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The Interplay between Social Capital and the Development of Small Professional Firms

By

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Submitted in accordance with the requirements for the degree of doctor of philosophy

2010

This thesis is the result of the author's original research. It has been composed by the author and has not been previously submitted for examination which has led to the award of a degree.

Signed:

Date: 5th August 2010

Acknowledgements

I would like to sincerely thank Eleanor Shaw who was the principal supervisor for this research for her support and intellectual guidance.

I would also like to thank my friends and colleagues at the University of Strathclyde and the University of Exeter who have helped me in various ways over the course of this research. I would like to thank my family and friends for their untiring support throughout the duration of this research.

Finally, I would like to acknowledge the business owners who participated in this research for their insight and for generously giving up their time. I would also like to thank the ACCA for their help in accessing participants for the study.

Abstract

This thesis explores the interplay between social capital and the development of small professional firms. Social capital is a dominant paradigm in small firm research, yet little is understood about the process of networking and the relative value of network ties for firm performance. Theory development has been marred by a preponderance of cross-sectional, survey methodologies. Isolating and studying social capital is further complicated by its interplay with cultural, economic and symbolic capital. To further understanding of social capital and small firm development, an interpretive approach and retrospective methods were used to gather context-rich accounts from the owners of small accounting firms.

An industry focus revealed nuanced differences in the configurations of social capital used by professional small business owners. Support and referrals, required by business owners during start-up, were accessed through either strong ties or weak ties to similar others. Performance was enhanced for nascent business owners coming from practice, particularly when ties were broken, meaning they were able to take clients with them to their new firm. At development, ties were used more strategically: strong ties were used to help the business owner deal with negative episodes; weak ties were used to access resources such as technical support and information to improve performance. Professionals developed strong, trusting bonds over the development of their firms but, contrary to findings in other industry contexts, ties rarely developed multiplex contents.

Analysis revealed a complex interplay between forms of capital in the accounting context. The convertibility of social capital and firm performance were found to be related to whether certain configurations were viewed as legitimate by relevant stakeholders. The findings have implications for the owners of small professional service firms and for the policies of the professional bodies to which they are affiliated. It is suggested that future research examining small firm development should consider the notion of *habitus*, and how the relative configuration of business owners' capitals relate to the dynamics of the field.

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CHAPTER ONE

Overview of the Research

1.0 Introduction

This thesis is primarily concerned with the interplay between social capital and the development of small professional firms. This chapter provides an overview of the thesis. It begins with a discussion of the background to the research and the nature of the substantive research problem. An outline of the research aim, objectives and methodology is presented. A brief summary of the contents of the chapters of the thesis are also presented.

1.1 Background to the Research

This thesis is concerned with the development of small professional firms and how this is related to networks and networking behaviours. In particular, the development of small accounting firms is considered. The research is interested in examining whether the professional service context can shed light on the interplay between social capital and small firm development.

Understanding networks and role of social capital for the performance of small firms has been an interest in entrepreneurship research for some time (Anderson *et al.* 2010; Bhagavatula *et al.* 2009; Carson, *et al.* 1995; Curran *et al.* 1993; Davidsson and Honig 2003; Hoang and Antoncic 2003; Jack 2005, 2010; O'Donnell *et al.* 2001; Parkhe *et al.* 2006; Slotte-Kock and Coviello 2010; Tonge 2009). However, very few studies have explored the processes and outcomes of networking in the professional service sector, preferring to examine high technology and high growth sector, where the resource requirements are considerably different (Keeble *et al.* 1998; Maurer and Ebers 2006; Rodan and Galunic 2004; Slotte-Kock and Coviello 2010). The problem is compounded by the fact that the professional service sector is heterogeneous (Malhotra and Morris 2009) and it is challenging to compare findings across the studies which do exist (Marlow and Carter 2004; Shaw 1999; Shaw *et al.* 2008; Silversides 2001; Tonge 2009; Wilkins 1997).

In entrepreneurship, the understanding of networks has progressed considerably, particularly with regards to the structural features of networks (Hoang and Antoncic 2003; Kim and Aldrich 2005; O'Donnell *et al.* 2001). This has been partly the result of the preponderance of quantitative studies which fail to capture processual issues and the nuances of relational features of networks such as content (Renzulli and Aldrich 2005; Jack 2010; Rodan and Galunic 2004; Shaw 2006). There has been theoretical development with respect to network processes and the role of relationally embedded resources (Larson and Starr 1993; Hite 2005; Jack and Anderson 2002; Jack *et al.* 2008; Slotte-Kock and Coviello 2010; Uzzi 1997). To further extant knowledge, it has been proposed that network studies need to understand processes and relational features of ties, and the social structure and context in which an individual is embedded (Jack 2010).

Another problem is that social capital research often fails to account for the dynamic and overlapping characteristics of the forms of social, cultural, economic and symbolic capitals (Bourdieu 1986). Recent research interest into the notion of 'entrepreneurial capital' suggests small business performance is predicated on access to both financial and non-financial forms of capital (Erikson 2002; Firkin 2001, 2003; Shaw *et al.* 2008). Entrepreneurial capital researchers focus on the variety and amounts of various capitals possessed, and are concerned with the convertibility of different forms (de Bruin-Judge and Leigh 2008; Firkin 2003). Capturing the interplay between social capital and firm performance will depend upon the relative role of other forms of capital and how convertible they are within the context of the study.

Bearing this in mind, this study examines social capital within a particular context, in cognizance of the broader relevance of the social structure within that field, and the relative capital configurations within it. The accounting industry has been going through a period of upheaval and environmental turbulence in recent years, which is creating a new landscape for the small practitioner (Ramirez 2009). Although the professional accounting field has a strong representation of small businesses, to date, the performance of small accounting firms has been largely overlooked by business and management research. Small accounting firms are characterised by their long-term, regular co-operation with clients, in which the interpersonal provision of accounting and advisory services depends upon trust (Cohen 2006; Doving and Gooderham 2008; Marriott and Marriott 2000; Ram and Carter 2004). This suggests the importance of social capital to the performance of small accounting businesses. Coupled with the high human capital and low economic requirements, the accounting sector is proposed as one which will be particularly interesting for researching the dynamic and overlapping forms of capital.

1.3 Research Problem and Contribution

In light the research gaps outlined above, the purpose of this thesis is to explore the configurations and convertibility of social capital in small professional service firms, and to consider their impact on firm development. The rationale is that by conducting the study within the professional services context, differences in small firm performance are more likely to be attributable to social capital. Professional firms rely upon complex, esoteric knowledge and skills to create value for their clients rather than financial forms of capital. The need to obtain qualifications and accreditation also makes institutionalised forms of cultural capital consistently high across professional services sectors such as accounting and law.

This thesis contributes towards a more nuanced understanding of the interplays between social capital and the development of small professional firms. The professional service context, focusing specifically on accounting firms, contributes towards the relative paucity of research in a large and growing small firm sector.

1.4 Research Objectives and Methodology

Guided by this aim, the specific objectives which emerged over the course of the study were:

To describe the structural and relational features of social capital in small accounting practices, highlighting the positive and negative outcomes of social capital for firm development.

To further understanding of the process of networking by examining configurations of social capital at start-up and development phases and exploring how social capital is generated and used over time.

To explore the dynamic and overlapping forms of capital in the professional services context.

To better understand convertibility and implications of various capitals for the development of small professional service firms.

A rigorous two stage, in-depth qualitative research framework was designed to allow the researcher to capture the configurations and dynamics of entrepreneurial capital.

Presentation and justification for the primary research approach is outlined in Chapter Four.

1.5 Outline of Thesis

This thesis is presented in seven chapters. Having outlined the contents of the thesis in Chapter One, Chapter Two reviews the context and characteristics of small professional service firms. A review of extant literature suggests factors which influence the development of small firms but highlights the gaps in our understanding of this under-researched sector. The chapter concludes with a short overview of the context and characteristics of small accounting practices in the UK.

Having suggested that performance in small accounting firms is predicated on access to social capital, Chapter Three reviews the concepts of social capital and social network theory. Furthermore, it introduces the notion that social capital constitutes one element of the overlapping and convertible forms of capital. A conceptual framework is suggested for exploring the configurations and convertibility of social capital within the small firm accountancy field.

Chapter Four discusses in detail the interpretive approach underpinning the research and justifies the decisions made in the research design with respect to data collection, sampling and analysis.

Chapters Five and Six present an analysis of the data collected in this thesis. Chapter Five focuses on the analysis of social capital, exploring how different configurations influenced firm development during critical periods for performance. Chapter Six considers the performance implications of the entrepreneurial capital mix and how the interplay between different forms of capital helps to explain small firm development.

The final Chapter presents an overview of the thesis and discusses the implications of the findings for small practitioners and other relevant stakeholders such as professional bodies. Finally, the limitations of the study are acknowledged and suggestions are made for future research.

CHAPTER TWO

Small Professional Service Firms

2.0 Introduction

This chapter focuses on research and interest in small professional service firms. When examining the context for small firms in the UK, it can be identified that a large proportion of such firms operate within service sectors. In recent years, the rise in the number of professional service firms has been particularly noteworthy, with professional services now accounting for more of the UK's Gross Domestic Product than the entire manufacturing sector. The fundamental features of professional services are subsequently outlined. An examination of extant literature suggests there is little research dedicated to small professional service firms despite their growing importance to the economy. Many firms are small, owner-managed enterprises but are not in essence 'entrepreneurial' and therefore theories regarding their development may be different to those defined as such. Taking the small professional service firm as an important but currently under-researched context, this chapter identifies key research themes and highlights research gaps addressed by this thesis. The final section considers the contextual background for small accounting firms in the UK. It is concluded that the performance of small professional service firms is linked to relationships. This leads to a discussion of social network theory and social capital in Chapter Three.

