reason we have done that is that there is a gentleman we know whom we have worked with for a number of years – who is a recruitment consultant – he also offers various other spin off things as well – he has been instrumental in recruiting quite a few senior people at the practice – one of which is myself. I think three of the eight partners [are people] he brought in as managers and we have all gone on to [become] partners. He has also recruited people for our clients and things like that. We have been talking about doing a joint venture for a while, and we have actually gone ahead and done it now – so he has actually come on board. It is a separate limited company – it is a joint venture between the two of us – so he is going to be assisting clients with recruitment. So where we might have dealt with something in house – we might still have some involvement as a partner – but he would do the search and selection and everything else for them, really. He will retain the trading name as before but it is the trading name of [practice name] Human Resources Ltd. I have got a little schedule here of what the company will offer – you can have this. It is recruiting directors, management, non-executive directors, MBO candidates, part-time financial controllers, financial directors, psychometric testing, outplacement, redundancy [and] HR support for SMEs.
So as well as doing his bread and butter [business], which is sort of managing companies’ recruitment, if you like, he is going to be focusing on these HR products which we have and trying to sell them within our client base. So we are trying to integrate his services within our client base – that is what we are trying to do.

**Q.** Will he become a partner within the practice?

**A.** No, he is a director and shareholder of [the] new venture – as are we. It is a separate entity but the idea is that...by being part of the same organisation it will be easier to integrate him into our client base.

The income of the joint venture will be split 50/50 between the practice and the HR specialist.

**Q.** Will this make redundant the other sources of support discussed earlier?

**A.** Not really, no – the opposite really. [Regarding] the Probiz offering – he is going to be instrumental in getting more clients on board with that. It is good little package and it is quite inexpensive, and it comes with insurance as well; so the thing is we can’t offer insurances, but they can. So it is really for him to take that on a bit further really – we have had some clients sign up but not a huge amount so it is something for him to grow that area as well as integrate his own services.

**Q.** Have you started to publicise the new offer of the joint venture?

**A.** Yes – we have done a mail shot this week – and there will be stuff going on the website as well – and we shall be doing follow up calls to clients next week.

**Q.** The fact that you have gone down this road means you see potential and synergy between your core practices and the HR area?

**A.** Absolutely – but we know our HR colleague very well. If it was not [set up] with him it may not have been done with anyone else – I think a lot of it is to do with his relationship with us. To be honest, one of the other partners has got the main relationship with him and has been quite instrumental in pulling this together – not myself. So the ‘him and us’ thing was probably the big thing: certainly, we have successfully referred him into clients and they have recruited people, so it does work. So it should be something we are able to move forward with.

An example of where it can [go] horribly wrong is that I did quite a bit of training on a Sage software and spent quite a lot of time with the person who[m] a client had recruited prior to the start of the year and they were not up to the job and they ended up making them redundant – so they had the cost of her and our cost and it was all wasted money really. And it is an example of how it can go wrong for people really – when they are a small business and they are recruiting someone to look after the day-to-day accounting, if you get it wrong it is an expensive exercise for them and it doesn’t do your reputation any good because, to be honest, we had to bill them a fair bit of money for the work we did and they did not see any value for that and you can see why – whereas if we had been instrumental in recruiting the right person I think it adds value to the overall offering – so it is a positive development.

**Q.** Prior to the development of the relationship with the HR colleague, did you directly bill for any of these HR-related services?

**A.** Well, obviously, payroll we do bill for anyway. To be honest, if someone rings up and says ‘I want to make someone redundant – what do I need to consider?’, we will have a brief chat with them and put them in touch with a lawyer.

**Q.** So you might give them an idea of what issues, steps and consultation periods might have to be considered but you would not advise in detail on the implementation?

**A.** That is right – you have to have the distinction. We are not specialists in that area – it a pretty litigious topic, let’s be honest. People get hold of something so we don’t want to be stuck in the middle of that – we don’t want the risks.

**Q.** The kind of advice that is given as part of the payroll function on pay and benefits – you don’t bill for that separately? It is part of the fee for payroll management?

**A.** That’s right – the way we tend to bill all our clients [is that] we tend to quote a realistic fee that allows for some contact throughout the year, so that – the biggest bugbear for a client is you phone an accountant and get a bill for 50 quid – and then they don’t ring you then because they think it is going to cost them money, so that damages the relationship. So we tend to start with a realistic fee for everything and hopefully there will be a bit of slack in there – to deal with queries as you go through the year really.

**Q.** If you refer them to a local solicitor, for example in a redundancy situation, will you follow through, eg accompany them to a meeting?

**A.** Yes, we will do if it is relevant for us to do so – often it would not be.

**Q.** In relation to Probiz, how does this work?

**A.** We pay an annual subscription to be a member – then it basically allows you to have access for your clients to the products and services they have, one of which is an HR online offering and helpline. It is mainly targeted at smaller firms. In relation to the tax investigation/insurance back up mentioned earlier, they have an HR offering as well, to be honest the way we are approaching it ...we are using [Probiz] for smaller concerns, up to 10 employees; the other one, which is Abbey Tax Protection, we [are] seeing as for 10 employees plus – it is a more substantial offering.
We are marketing both of those. We pay an annual subscription to Probiz – if a client wants to use Probiz HR they sign up directly for it as with the other one. We don’t bill clients for their access to those services – [each] is just an additional service we offer. We advertise the availability of these services on our website.

Q. Who provides the HR back up for those two services – do you know?

A. I don’t know, no. Probiz – I know who it used to be and Abbey Tax Protection I am not sure if it is their own in-house [supplier].

Q. We have come across quite a lot of organisations – Peninsula, Pinnacle.

A. We used to be with Peninsula a while ago; yes, I have heard of Pinnacle.

Q. Has the number or nature of queries from clients in the HR area changed?

A. Yes, we have noticed a change in the last year or so. There have been more because people have made redundancies and changed the way the business [is] structured. I would certainly say this year you’ve seen more – there is no doubt about it.

Q. How do you see HR advice as compared with other areas of support you give? Do you see it as higher risk, less controllable?

A. I think generally we don’t have any real cost [for] making these resources available to clients – we are part of a network that has these offerings. Abbey Tax provided tax investigation and insurance for clients anyway. So we had these relationships – there is no additional cost for us, it is a question of making people aware of it. If they take it up they do, if they don’t, they don’t. Obviously, with this new company we are targeting – that is obviously targeting some additional work, but within the context of the general practice there is no major focus on doing so.

Q. Are queries in the HR area likely to come from particular types of small-firm clients?

A. Obviously some industries require more staff, so you have to factor that in – whether it is a service organisation – that will dictate how many employees they’ve got. You also get different levels of sophistication in the directors and management team – some people are in a business and are good at what they do and they don’t know much about anything else really and they would always pick up the phone and give you a ring, while someone else might research it themselves and already have a solicitor that they are very well connected with and will contact them. So it depends a little on the personality – we’ve got clients with HR directors and so on, so they would deal with it in house. So it is a mixed bag really. Probably the thing that dictates whether they would ring us up really is that they have got no support in house and no understanding of what they need to consider – and as they have a good relationship, they trust us, they give a ring to discuss most things with us… and the other factor may be the type of industry it is – they have a lot of people starting, a lot of people coming and going – high staff turnover and things like that, really.

Q. Within the practice is there anyone responsible for internal HR issues?

A. Yes, there is someone, but they have not been involved with clients in this area – one of our partners. Well, we have a financial controller who picks up some of that, but prior to that one of our partners dealt with that side of things. He was [our] practice manager [but] he is now doing client work again. As partners we all get involved in recruiting people. I look after all the staff who are training – anyone who is training to be an accountant – the recruitment and management of that. We have never specialised in it enough to say we have an in-house expert we could use outside – I know firms who have.

Q. In relation to the areas of HR support you have provided up to now in house – recruitment and selection, giving initial pointers on employment-related procedures, pay advice, how have you developed competence in those areas?