2.1 The Small Firm and Professional Service Sector in the UK

2.1.1 Defining the Small Professional Service firm

There is agreement in the small firm research literature that there is no single, universally acceptable, definition of what constitutes a small firm (Anderson and Starnawska 2008; Cressy 2008; Storey 1994). The principal reason for this is the heterogeneity of the small firm sector. As small firms operate across various industries, the use of 'objective' measures of firm size including numbers of employees and sales turnover will vary according to specific sectors and subsectors. Also contributing to lack of clarity over what constitutes a small firm may be the immaturity of small firm research; considered alongside other social science subjects, the study of small firms has only recently become an area of academic study (Bygrave 1989a, 1989b, 2007). It has thus been recommended that researchers acknowledge that small firms are not scaled down versions of their larger counterparts, and that definitions should employ both quantitative and qualitative indicators (Bannock 1991; Wynarczyk *et al.* 1993).

One example of such a definition of firm size in the UK is provided by the much quoted Report of the Committee of Inquiry on Small Firms (1971), henceforth referred to as the Bolton Report. The Bolton Report defined small firms in qualitative and quantitative terms, suggesting that there are four conditions by which small firms can be identified:

> *First, in economic terms, a small firm is one that has a relatively small share of the market. Secondly, an essential characteristic of the small firm is that it is managed by its owner or part-owner in a personalised way and not through the medium of a formalised management structure. Thirdly it is also independent in the sense that it does not form part of a larger enterprise and that the owner-managers should be free from outside control in taking their principle decisions* (Bolton 1971: 1)

Definitions such as Bolton's that use qualitative and quantitative measures are indicative of an increasing acceptance that a nuanced approach is needed when defining the small firm sector (Brooksbank 1991; Curran *et al.* 1991; Storey 1994, 2000). Using quantitative measures alone, for example, turnover or market share, can be misleading, as small firms can have a large share of the specialised market in which they operate (Curran *et al.* 1991; Stanworth and Curran 1976). In the UK, sections 382 and 465 of the Companies Act (2006) define small and medium sized firms for the purpose of accounting requirements. This Act identifies small companies as turning over not more than £6.5 million, possessing a balance sheet total of not more than £3.26 million and employing no more than 50 staff.

For research purposes, the criterion of employee numbers is often used, as it is one of the most simple and readily available methods with which to stratify a sample from a sampling frame (c.f. Bell 1995; Bell *et al.* 2004; Carson *et al.* 1995; Davidsson *et al.* 2009; Donckels and Lambrecht 1997; Storey 1994). It is usual for less than ten employees to be considered a 'micro' sized firm, less than fifty a 'small' firm and less than 250 a 'medium' sized firm (Ayyagari *et al.* 2003; SME Statistics 2008). However, there are discrepancies, with some studies defining small firms as employing no more than 500 staff (c.f. Baron and Tang 2009; Eckhardt and Shane 2010). Considered alongside Federation of Small Business (2008) figures which demonstrate that in the UK more than 90% of firms employ fewer than 10 staff, the use of such definitions is misleading. When studying the behavioral or managerial aspects of small firms, it can be more useful for researchers to consider context, for instance the industry in which the firm operates, when using employee numbers to approximate size (Zahra 2007).

The potential for innovation, employment and growth can vary greatly across the small firm sector (Acs 2006; Evangelista and Savona 2003; Hoffman *et al.* 1998; Shaw 1999). While small firms are seen as an important source of employment, it has been noted that employment creation tends to be restricted to a small number of firms, mostly manufacturing companies. Industrial restructuring has meant, however, that more service firms are likely to be created (Hitt *et al.* 2006). Breaking down this data further, it can be identified that there are differences in the character of employment across the manufacturing and service sectors. What appears to be a small number of employees for a manufacturing firm may be a large workforce for a service firm. A point raised commonly in the small firm literature is that not all small firms are the same, and that for progress to made in the field of small firm and entrepreneurship research, it *"... can no longer unabashedly assume that there is one 'truth' to which we all owe allegiance"* (Aldrich 1992: 208). Taking this on board, there is a growing body of research that examines different configurations of small firms and suggests that acknowledging differences amongst start-ups will help to understand management and performance in different contexts (Harms *et al.* 2007).

Given the heterogeneity of the small firm sector, it may not be possible to develop a universal definition of the small firm. Some commentators have concluded that it is not size *per se* that is the theoretically relevant variable for explaining differences that are apparent in smaller enterprises (Curran and Stanworth 1981; Curran and Blackburn 2001; Tsai *et al.* 2007). Categorizations that are relatively simplistic such as turnover and size, MacPherson and Holt (2007) propose, are influential but could be linked to a more 'sophisticated heuristic', especially for the purpose of targeting policy initiatives. Other factors, such as the influence of the founder or owner and their tendency to manage the firm, the role of personal relationships and informality, have also been suggested as important characteristics of small firms (Storey *et al.* 2007; Tsai *et al.* 2007). Wynarczyk *et al* (1993) suggest small firms are different with regards to three factors, namely uncertainty, innovation and evolution. Small firms may also be characterized by their competitive position within the market or because of the strategies they pursue (Edwards *et al.* 2006). Such characterizations are also problematic given that informality may be found in large firms, where a lack of planning and few formal systems may indicate poor management made possible by the firm being in a less competitive environment (Van Nordenflycht 2010).

Curran *et al* (1991) suggest using 'grounded' definitions fo firm size. Starting with the characteristic of legal independence, Curran *et al.* (1991) investigated how smallness was perceived by those investigated, and how various interest groups such as owner-managers, trade associations and suppliers defined smallness with the sector's culture. Qualitative beliefs were then operationalised using quantitative terms based on number of outlets, upper and lower employment limits and any special conditions, such as 'a free house should not be brewery owned'. This multi-level perspective varied from sector to sector, and Curran *et al.* (1991) concluded that single measures, such as employment numbers alone cannot effectively capture the subtleties required by researchers if they are to capture the nuances of the small firm sector. The problem, suggested by Storey (1994) and commented on by other researchers (Ayyagari *et al.* 2003) is that grounded definitions can pose problems when making comparisons, for instance, across countries. To allow such comparisons it is likely that indications of firm size measure based on employees may be the best available option given that figures for turnover can be inaccurate or unavailable (Ayyagari *et al.* 2003; Glancey 1998).

Recognizing that characteristics used to identify a small professional service firm are likely to differ from small firms operating in other industry sectors, for example manufacturing, this thesis supports the development of a sector-specific definition of a small professional service firm. The methodology chapter discusses the 'grounded' definition of firm size used to reflect the characteristics of small accountancy firms. This definition uses a number of characteristics including numbers of owners, independent management, localized markets, single premises and employee numbers of less than 10 to identify and define small accountancy firms. This definition is sensitive to the findings of previous studies (Silversides 2001) and demonstrates an appreciation of what constitutes a 'small' accounting business, taking into account the perspectives of participants and professional bodies.

2.1.2 Economic Contribution of Small firms

Smaller firms account for over 90% of the companies in the European Union, highlighting how vital they are to economic environment and why governments' want to to understand how to most effectively promote their performance and growth (Ayyagari *et al.* 2003; Demick and O'Reilly 2000). It is recognized that small firms play a significant role in providing possibilities for employment, innovations, money, variety, self-fulfillment and independence (Holmlund and Kock 1998; Penrose and Pitelis 2009; Storey 1994, 2000). As well as contributing over 50% of UK Gross Domestic Product (GDP), small firms generate 64% of all commercial innovations (FSB Annual Report 2008). To underline the importance of small firms, the following section will outline the economic contribution that small firms make to the UK economy[1]. Given the importance of employment and innovation, small firm research has often concentrated on particularly promising sectors such as high-growth and hi-technology ventures (Acs and Audretsch 1990; Crick and Jones 2000; Forrest 1990; Delmar 2008; Hatfield and Pearce 1994; McGee 1993; Oakley 1991; Roberts 1991; Stuart 2000; Tsai and Wang 2008; Wright *et al.* 2008). This section concludes by highlighting the growing importance of small service firms and, in particular, small professional service firms to the UK economy.

In the UK, academic and policy interest in small firm performance began increasing around the publication of the Bolton Report (1971). The report marked a turning point in attitudes towards small enterprises and reflected increasing skepticism of the notion that large sized firms were the bedrock of an advanced industrial society (Stanworth *et al.* 1982). In the decades since its publication, the share of the small firm sector in economic activity has risen, as has the body of research associated with small firms and

[1] Unless otherwise stated, figures were taken from Small and Medium-sized Enterprise (SME) Statistics for the UK and Regions 2008, released by the Statistics and Analysis Directorate (Department for Business Information and Skills). The findings were published on 14th October 2009. The main data sources for the Department's statisticians are the range of economic, trade and industry statistics collected by the Office for National Statistics (ONS).

entrepreneurship. Recent figures estimate that out of 4.81 million private sector enterprises in the UK at the start of 2008, small and medium-sized enterprises (hereafter SMEs[2]) collectively accounted for 99.9 per cent with small enterprises alone accounting for 99.3 per cent. Furthermore, of the estimated combined annual turnover of UK enterprises estimated at £3,000 billion, SME turnover comprises 50.1 per cent, with small firms accounting for 36.5 per cent. The estimated SME turnover figure of £1,500 billion shows an increase of £61 billion (4.2 per cent) on the previous year. At the start of 2008, of the estimated 23.1 million people employed in the UK, the total employment in SMEs is estimated at 13.7 million (59.4 per cent of private sector employment) rising 13.5 million from the start of 2007. Again, even when medium sized businesses are taken out of the equation, 47.9 per cent of employment is generated from small firms alone.

These figures may not provide a complete picture of small firms in the UK, given the problems inherent in recording accurate and up to date information on the sector. For instance, Storey (1994, 2000) notes that measuring the number of small firms that exist in the economy at any point in time is problematic due to the short lifespan of some firms, the reluctance of others to formally register themselves and the fact that many are so small they do not legally have to register their existence. Nevertheless, the data serves to underline the contribution of small firms to the economy and employment, and provides strong justification for research examining features and characteristics that define small firms' development. One problem which presents itself in trying to understand the small firm sector is that it is large, diverse and has extremely variable characteristics (Davidsson et al. 2006; Curran and Blackburn 1994).

[2] In SME Statistics (2008) a small enterprise is defined as an enterprise with 0 to 49 employees, a medium-sized enterprise is an enterprise with 50 to 249 employees, and a large enterprise is an enterprise with 250 or more employees.

2.1.3 Economic Contribution of Small Professional Service Firms

Whilst small professional service firms have received relatively little attention, the service sector as a whole has attracted considerable research attention in recent years. This is not surprising given that the service sector now makes up 75 per cent of total output in the UK economy (ONS 2009). Even in the year leading up to 2007 when many sectors were shrinking due to the worsening recession, services continued to grow at 3.5 per cent on the previous year (ONS 2007). At the start of 2008 over 1.2 million UK enterprises were operating in Business Service (SIC2003 Section K[3]). This represents a quarter (25 per cent) of all UK private sector enterprises. These enterprises accounted for 4.5 million in employment (19 per cent of the UK private sector employment) and £454 billion (15 per cent) of the UK's private sector turnover (excluding SIC2003 Section J[4]). Given that SIC2003 Section K includes real estate, administrative, professional and technical employment, it is difficult to gauge the contribution of different activities. Within this classification, business services have become a focus of increasing research interest from academics, policy-makers and governmental bodies charged with development issues in recent years.

One example is the Department of Trade and Industry (DTI) Economic Paper No. 19 (2007) that explores the business services sector and globalisation. The business services sector was chosen by the DTI for a special report because of the substantial rise in its share of the UK economy in the past two decades, doubling from 7 to 14 per cent of GDP (DTI 2007). Despite this growth and increasing academic interest in the activities of knowledge intensive business services, the report proposes that UK business services

[3] The United Kingdom Standard Industrial Classification of Economic Activities (SIC) is used to classify business establishments and other standard units by the type of economic activity in which they are engaged. Details can be found at http://www.statistics.gov.uk. SIC2003 K is Real estate, renting and business activities. Under SIC2007 this has changed to L Real estate activities; M Professional, scientific; and technical activities; and N Administrative and support service activities

[4] SIC2003 J is Financial intermediation. Under SIC2007 this has changed to K Financial and insurance activities.

are generally under-researched and often not in the public eye. Business services form a significant proportion of Section K, and make up 55 per cent of the section value added, accounting for £136 billion in 2004. Employment growth is also high, with business services creating more than 1.7 million jobs between 1986 and 2005. Within this group, the 74 group termed 'other business activities' is the most diverse, containing well-known professional industries such as legal and accounting services, with a range of other business services including industrial cleaning and labour recruitment. The 'other business activities' category accounts for a substantial proportion of the gross value added (41 per cent) and employment, with over 3 million employee jobs, close to manufacturing, which has 3.1 million (DTI 2007: 9).

As well as being generators of gross value added and employment, business services are also recognised as central to the UK's success as a knowledge economy (Oulton 2001). The role of business services in innovation and diffusion, the DTI Report notes, will become increasingly important in a globalised world:

> *Business services play a dual role in innovation – they are both innovators themselves but also play a role in supporting the innovative activities of other firms. For example, software developers are often at the forefront of technological development, while many professional services (such as management consultancy and accountancy) are actively working with clients to introduce new techniques and thinking into their firms* (DTI 2007: 39).

Kuusisto and Viljamaa (2004) concur that knowledge-intensive services have many roles and touch the very essence of the innovation system: knowledge itself. Accountants, in particular, have been associated with the performance of the small firm sector as they are often mentioned as the principal source of information and advice for small business owners (Bennett and Robson 1999; Deakins *et al.* 2001; Kirby and King 1997; Mole 2002; Ram and Carter 2002). In general, business services are seen as contributing to the renewal and growth of other businesses by creating fertile ground for innovations and the diffusion of novel practices (Kuusisto and Viljamaa 2004). Small firms dominate the business services sector. In 2004 the average enterprise was reported as employing just eight people (DTI 2007). Concentration in some business services is very low, for instance in advertising, where only 12 per cent of industry value added is accounted by the top five firms. The structure of the accountancy industry, by contrast, is particularly concentrated as there are thousands of accountancy firms in the UK yet the industry is dominated by the Big Four (PricewaterhouseCoopers, Deloitte and Touche, KPMG, and Ernst and Young). The Big Four capture 74% of the revenue generated by the top fifty UK accounting firms and audit most of the UK's top 350 publicly listed companies (Keynote 2008).

The growth and development of the service sector, in particular the growth of the professional services sector, underpins the choice of the accounting sector in this thesis. Research examining the performance and characteristics of small professional service firms is at present limited, but has suggested the primary role of relationships and reputation to the performance of such ventures (Haber and Reichel 2007; Shaw *et al.* 2008; Silversides 2001). This will be returned to following a discussion of whether small professional service firms can be classified as 'entrepreneurial' or whether such enterprises are better described as small, owner-managed ventures.

2.1.4 Small Professional Service Firms and Entrepreneurship

The extent to which small professional service firms are entrepreneurial is worth considering. In a recent study of public relations practitioners, Tonge (2009) labeled the professional service sector as inherently 'non-entrepreneurial'. This thesis does not aim to draw a line under what constitutes a small firm or an entrepreneurial firm. There are both overlaps and distinctions betweens these terms and this is an ongoing debate made more confusing by there often being no clear distinction made in the literature, with the terms often used interchangeably. However, it is useful to briefly outline the debate in this area to contextualize where small professional service firms are positioned within the literature and the small firm sector.

The term 'entrepreneur' was introduced in the early 18th century by French economist Richard Cantillon. Cantillon's definition of the entrepreneur was as an "*agent who buys means of production at certain prices in order to combine them"* (cited in Schumpeter 1951). Over the next century, British economists Adam Smith, David Ricardo and John Stuart Mill also considered the concept of entrepreneurship, but only Mill stressed the importance of entrepreneurship for economic growth (Schumpeter 1951). The previous section outlined that professional service firms are important for economic growth, suggesting that professional business owners fit within Cantillon's very broad definition.

Entrepreneurship is often connected to the existence, discovery and exploitation of profitable opportunities (Eckhardt and Shane 2003; Ventakaraman 1997). Shane and Ventakaraman (2000) propose the field of entrepreneurship should be defined as:

> *The scholarly examination of how, by whom and with what effects opportunities to create future goods and services are discovered, evaluated and exploited. Consequently, the field involves the study of sources of opportunities; the processes of discovery, evaluation, and exploitation of opportunities; and the set of individuals who discover, evaluate and exploit them* (p. 218).

The term 'opportunity' is widely used in entrepreneurship research (Casson and Wadeson 2007; Shane 2003) and it has been suggested opportunities themselves should be 'entrepreneurial', in that they require the discovery of new means-ends relationships, rather than enhancing the efficiency of existing goods and services (Eckhardt and Shane 2003; Kirzner 1997; Shane and Ventakaraman 2000). A distinction has been made between 'entrepreneurs' and 'imitators', with the majority of small firms being imitators who may contribute to economic growth but are not inherently entrepreneurial (Minniti and Levesque 2010). Particular to this thesis's interest in small professional sevice firms, this suggests that the opportunity discovered by nascent professional services business owners is imitative rather than innovative implying that while such firms may be small, they are not entrepreneurial.

Within the literature, entrepreneurship is often connected to the creation of something new, and therefore it has often been equated with small business start-ups:

> *The essential act of entrepreneurship is new entry. New entry can be accomplished by entering new or established markets with new or existing goods or services… New entry is thus the central idea underlying the concept of entrepreneurship* (Lumpkin and Dess 1996: 136).

This approximation has been criticized, especially in light of the fact that large firms such as Google can also be entrepreneurial. It is not then the size or the stage of the venture that indicate entrepreneurship, but rather the ability to innovate and transform an opportunity into an economically viable venture (Michelacci 2003; Minniti and Levesque 2010). It may not, therefore, always be appropriate to associate entrepreneurship with the creation or emergence of new organizations (Davidsson *et al.* 2009; Gartner and Carter 2003). Other research has linked entrepreneurship to growth, proposing that "*growth is the very essence of entrepreneurship*" (Sexton 1997: 97). Going for growth is more entrepreneurial than not growing, when both alternatives are feasible (Davidsson 1989; Davidsson *et al.* 2005). Most firms remain small, further blurring the association between entrepreneurship and small firms, as growth fails to capture the character of the small firm sector. Most small professional service firms are micro-sized and very few achieve substantial or rapid growth, which means such firms cannot be classified as entrepreneurial in this definition either.

Research exploring entrepreneurship has taken various foci, including the individual, the organization and the environment. Looking at the individual, the role of the entrepreneur has often been associated with that of an innovator and entrepreneurial characteristics have been identified to include alertness and opportunity recognition (Kirzner 1985; Shane and Ventakaraman 2000). Research which has explored entrepreneurial traits has been problematic, variously favouring traits representing either innate talents or acquired skills (Djankov *et al.* 2008; Eckhardt and Shane 2003; Shane *et al.* 2003; Silva 2007). Shane *et al.* (2003) explored motivational factors to explain why certain people behave entrepreneurially, identifying: need for achievement; risk taking; tolerance for ambiguity; locus of control; self efficacy; and goal setting. A number of these motivations seem to be absent from the professional services context, particularly risk taking and tolerance for ambiguity. Professional services, particularly traditional occupations such as law and medicine, are characterised by a high degree of regulation, and are organised around strict sets of procedures and guidelines that limit possibilities for individual action (Friedson 2006)

Building on research undertaken on the cognitive processes of entrepreneurs (Baron 1998; Mitchell *et al.* 2002) Haynie *et al.* (2009) point out that contextual influences are sometimes more important in understanding how entrepreneurs process their environments. Individual and contextual insights reveal two possible reasons that professional service business owners are not 'entrepreneurial': one is that the professional services environment is not highly dynamic, and therefore does not require the same degree of adaptation, reflection and decision-making as other contexts; the second possible factor is that the nature of the environment and the occupation (being 'non-entrepreneurial') means that it does not attract individuals with an entrepreneurial mindset. In other words, individuals who demonstrate entrepreneurial traits such as a tolerance for ambiguity and risk-taking would not choose to become professionals in the first place.