A. We do undertake training; we have a formal training programme for all members of staff but we go on training courses through Mercia (a training company) – we have unlimited access to their courses throughout the year. They send us a programme [and] we decide who should go on them – and when, [The programme] includes some HR topics among them. We [have] also used [name] as a resource directly: we withdrew because it was not working, to be honest, it was quite expensive and it was difficult to engage clients within it. I think we were signed in for a five year contract – so now we if want support we can use the Abbey HR support – we pay a subscription to Abbey or Probiz – I think it is the Abbey one we use.

Q. With the joint venture, do you see this as meaning the partners will become less engaged with HR issues?

A. Possibly so – the HR colleague is the specialist and we are accountants. I must admit, we are very much of that mind – we are much better giving clients the right solution rather than discussing options. There is no point in us sitting interviewing with a client when that is all he has done for 20 years. He is going to do a better job than we are, isn’t he? We may get involved as well if the client really wanted us to but I think in the main we now have an in-house specialist, if you like, and he should deal with that kind of thing.
Q. When you have helped with recruitment – have you billed?

A. Yes – if it was things like interviewing. We [have] billed on the same basis as for other work on a time basis. There are other things – I am quite involved with a client [that has] a remuneration committee, so we discuss salaries. I sit on their board – we discuss bonuses at the end of the year and that sort of thing...and so we have an involvement in that and we bill for the time – that would not be seen as part of the payroll activity – it is an enhanced role – we also bill for help with succession planning.

It is difficult to estimate what proportion of total fee income comes from HR; a lot of it is just general advice as part of looking after your client throughout the year – so in those terms it would be pretty minute.

Q. Do you get the impression that other practices of your size are thinking about developing the HR area, like you?

A. I think practices are always thinking of other things that – at the end of a day as a firm of accountants you have a fairly extensive client base, and they trust you and generally they buy several services from you. A great way for an accountancy firm to grow is to just bring more services to the table. It is much easier to sell a new service to an existing client than services to someone who doesn’t know you from Adam – it is much easier to grow [that way] and we are quite big on that. We do have quite an extensive service offering and we want to make our clients aware of all of those [services] and get them engaged in as many as possible, so that is a definite strategic plan. The HR side [has developed] for us slightly because the opportunity has come along – we were not out there actively looking for someone to do this with us, but we were already doing bits of HR. It has just enhanced the offering for us, if you like.

Q. Do you see ACCA as having role in this area?

A. I think it goes down to the professional conduct and the professional ethics area. To have someone to phone and ask them should I be advising in this area – because some people might be just giving a bit of advice out and I think to be able to say ‘ought I to segregate myself from this and is it a legal issue or am I able to give this kind of advice? What level of exposure am I creating by doing so? ’ I think being able to have a conversation with someone along those lines is important.

There is a place for the professional body [to get] involved in CPD and developing resources in this area but it has got [to] be commercial, I think. There [are] a lot of people doing it in the market place – and if something is going to be introduced it has got to be better – there are alternatives and it needs to be a better one.

Q. In terms of how often you get queries from small-firm clients in this area – what would you say?

A. I would say personally I probably get two to three a month – I can think of a few already – so if you think of the all the partners that is quite a lot.

Q. Do you have a view of the competition you face in relation to your small-firm clients in the area of HR support?

A. They would come to us because of the trust in the relationship – we would tell them what we could offer.

I think as accountants – some might have a relationship with Peninsula, some might be with Pinnacle, we are Probiz, they are all the same really – they may be doing the cost structures in slightly different terms – but broadly we are all offering something.

Q. But what you are doing now with the joint venture is a direct income stream whereas the other arrangements were just enhancing your credibility?

A. That is right – we have a different focus now. We would like to think that people would come to the HR [subsidary] and maybe we will pick up the accounts work as well – bringing clients in specifically for that service and then bringing them on board as normal clients for the practice as well.

Q. As the joint venture develops how will it affect your role?

A. I don’t think it will have a huge impact because the amount of work we do on recruitment is relatively small – it is more a question that, before, clients might go elsewhere to recruit, whereas now they will call us.