At an organization level, the concept of entrepreneurial orientation (EO) has been introduced (Lumpkin and Dess 1996; Runyan *et al.* 1998; Rauch *et al.* 2009). Five dimensions have been identified with regards to EO including: autonomy, innovativeness, risk taking, proactiveness, and competitive aggressiveness. From Lumpkin and Dess' (1996) perspective, new entry explains what entrepreneurship consists of, and entrepreneurial orientation describes how new entry is under-taken. When exploring the characteristics of professional services below, autonomy appears to be the only dimension that might characterise this sector out-with the large organisations (Greenwood and Suddaby 2006). Whilst the environmental and organisational context of a new venture makes EO a multi-dimensional construct (Gartner 1985), it might be concluded that professional service firms are not, in essence, entrepreneurial. Smaller professional service firms generally demonstrate a preference for the *status quo* rather than using 'entrepreneurial metacognition' (Haynie *et al.* 2009) to overcome changes and complexities in their business environment (Ramirez 2009).

The reason for the general lack of a cohesive body of small professional service firm research in entrepreneurship may be explained by the characteristics outlined above. Langlois (2005: 29) comments that it is:

> *…certainly entrepreneurial to seize profit opportunities that fit in with a highly articulated structure of existing knowledge. But much of the sense of the term "entrepreneurial" carries with it the implication of novel recombination that is somehow more radical, or at least less constrained.*

Small professional service firms often operate in mature industries, serving local markets with limited growth potential (Aldrich 1999; Reynolds *et al.* 2003). Such firms exploit opportunities in the sense that they are gap-fillers and nascent business owners show the ability to perceive where the market fails and to develop goods or services which satisfy these demands (Leibenstein 1995). However, the risks are relatively small as there are low financial barriers to entry in the professional services and the qualified nascent professional business-owner is already endowed with necessary professional knowledge acquired through education and indicated by qualifications to perform their role.

It seems apparent then that small professional service firms do not fit with most of the criteria for entrepreneurship but the question remains as to why such firms are largely missing from the small firm research literature. Such firms represent a large and significant pool of firms that might be defined as having a 'small business' as opposed to an 'entrepreneurial' orientation (Miles *et al.* 2000; Stewart and Roth 2001). A small business orientation relates to the personal goals and agenda of the business owner, who might have more of an emotional attachment to the business than someone with an entrepreneurial orientation, and they may pursue business ownership for non-economic goals, such as a good work-life balance (Brush and Chaganti 1998). The lack of research on businesses with such an orientation and on professional service firms, in particular, is one area of research to which this thesis contributes. The notion that some small professional service firms are entrepreneurial cannot be ruled out, but an overview of the characteristics of entrepreneurship suggests this research aligns principally to field of research on small firm owner managers. The chapter will now proceed with a more detailed discussion of the characteristics of professional service firms.

2.2 Elements that define a Professional Service Firm

The figures that have been so far been presented demonstrate the growing contribution of professional service firms to the UK economy, identifying the performance of such firms to be of particular interest to policy makers, researchers, practitioners and professional bodies. Despite the close link between small firms and the service sector, the burgeoning interest in entrepreneurship has mostly occurred independently from service research, although there are exceptions (Bryson 1997; Chell and Baines 1998; Neergaard and Madsen 2004; Ram and Carter 2002; Shaw 2006; Shaw *et al.* 2008; Silversides 2001). Such firms are commonly considered to be 'under-researched' (Malos and Campion 2000), ‘unseen’ and ‘unexplored’ (Lorsch and Tierney 2002). It is generally acknowledged that professional service firms constitute a distinct category that is substantially different from manufacturing firms (Løwendahl 2000). Maister (1993) claims professional service firms are so different that theories applied from other organisational contexts may be “*not only inapplicable… but may be dangerously wrong*” (1993: xvi). Gummesson (1978) suggested that in order to qualify as a professional a number of elements have to be present: the existence of specialist know-how, experience and methods; the presence of individuals providing the service; a particular approach to carrying out an assignment; and the provision of a solution to the problem. A recent attempt to refine what is meant by a professional service firm (PSF) by Van Nordenflycht (2010) proposed that there are three distinctive characteristics: knowledge intensity, low capital intensity, and a professionalized workforce.

Research into professional service firms posits that they are a distinct form of organisation because their primary assets include a highly educated workforce and their outputs involve complex and customised solutions to client problems (Empson 2001; Greenwood *et al.* 2005; Smets *et al.* 2008). The following section discusses the features and performance characteristics of professional service providers that emerged from a review of extant literature. Four key themes emerged: knowledge exploitation and the role of human assets; information asymmetry, client dependency and reputation; relationships, trust and commitment; and finally, organisational context including professional institutions and organisational forms. Overall, the review reveals a predominance of large firm research in this field, and suggests a number of areas in which further research is needed to understand the dynamics and performance of professional service firms, particularly in small enterprises.

2.2.1 Knowledge Exploitation and Human Assets

The knowledge and skills that reside in an organisation are seen as important and valuable resources (Herbert 2000; Hitt *et al.* 2001; Thompson 1999), particularly in knowledge-intensive professional firms where most work is of an intellectual nature (Alvesson 1995, 2000). Many professionals have advanced degrees, and meet credentialing requirements that are unique to the profession (Brown and Swartz 1989). Professionals claim this competence from the *"…narrow and well defined body of knowledge and set of skills which are guarded and/or controlled by a formal body or institution to which they are admitted"* (Yorke 1990: 308). Organisation theorists, accepting of the vital role of information management in creating critical advantage, have sought to understand how knowledge is managed by studying professional service firms (Greenwood *et al.* 2005; Løwendahl 2000; Morris and Empson 1998; Pennings *et al.* 1998). Hitt *et al.* (2001), for instance, examine the role of human capital in the performance of law firms, expanding on the resource-based view of the firm (Barney 1991). Similar research was conducted by Pennings *et al.* (1998) in the accounting sector. Other research has explored managerial arrangements to develop a theory of the professional service firm (Greenwood *et al.* 2005; Hansen *et al.* 1999; Morris and Empson 1998).

As mentioned, professional service firms are often key actors in knowledge intensive organisations, accelerating the generation and diffusion of innovations within and amongst organisations (Adler *et al.* 2008; Powell and Snellman 2004; Scott 1995). In terms of the knowledge generated within professional service firms, extant research point to two common strategies of knowledge exploitation. The first links knowledge specialisation with performance, reporting that law (Becker *et al.* 2001) and consulting firms (David 2001) that are highly specialised are more profitable with lower failure rates. The second strategy is one of knowledge diversification, in which the provision of associated services and cross-selling may lead to improved client and employee retention and economies of scope (Greenwood *et al.* 2005; Morris and Empson 1998). Considering the relative resource deficiencies of smaller practices, it is questionable whether smaller professional service firms would be able to pursue either of these strategies effectively. Bearing in mind the professional service sector consists of generalists and specialists (Ramirez 2009), referral alliances may be particularly useful for helping small firms to compete (Nam *et al.* 2010). This suggests there is a need for further refinement of how knowledge is exploited by small professional service firms.

A defining characteristic of performance in professional service firms is also proposed to be the ability of the firms to attract and retain well-educated, qualified employees (Alvesson 2000; Delong and Nanda 2003; Maister 1993). As well as embodying, operating and translating knowledge, employees also form relationships with clients that may transcend loyalty to the firm. The focus on the role of human assets leads to an assumption that professional service firms are highly dependent on their professional employees and that this is a key feature of this category of organisation (Greenwood *et al.* 2005). Whilst there is little cause to dispute the central role of professional service personnel in customising complex knowledge to meet client needs and thus generating social capital, the linkage made to employees is problematic. Many professional service firms are small and are run by sole proprietors, or partnerships with no staff. Therefore, as a defining characteristic of professional service firms, it should be noted that the role of employees only applies to a small percentage of the total population of such firms. The linkage between human capital and professional service personnel is however useful in explaining the popularity of the partnership as an organisational form. Given the cost of losing the cultural and social capital inherent in professional organisations, it makes sense to motivate and retain strong individuals through shared ownership, responsibility and profits (Greenwood *et al.* 1990; Greenwood and Empson 2003)

2.2.2 Information Asymmetry, Client Dependency and Reputation

Professional services transfer esoteric expertise which may be beyond the understanding of clients. Knowledge again becomes important in professional service delivery because expectations formed over service quality are the outcome of the knowledge acquired by the customer, often through co-producing value with professional (Payne and Frow 2005; Payne *et al.* 2008; Zeithaml *et al.* 1993). Therefore, professional services are said to be high in credence attributes, whereby the advice and service offered might not be gauged by clients before or even after consumption (Starbuck 1992). Advances in technology and the relaxation of regulations that previously prevented advertising in professions such as law and accounting, mean that customers have more accumulated knowledge and exposure to service providers (Chaston *et al.* 2005; Webb 2000). However, assessing a firm's competence relative to other suppliers is still problematic and consumers are often obliged to use 'social proofs' of competence such as reputation or status (Rao *et al.* 2001).

Reputation is seen as particularly important for the performance of professional service firms, providing three key benefits: the ability to attract the best graduates and qualified staff; lower marketing costs because clients are more loyal to and activily seek out high status firms (Fombrun 1996; Nguyen and Leblanc 2001); and the ability to charge a price premium for a strong brand name (Greenwood *et al.* 2005). Although brands are often studied in the context of consumer goods, strong brands also serve as an important cue for quality for the clients of professional services (Sharp 1996). Much research has explored the corporate reputation of large service organisations and the results may not be applicable in the small firm context (Greenwood *et al.* 2005; Hitt *et al.* 2001; MacMillan *et al.* 2005; Shaw *et al.* 2007; Smets *et al.* 2008). The reputation of the accounting profession, for example, has been examined extensively in recent years but this attention has tended to focus on large accounting firms (Greenwood *et al.* 2002;

Greenwood *et al.* 2005; Greenwood and Suddaby 2006; Sikka and Wilmott 1995; Wilmott *et al.* 1992). The impact of the changing context for the reputation and performance of small practitioners is at present under-researched (Ramirez 2009).

In professional service firms, reputation is also linked to the wider professional community. Maintaining the professional standards and reputation of the industry is a common goal for its members (Cohen 2006; Greenwood *et al.* 2005; Silversides 2001; Suddaby *et al.* 2009). Reputation acts as a signalling device to clients and other stakeholders about the quality of the firm's services (Fombrun and Shanley 1990). It has been suggested that a positive reputation may alleviate perceived risk which can pose problems when trying to attract clients, who cannot predict *ex ante* the quality of the service being offered (Ewing *et al.* 1999; Podolny 1993). Those professionals with higher status are more able to convert forms of capital into economic returns, which in turn reinforces their reputation (Smets *et al.* 2008).

2.2.3 Relationships, Trust and Commitment

In the professional services it has been noted that organisations may compete with other firms for clients whilst also needing to share knowledge and cooperate in order to satisfy clients and compete with larger firms. The degree of interdependence, community and professional identity varies across different professional services (Hausman 2003; Shaw 1999; Silversides 2001) but there is need for further development and refinement of how relationships are used by different types of professional service firms. Many types of professionals, for instance, are members of professional bodies which may give professionals the opportunity to meet competitors and have informal discussions that are significant for their firms (Gummesson 2002; Hansen 1999; Joyce *et al.* 1995). Research has shown that professional bodies influence their participants unevenly. Members in smaller firms are more embedded in their professional bodies but have less influence in them than their peers in larger organisations (Greenwood *et al.* 2002; Ramirez 2009).

Membership behaviours in professional organisations have been explored from the perspective of commitment to the professional organisation (Gruen *et al.* 2000) but the value received by members from social capital, such information and solidarity, is at present not understood.

The performance of service firms has been extensively researched and findings generally emphasise the criticality of satisfaction, loyalty and positive word of mouth (Andreassen and Lindestad 1998; Bitner *et al.* 2000; Bolton 1998; Jones and Taylor 2007; Lovelock 1996; Zeithaml 1981). Positive outcomes such as these have been shown to result from a combination of technical and functional (social) quality (Grönroos 1982). Whilst the outcomes and technical quality of the service may be critical for the client, they will often not be able to gauge the quality. The functional quality of professional services, based for example on courtesy, communication and understanding (Hausman 2003; Parasuraman *et al.* 1988) or communication and negotiation quality (Gupta 2008; Weisman and Teitelbaum 1985), is therefore important in the professional services context. Research has shown that the functional quality of the service is strongly linked to client satisfaction in classically 'professional' occupations such as medicine and law (Hausman 2003). Thus, managing the functional or social quality of the service is particularly important for retention, loyalty and, ultimately, the performance of professional service firms. Loyalty has been shown to be particularly important for the performance of professional service firms given the high transaction costs associated with new clients (MacStravic 1994). Loyalty also provides benefits to clients as when value is co-created with a trusted professional (the client may for instance be more willing to reveal sensitive information) clients help the professional to deliver the service more effectively (O'Connor and Shewchuk 1995).

Professionals are perceived to have a strong ability to create and maintain trust as a result of their primary commitment to the client (Laing and Lian 2005; Oliver 1997). Frow (2007) points out that whilst several authors have identified the importance of commitment in successful business relationships, few studies have considered the meaning of commitment, especially within the context of customer-supplier relationships. In the professional context of law firms, Frow (2007) found the meaning of commitment between clients and professionals was more complex than in traditional conceptualisations and included 'partnership commitment', 'impression management commitment' and 'personal commitment'. In a study of large accounting firms, Anderson-Gough *et al.* (2000) discovered that that the discourse of the client and ‘client commitment’ is associated with organisational control. Client commitment is used by larger firms to socialise professional accountants in accordance with expected time-keeping, appearance and conduct, and to downgrade notions that may counter organisational control such as independence, public service and family commitments (Anderson-Gough *et al.* 2000).

This finding is built upon in research by Suddaby *et al.* (2009) examining attitudes towards professional ideology and institutions in the accounting profession. By comparing accountants practicing in firms of varying size and legal structures, Suddaby *et al.* (2009) found that deviation from traditional values, such as commitment to independence, was strongest in the large firms. Sole practices had the highest commitment to clients whereas the Big Four accounting firms had the lowest (Suddaby *et al.* 2009: 423). As a starting point, such findings suggest the need to refine and understand the relationships between professional service firms and their clients in different types of organisation and that the small practices may be considerably different to their better-documented larger counterparts. Because of the long-term, regular cooperation small professional practices have with their clients, there is a potential for the development of strong bonds of trust (Bennett and Robson 1999; Gooderham and Nordhaug 2000; Marriott and Marriott 2000; Mole 2002; Ram and Carter 2004).

Professionals have also been defined by their independence from any form of client, market or state interference and their sense of responsibility to the public (Giddens 1991; Reed 1996; Yorke 1990). As far as accountants are concerned, The Economist argues that “*investors depend upon the integrity of the auditing profession. In its absence,* *capital markets would lack a vital base of trust" (*November 20, 2004: 16). Similarly, the trust placed in law firms and medical practitioners to operate in the public interest is implicit (Adler *et al.* 2008). Without the trust that is placed in professional service firms, Sharma (1997: 758) posits: "*business as we know it would come to a grinding halt".* Trust is therefore vital at both a macro and a micro level. It has been posited in the professional services that trust has a pivotal role to play, given the complexity, risk and uncertainty inherent in professional service delivery (Hart and Hogg 1998; Laing and Lian 2005). At the micro-level, the clients of professional service firms need to feel sure the organisation or individual will perform services to the standards required. There are also macro issues related to trust which mean it is important for the profession to uphold standards and confidence in its activities to a wide community of stakeholders, such as government and banks.

The importance of social capital in knowledge intensive firms has been explored but there is only limited research in the professional services (Hitt *et al.* 2001; Neergaard and Madsen 2004; Pennings *et al.* 1998; Shaw *et al.* 2008; Silversides 2001). In the professional services, the maintenance of long term stable relationships have been shown to be important for client and employee ties, as well as relationships with other organisations (Sarvery 1999; Sturdy 1997). Professional service encounters are likely to have more frequent and repeated one-on-one interactions between the client and provider, and exchange is more intimate (Lovelock 1996). Networking and word of mouth are therefore viewed as important for building a positive reputation, generating referrals and enhancing performance in small professional service firms, particularly as they may lack the resources to undertake more formal marketing activities (Silversides 2001; Shaw 2006). Networks can provide a counter-acting influence to resource constraints and help small firms to gain access to the resources needed to facilitate growth (Szarka 1990). Research has now established that networking is an important entrepreneurial tool that contributes to the establishment, development and growth of small firms (Davidsson and Honig 2003; Donckels and Lambrecht 1995; Granovetter 1985; Johannisson 1986; Jack 2010; Shaw 1999, 2006). The important role of social and symbolic capital for the performance of small professional service firms requires further research and is the core issue that this thesis addresses.

2.2.4 Organisational Context

In organisational terms, the professional firm has also been seen as differentiated due to the historical domination of the P_2[5] form (Brock 2008; Greenwood *et al.* 1990), indicating the dual prevalence of professionalism and partnership and explained by Hinings *et al.* (1999: 132) as follows:

> *A professional service firm has a primary resource and work force of a group of trained professionals who have agreed to work under the same* organisation*al umbrella. An important characteristic of such firms is that these professionals agree to share ownership as a group of partners.*

Therefore the P_2 form has been an organisational archetype in the professional services, legitimated by the field and demonstrating the underlying interpretive scheme that gives professional organisations a common orientation. An implication of the P_2 form has been that individual professionals have been simultaneously owners and service providers and, in small firms, also the managers of their organisations. The development of client relationships has generally taken place at the level of the individual professional, and client bases have been protected by individual partners given that this determines their influence and equity at work. This situation is in contrast with other occupations where clients may feel loyalty to the organisation rather than any particular individual.

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[5] P_2 form refers to the dominant institutional logic with the professional field in the period leading up to the 1990s, also referred to as the 'Cravath' form, and was developed by Greenwood *et al.* (1990). P_2 is used to emphasise the combination of 'professional' and 'partnership' characteristics that distinguishes organisational forms in fields such as accounting. There are differences which characterise the P_2 form from institutional logics in other fields such as organisational controls, hierarchy, management, marketing and human resource practices (Greenwood *et al.* 1990).

Cooper *et al.* (1996) and Hinings *et al.* (1999) noted that the P_2 form has been superseded to some degree by the managed professional business (MPB). The MPB emphasises the importance of strategic planning and control, marketing, productivity, client service and cross-selling. Governance through partnership is something which gets in the way of efficiency and the importation of the business world into the professional one (Hinings *et al.* 1999). For small practices which may rely on the resource advantages of partnership, changes to the dominance of the P_2 form are not yet fully understood (Ramirez 2009). Small firms may not feel it is in their interest to move away from historical partnership forms of organisation, for instance to limited liability partnership status, due to the resource implications of time and bureaucracy. Small practices are particularly vulnerable to the risk posed by partners leaving and taking their client bases with them, which may make sole proprietorship particularly appealing in this sector.

Professional bodies play an important role in the context of professional service firms, whether through positive aspects such as the creation and legitimisation of knowledge (Alvesson 1995; Murray 2001) or constraints such as the imposition of norms and controls that restrict innovation (Drazin 1990). The role of the professional bodies in regulating the provision, creation and application of knowledge has been the subject of an extensive literature which will not be recounted here (Abbott 1988; Alvesson 1995, 2000; Crompton 1992; Greenwood *et al.* 2002; Løwendahl 1997; McDonald 1995; Robertson *et al.* 2003). Two conclusions from this body of research that should be noted are: the role of professional bodies in shaping knowledge and expertise, which means that such bodies are pervasive influences on the actions of its members; and that the extent of this influence varies across professional industries and in different organisational contexts (Ramirez 2009). The influence of professional institutions, Robertson *et al.* (2003: 835) note, can be through "*the technical means of professionalism (standardizing expertise and differentiating it from other commodities) and a social means of professionalization".* In other words, professional bodies credentialise knowledge and "*act as the means whereby communities represent themselves to others in the field" (*Greenwood *et al.* 2002: 62).

Professional bodies give their members access to various forms of capital, such as symbolic capital through credentialisation, social capital benefits of closure, and cultural capital benefits of training and advanced continuous study (Ettenson and Turner 1997). Clients may therefore take professional accreditation as an indicator of reputation but ultimately the reputation of small business service firms are decided by professional-client interactions and other signals clients take from shared network contacts (Baron and Markman 2003; Shaw *et al.* 2007; Silverside 2001; Uzzi 1997). Although research has suggested that small practitioners rely more heavily on professional credentials to signal reputation and prestige to clients (Ramirez 2009), empirical evidence is limited. The low involvement of small practitioners in the professional bodies suggests they may have limited perceived usefulness for the smaller practices but have been shown to have a significant impact on their operations (Ramirez 2009).

2.3 Small Firm Research and the Professional Services

It has been outlined earlier in the chapter that the number of small business service firms has grown sharply in the past two decades (Bryson *et al.* 1993, 1997; Keeble *et al.* 1991; Pelham and Wilson 1996), and the rise in particular types of service such as professional business services has been steep (Marlow and Carter 2004). This has led to increased interest in issues of performance and growth in professional services from policy makers, academia and the professional press (Hausman 2003; Jones 1997; Lapierre 1997; Reid 2008; Thakor and Kumar 2000). Aspects of small professional service firms that have received scholarly attention have included: strategic planning (Døving and Gooderham 2008; French *et al.* 2004; Glancey *et al.* 1998; McAdam and Canning 2001; Ramsey and McCole 2005); human resource management (Ram 1999, 2000); gender

(Carter and Marlow 2003; Haynes 2008; Marlow and Carter 2004; Tonge 2009); geography and clustering (Bryson *et al.* 1997; Keeble and Nachum 2002); social capital or networking (Joyce *et al.* 1995; Garcia and Carter 2009; Neergaard *et al.* 2005; Shaw 1999, 2006; Silverside 2001; Wilkins 1997); knowledge management (Skok and Goldstein 2007); internationalisation (Boojihawon 2007; Ström and Mattsson 2006); service quality (Maclaren and McGowan 1999); and ethnicity (Ram 1999; Ram and Carter 2003). Despite such progress, evidence of the relative paucity of research in the entrepreneurship field can be found by examining recent issues of leading journals such as the *Journal of Business Venturing* and *Entrepreneurship Theory and Practice* (Chua *et al.* 2009; Jennings *et al.* 2009; Klaas *et al.* 2009; Lee *et al.* 2009).

There is a strong need to better understand non-manufacturing small enterprises, particularly the professional service sector, which is growing rapidly. Such firms have been shown to be markedly different to manufacturing firms as specialised expertise, reputation and qualifications are essential prerequisites for establishment (Bryson *et al.* 2007). At present, small professional service firm research appears fragmented, with studies often examining one context and then claiming that their findings may be applicable to other professional contexts (Van Nordenflycht 2010). Comparing the findings between the different types of professional service firm may also be difficult, as the monopolization of knowledge makes some professions such as law and medicine very different to other professions such as IT or advertising.

Little research has been conducted on the organisational forms associated with small professional service firms, such as partnerships. Brock (2008) comments that the vast majority of professional firms are tiny, comprising perhaps a single professional or a small partnership. Yet most studies of partnership as an organisational form have been conducted with large practices (Greenwood *et al.* 1990; Greenwood and Hinings 1993). Similarly, most studies that have examined service quality have done so with larger firms, discovering that poor communication and a lack of response to customer needs often damage service quality (Zeithhaml *et al.* 1988; Smith 1990). Small firms tend to be implicitly close to their customers and do not suffer from the problems associated with the bureaucratic structures of larger firms, yet there is little research specifically examining service quality for small firms.

The advent of increased competition and marketing in the professional services has potentially weakened the position of small firms which lack the resources to advertise and build strong recognisable brands. An alternative perspective is that intellectual assets including market-orientated customer knowledge and relationships may enhance small firms' performance in the face of increasing demands, rising competitive pressures and rapidly changing technologies (Chaston *et al.* 2005; Srivastava *et al.* 2001). A study by Chaston *et al.* (2005) found that many small accounting practices which were relationship-orientated viewed service quality management as important in their overall marketing strategy but conceded that further research was required in this area. Research in other contexts has also found the marketing practices and decisions of small firms are characterised by a significant usage of personal contact networks (Bryson *et al.* 1997; Hill 2001). The reaction of small professional service firms to increased competition, the adoption of marketing practices and the changing quality of their relationships with clients needs to be explored.

Various researchers have posited that reputational returns are unlikely to be evenly distributed in professional services such as accounting and law, in which distinct status groups of elite firms exist (Empson 2007; Fairclough 2007; Greenwood *et al.* 2005; Smets *et al.* 2008). Reputation is often measured using media coverage (Deephouse 2000; Greenwood *et al.* 2005; Fombrun 1996) which is not an appropriate measure for smaller professional practices. If the delivery of a professional service is intrinsically lined to the symbolic outputs (such as appearance and behaviour) of the personnel involved (Anderson-Gough *et al.* 1998, 2000; Starbuck 1992), it may be appropriate to examine the owner's reputation rather than the firms when investigating small practices. The reputation of small service providers has been linked with the reputation of their owners who are often directly involved in service delivery (Carson *et al.* 1995). The performance of small professional service firms has also been linked to reputation but empirical work is at an early stage (Silversides 2001; Shaw 2006; Shaw *et al.* 2008). A key gap this thesis addresses is to generate a more nuanced understanding of how the performance of small professional firms is linked with the notion of reputation and the ability to draw benefits from relationships.

2.4 Small Firm Development and Performance

2.4.1 Small Firm Performance

Given the growth in the size of the small firm sector, considerable attention has been paid towards the performance of small ventures (Davidsson *et al.* 2006; Lechner *et al.* 2006; McGee and Dowling 1994). Measuring and comparing the performance of small firms is, however, problematic and Venkatraman and Ramanujam (1986: 801) have suggested that "*the treatment of performance in research settings is perhaps one of the thorniest issues confronting the academic researcher*". Murphy *et al*. (1996: 15), when discussing entrepreneurship research, note that "*definitions of successful performance . . . and the variables used to measure performance vary widely*". Business performance has been shown to be multifaceted and difficult to measure in the small firm context (Davidsson *et al.* 2006; Haber and Reichel 2005; Kallenberg and Leicht 1991; Shane and Venkataraman 2000). Measuring the performance of small firms is particularly problematic given the heterogeneity of the sector and the broad differences that can be observed in the orientations and motivations of small business owners. Growth is often seen as a primary objective and therefore an indicator of performance for small firms (Baum *et al.* 2001). This is despite increasing evidence indicating that many small firms are not growth orientated and growth is not necessarily a conscious choice made by the business owner (Masurel and van Montfort 2006).

When assessing performance over the development of the business, financial measures such as sales, profitability and turnover are often used because they are seen as objective, simple and easy to understand (Barkhamm 1994; Harada 2003; Reid and Smith 2000). Murphy *et al.* (1996) analysed publications for a seven year period related to small firms and performance and, in 51 articles, they found 71 different operational measures of performance with the most frequently used dimensions being efficiency, growth and profit. The most frequently used measures identified by Murphy *et al.* (1996) were therefore predominantly economic. There are nonetheless a number of difficulties that are inherent with the use of such financial measures in small firms. Owners are often on their own payroll, and thus there is an overlap between business profits and entrepreneurial incomes (Masurel and van Montfort 2006). Low profitability may reflect investments that have been made towards growth. Financial measures have also been criticised for being incomplete, inaccurate and potentially inaccessible (Sapienza and Grimm 1997) particularly as private firms are often reluctant to divulge confidential information (Pelham and Wilson 1996). Gibson and Cassar (2005) note that such measures are usually ascertained from survey responses of the firms' owners who often may not appreciate the fine distinctions implicit in financial definitions:

> *Reported profit, for example, may be before or after the owner's own remuneration. Measures involving profit and returns on assets or investment may not, therefore, produce comparable outcomes* (Gibson and Cassar 2005: 209).

They conclude that sales growth is likely to suffer least from these potential data problems and thus provides the most consistent and comparable indicator of economic performance from a financial perspective (Gibson and Cassar 2005).

When comparing findings across the small firm sector, it has been argued that using financial measures alone may be challenging or even futile (Chong 2008). To overcome such problems, Reid and Smith (2000: 168) have noted the use of relativist performance evaluation measures that ask "*what goals a firm has set, and then enquires into the extent to which these goals have been achieved*". Subjective measures of performance may include general measures of effectiveness (Pelham 1997), other goals such as job creation, community development and improved technology (Kotey and Meredith 1997) and attaining internally generated goals and targets (Chong 2008). It has been posited that subjective assessments of the performance by small business owners can be strongly correlated to objective measures (Dess and Robinson 1984). In particular, when anchored relative to expectation, subjective performances measures can allow for greater comparability across different industries and situation (Pelham and Wilson 1996).

Subjective measures have potential interpretation problems and the importance of economic performance should not be subsumed according to Reid and Smith (2000). Reid and Smith (2000) propose three measures of performance, having analysed a sample of 150 new firms in Scotland, which involved combining the employment growth rate, profitability (the net profit divided by the amount of financial capital), and productivity (sales divided by total employment). Lumpkin and Dess (1996) also advocate a multidimensional performance construct, and note accounting measures of sales growth, market share and profitability, as well as indicators of overall performance, which were identifying goals, objectives and aspiration levels. Similarly, van Gelderen *et al.* (2000) outline a 'total success score' that combines six performance variables which are: turnover; profit; personnel; personal income; goal reaching; and subjective success.

Thus, as well as considering goals and motivations, it is also fairly common for economic performance to be measured using non-financial indicators (Lumpkin and Dess 1996; Sapienza *et al.* 1988). In a recent review of performance measurement for small and medium sized enterprises Taticchi *et al.* (2008) state that there is evidence of an evolution from focusing on performance from a financial perspective to a non-financial perspective. The most commonly used measure is related to the number of employees (Davidsson 1991; Masurel and van Montfort 2006; Robinson and Sexton 1994) which:

> *... range from absolute numbers to measures incorporating employment growth. They also include measures of productivity that relate employment to financial measures, such as profit or sales per employee or labor expenses as a proportion of revenue* (Gibson and Cassar 2005: 209).

Other measures have included new product success, market share, marketing and sales effectiveness, survival and the firm's stage in its life cycle (Gibson and Cassar 2005; Johannisson 1993; Tattichi 2010). Chong (2008) conducted a grounded theory study to find out how owner-managers measured performance over the long and short-term. Non-financial measures, such as customers' satisfaction, referral rates and the long term survival and growth of the firms found to be just as important for performance as financial measures such as profit and turnover (Chong 2008). The problem with such measures again relates to their consistency and comparability (Gibson and Cassar 2005).

For the present thesis, another problem is raised by the fact that much extant research on small firm performance has focused on the manufacturing sector (Chowdhury and Lang 1993; Mitra and Pingali 1999) and high-tech firms (Goffee and Scase 1995; McGee and Dowling 1994; Pavia 1990). Thus the intricacies of the performance and development of small professional services is unclear. An exception is Masurel and van Montfort's (2006) study of the life cycle of Dutch architecture firms which links performance in professional services to the human resource changes over its development which impact on the firms' skills and knowledge base, and the diversification of sales (Masurel and van Montfort 2006). The need for theoretical and industry-specific choice of indicators for small firm performance and growth, and the use of multiple indicators, were considered to be important in the present study (Davidsson 1991; Davidsson *et al.* 2005). Additionally, participants were usually unwilling to divulge economic indicators of performance, although they were willing to discuss some factors, such as the amount of time it took their business to break even. Cogniscent of the limitations of each approach to measuring performance, subjective measures of performance and the importance of non-financial indicators were identified, which emerged as important from the participants' perspectives. The indicators relevant to participants included:

(i) the extent to which they were satisfied with the current profile of the firm;

(ii) the extent to which they wanted to grow the firm any larger;

(iii) the extent to which they wanted rapid growth and attitude to risk;

(iv) and finally, how the firm perceived the level of difficulty in attracting customers and competing with other firms.

The framework used in this thesis for assessing business development over time will be further discussed in the next chapter.

2.4.2 Small Professional Service Firms: Development Issues

The section above outlined some of the complexities that surround the measurement of performance in the small firm sector. This section will outline some of the factors which have been indicated as having an impact on the performance and development of small professional service firms. When examining small firms and their development, it has been suggested that networks and reputation are important for the success of small firms (Casson and Della Giusta 2007; Cope *et al.* 2007; Hite and Hesterly 2001; Jack 2005, 2010; Shaw *et al.* 2008; Slotte-Kock and Coviello 2010). These factors are particularly important for service firms given that quality may be difficult to assess even after consumption. Professional services are considered to be particularly intangible dominant (Shostack 1977), often depending *"... for its long-term success, on the dyadic relationship which exists between a supplier and a client"* (Yorke 1990: 307). Providers need to convince their clients of the quality and value of the specialised knowledge they provide, and information taken from reputation and shared networks is instrumental for this purpose (Silversides 2001; Shaw 2006). Contrary to findings with larger firms, it has been suggested that relationships with clients in the small firm sector remain strong because of the long-term, regular cooperation small professional practices have with their clients. This develops the trust required to act as business advisors, which has been most evident in the accounting sector (Bennett and Robson 1999; Gooderham and Nordhaug 2000; Marriott and Marriott 2000; Mole 2002; Ram and Carter 2002). Quality, performance and the essence of a professional service lies in the capabilities, status and relationships of the personnel involved. These characteristics and the dynamic, rapidly shifting context for professional services in the UK are two key reasons why professional services were chosen as a focus of interest in this study.

The increasing importance of small firms to economies has been linked to the shift in competitive advantage towards firms that exploit knowledge more effectively than the competition (Audretsch and Thurik 2001). Much of the evidence supporting this notion has come from studies examining innovative entrepreneurial firms, for instance looking at R and D expenditure or patents (Acs and Audretsch 1990; Yli-Renko *et al.* 2001). The acceptance that knowledge is a valuable organisational resource has led to a heightened interest in professional service firms, as such firms are seen to offer insight into knowledge management processes (Empson 2001; Greenwood and Suddaby 2006; Suddaby and Greenwood 2001). The importance of knowledge exploitation to professional firms is known (Hitt *et al.* 2001; Zack 2002) but as far as *small* professional service firms are concerned, the body of empirical research needs further development (Chaston *et al.* 2005).

A key difference emerges from the fact that knowledge can be held by individuals or held by an entire organisation. Because many studies have looked at large firms or high technology industries, the focus has often been on how organisational knowledge develops, or the importance of intra-firm relationships in knowledge development (Polanyi 1966, 1969; Quinn *et al.* 1996; Toffler 1990). In small professional service firms, ownership is not divided from control and therefore the service relies on the owner-manager's knowledge-based resources which often overlap with organisational resources. This point will be returned to in the next chapter when the importance of human or cultural capital to performance in professional service firms is explored in more detail.

Research examining the role and impact of professional bodies on smaller members is relatively limited but a recent study by Suddaby *et al.* (2009) found that in Canada, accounting professionals in small firms feel a stronger sense of professional as opposed to organisational identity than their counterparts in larger organisations. This may be associated with the fact that commitment to professional values and logics such as independence was weakest in the large public accounting firms, who also had more commercialistic values. An overview of the accounting body ICEAW (the largest chartered accounting body in the UK) and small practitioner's by Ramirez (2009) provides further insight into the contradictory situation that has surfaced over the history of this professional body. On the one hand, small firms often make up the largest proportion of their membership (seventy per cent of ICEAW) and rely heavily on their professional associations for reputation and other resources. However, the professional bodies have generally not placed the interests of smaller practitioners at the centre of their strategic plans and policies (Ramirez 2009). Further evidence on the role of professional bodies in facilitating and constraining the performance and development of small professional service firms is thus worthy of exploration in this thesis.

The importance of networking for smaller firms depends on competitive conditions and whether a strategic approach to networking is adopted (Silversides 2001). Social capital has been shown to be instrumental for performance in other professional contexts such as advertising (Silversides 2001; Shaw 1999, 2006) and in larger traditional professional firms (Hitt *et al.* 2001; Pennings *et al.* 1998). It is asserted that the success of small service firms is enhanced by the use of informal networking, collaborative partnerships and subcontracting (Bryson *et al.* 1997). However, the central role of relationships and social capital for the performance of small firms in traditional, high-contact professional services like law and accounting is less explored. Therefore the notion of social capital and its impact on performance in small professional service firms was chosen as an area in which this thesis could help to build understanding. Taking on board the sociological view of the professions as being heterogeneous (Mahatma and Morris 2009), focusing on studying social capital within one professional context was deemed to be the most useful route towards generating understanding about social capital in the professional service context. This is also cogniscent of the heterogeneity of the small firm as a whole and the value of sector specific small firm research. In light of the large size of the small accounting firm sector and the dual role such firms play on the performance of the small firm sector as a whole, small accounting firms were chosen as the focus for the present study.

2.5 The Accounting Sector

The accounting sector remains a significant and growing section of the market for professional services in the UK, ranking alongside law and medicine. Accounting and audit are the core services offered by accountancy firms, although taxation, legal services, corporate finance, recovery and management consultancy are associated services that may be offered by accounting firms. Accountants provide essential services for the business community as well as not-for-profit organisations, public bodies and individuals. Key Note (2008) estimates that the market for accountancy services, including management-consultancy work, was £21.23 billion in 2007, and has increased 42.2% since 2004 (2008: 9). The total market was £10.29 billion in 2007 for the three main areas of accounting services, namely audit and accounting, taxation and legal services, and corporate finance and business recovery (Key Note 2008: 10). Accountants also play an important role in the performance of small firms in the UK, given that they often the primary formal source of information for such firms (Gooderham *et al.* 2004).

The pattern of growth is very different across firms of different size. Research by CCH (Accountancy 2007) stated that the top four firms have grown 1,000% in 25 years, while the next sixteen firms have only grown by 116% during the same period. In 1982, the top four firms had a combined fee income of £534 million. In 2007, the top four firms had a combined fee income of £6.4 billion (Keynote 2008). Gradual restructuring has occurred as an increasing number of small and medium sized businesses have merged or been acquired by larger rivals. While the larger accounting firms are concentrated in the biggest cities, small accountancy practices are spread geographically across the UK where they are able to offer local services to their markets of mainly self-employed people, sole proprietors and small family firms (Keynote 2008).

There is an uneven distribution of fee income and profits amongst accounting firms, with the top 50 firms having 76% of the total market in these three sectors (Key Note 2008). The growth in the number of small firms is contributing to greater competition in the market and it is squeezing the profit margins of many firms. Accountancy (2008) reports research carried out on the profitability of accountancy firms by AVN, a network of more than 200 independent firms, which shows that more than half the practices outside the top 50 firms are making an economic loss. Partners in independent accountancy firms cannot pay themselves the salary they deserve and the average partner actually makes a loss. In this report, Steve Pipe, head of AVN, explained:

> *Financially, it is sustainable for these practices to make a loss because there isn't a negative cashflow, but if the partners took out what they deserve there would be a negative cashflow. They square the books by taking out less than they are owed.*

The majority of accounting firms are small and Key Note (2008) reports that more than half (55.4%) of accountancy businesses have a turnover of less than £100,000 and 47.5% of these firms have a turnover of under £50,000. Table 2.2 shows that nearly three-quarters of all accounting firms in the UK employ fewer than five employees which makes most UK accounting firms small or micro-sized enterprises. Only 1.3% has

50 or more employees, and it is these firms that make up the top 50 or so accountancy firms, while 0.1% of firms with 250 employees or more cover the top six.

Table 2.1 Number of UK VAT-Based Enterprises engaged in Accountancy by Employment Size-band (number and %) in 2005, 2006 and 2007

NO. OF EMPLOYEES	2005		2006		2007	
	No. of enterprises	**% of total**	**No. of enterprises**	**% of total**	**No. of enterprises**	**% of total**
0-4	16,765	70.5	16,610	73.9	17,005	73.7
5-9	3,640	15.3	3,180	14.2	3,270	14.2
10-19	1,900	8.0	1,560	6.9	1,675	7.3
20-49	1,035	4.4	830	3.7	820	3.6
50-99	265	1.1	185	0.8	185	0.8
100-249	115	0.5	65	0.3	75	0.3
250+	65	0.3	35	0.2	30	0.1
Total	23,785	100	22,465	100	23,060	100

(Source: Key Note Accounting 2008: 20)

Rather than use traditional marketing and promotional tools, accounting firms are generally more active in the community and sometimes have informal links with other professional firms in sectors such as law and insolvency. Across the sector, a substantial proportion of clients are gained from personal recommendations. Key Note (2008) comments that smaller accounting firms are often not very good at promoting their services or explaining the benefits of what they do. Due to the perceived variability in the level of service offered by small accounting firms, accountants in small firms have sometimes been associated with the image of ‘bad practitioners’ (Ramirez 2009).

To summarise, whilst small accounting practices make up the main bulk of accounting practices in the UK, there is little research exploring their characteristics. Scandals have damaged the reputation of the profession, but its impact on small practices is not known.

Changes to the regulatory environment, increased competition, the relaxation of marketing barriers and the role of professional bodies have also changed the landscape for small accounting practices. Given the importance of the sector in terms of turnover and employment, and in terms of the impact that accountants have on the small firm sector as a whole, it is an important sector to understand. Research has demonstrated that knowledge, reputation and relationships are of particular importance in the professional services context. Given that credentialed knowledge is a prerequisite in the accounting profession, and that financial entry barriers are low, accounting is also considered in Chapter Three to be a particularly interesting field in which to capture the dynamics of social capital and its impact on small firm performance.

2.6 Conclusion

This Chapter has discussed the importance of the small professional service sector, outlining some key characteristics and its increasingly important role in the UK economy. Research has proposed that in the context of small professional firms, relationships are important in helping the small business owner to access needed resources. Relationships are vital for capturing and satisfying clients, and in gaining needed resources from external organisations. Relationships between professionals and their clients have historically been characterised as interdependent, with considerable durability and consistency. The next chapter will review the overlapping forms of capital, proposing that the small professional service context is a compelling and dynamic context in which to study the process through which resources are extracted from networks over time. This will allow a particular focus to be made on social capital, which is a dominant paradigm for explaining small firm development.

CHAPTER THREE

Social and Overlapping Forms of Capital

3.0 Introduction

The previous chapter outlined the importance of the small professional service sector, outlining key characteristics and its increasingly important role in the economy and employment, including self employment and business ownership. Research posits that in small professional service businesses, relationships are important for helping the small business owner access the resources required for their firm. For example, relationships are vital in capturing and satisfying clients, and in gaining needed resources from external organisations. Within the professional context, it has also been suggested that firm performance can be influenced by relational capital acquired at the individual rather than organisational level.

Much of the empirical evidence that underlines the importance of relationships to professional practices has emerged from management and organisation research; to date, there has been little research conducted within the small firm context. Social network theory and the role of social capital have become dominant paradigms for explaining small firm performance but processual aspects are not fully understood. The small professional service context selected by this thesis emerged as a compelling and dynamic context in which to study the processes through which resources are extracted from networks over time. The following chapter reviews extant literature on networks, networking and social capital. The chapter goes on to discuss the complexities of capturing social capital data, particularly as forms of capital overlap, are convertible and dynamic. A conceptual framework for capturing this data is subsequently proposed.

3.1 Social Capital and Social Network Theory

The following section will define and discuss the concept of social capital. Social capital "*brings together under the one notion much of what has been studied under such concepts as informal organisation, trust, culture, social support, social exchange, social resources, embeddedness, relational contracts, social networks, and inter-firm networks"* (Adler and Kwon 2002: 18). Most definitions of social capital agree that it is a form of capital constituted by the actual or potential resources that are made available through social networks. As such, conceptually, social capital and social network theory share many similarities. A significant distinction is that social capital researchers are explicit about separating the sources from the outcomes of social capital (Adler and Kwon 2002; Nahapiet and Ghoshal 1998; Portes 1998).

3.1.1 The Origins of the Social Capital Concept

Social capital has principally been exported from sociological theory (Portes 1998) and is increasingly becoming a core concept in entrepreneurship research (Hoang and Antoncic 2003; Jack 2010; Jack and Anderson 2002; Shaw 2006). The central proposition of social capital theory is that networks are a valuable resource for carrying out social activities, providing their members with "*collectively-owned capital, a 'credential' which entitles them to credit, in the various senses of the word"* (Bourdieu 1986: 249). The term 'social capital' initially appeared in community studies (Jacobs 1965) and some of the most extensive recent contributions to the concept have been made by Coleman (1988, 1990), Burt (1992, 1997, 2000), Putnam (1995, 2000) and Portes (1993, 1998, 2000). The concept continues to often be associated with community and political arenas and other aspects of social and economic phenomena (Baker 1990; Loury 1977; Putnam 1993, 1995). More recently, social capital has been mobilised to study contexts including schooling, families, public health, community life, organisational development, governance, economic development and problems of collective action (Adler and Kwon 2002; Arregle *et al.* 2007; Borgatti and Foster 2003).

The current discussion of social capital will draw from contemporary writings on social capital, rather than referring to classical predecessors. Portes (1998) distinguishes the novelty and heuristic power of social capital as coming from two sources: first, it focuses on the positive features of sociability; and second, it places these positive consequences in the framework of a broader discussion of capital and draws attention to how non-monetary forms of capital can also give access to power and influence. There are a variety of inter-related definitions of this term, which has been described as 'something of a cure-all' (Portes 1998) for the problems afflicting contemporary communities and societies. Social capital has also been derided by critics as a *"wonderfully elastic term*" (Lappe and Du Bois 1997: 119), meaning many things to many people. Similar criticisms are directed at network research (Jack 2010; Parkhe *et al.* 2006), where a diversity of approaches and concepts have led to *"a rather messy situation marked by a cacophony of heterogeneous concepts, theories and research results"* (Oliver and Ebers 1998: 549). Research into this umbrella concept is at a relatively early stage, particularly in specific disciplinary domains such as entrepreneurship, so it is worthwhile exploring the possible definitions of social capital in more depth.

3.1.2 Issues Around Defining Social Capital

In an overview of definitions, Portes (1998) writes that the first systematic contemporary analysis and most theoretically refined definition of social capital was produced by Pierre Bourdieu. Bourdieu defines the concept as:

> *... the aggregate of the actual or potential resources which are linked to possession of a durable network of or less institutionalised relationships of mutual acquaintance or recognition* (1986: 248).

Bourdieu's definition makes clear that social capital can be split into two elements: the social relationship that allows access to resources possessed by associates; and the amount and quality of those resources. Resources can be exchanged and substituted but ultimately all can be converted with varying levels of difficulty to economic capital. Portes (1998) notes that through social capital, actors gain access to economic resources such as subsidised loans and investment tips. Actors can also increase their cultural capital, for example through contacts with experts or affiliations with certain organisations such as professional bodies. Bourdieu (1986) also notes that acquiring social capital requires investment of economic and cultural resources, and that this exchange may lack transparency and be more uncertain than economic exchange.

Another key author on social capital is Coleman (1988, 1990). He defines social capital as "*a variety of entities with two elements in common: they all consist of some aspect of social structures, and they facilitate certain action of actors- whether persons or corporate actors- within the structure"* (Coleman 1990: 302). Portes (1998) criticises this definition, as it fails to distinguish resources from the ability to obtain resources by virtue of membership in different social structures. Systematic treatment of the concept has distinguished between three features: the possessors of the social capital (those making claims); the sources of social capital (those agreeing to the demands); and the resources themselves (Portes 1998: 6). Coleman's (1988, 1990) arguments are useful in highlighting the importance of social capital for acquiring human capital, and some of the mechanisms through which it is generated. Coleman (1988) also discusses the concept of closure in some detail, which suggests that the existence of greater interconnectedness between ties has advantages such as trust, cooperation and the observance of norms.

A number of the key definitions are highlighted in Table 3.1. Adapted from Adler and Kwon (2002), this table separates definitions into those which conceptualise social capital internally (the structure of relations among actors within a collectivity), externally (the relations an actor maintain with other actors) and those that do both. Differences often result from different theoretical perspectives in various disciplinary domains. Adler and Kwon's (2002) review highlights the overall similarities between different definitions and point towards a fairly broad degree of consensus over how to define the concept. Hirsch and Levin (1999) however point out that social capital is still in the 'emerging excitement' phase of the life cycle typical of an umbrella concept, which will subsequently move on to the validity challenge

Table 3.1 Definitions of Social Capital

External versus Internal	Authors	Definitions of Social Capital
External	• Baker (1990)	"a resource that actors derive from specific social structures and then use to pursue their interests; it is created by changes in the relationships among actors" (p. 619)
	• Belliveau, O'Reilly and Wade (1996)	"an individual's personal network and elite institutional associations" (p. 1572)
	• Bourdieu (1986)	"the aggregate of actual or potential resources which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintance or recognition" (p. 248)
	• Burt (1997)	"friends, colleagues, and more general contacts through whom you receive opportunities to use your financial and human capital" (p. 9) "the brokerage opportunities in a network" (p. 355)

	• Knoke (1999)	"the process by which social actors create and mobilise their network connections within and between organisations to gain access to other social actors' resources" (p.18)
	• Lin (1999)	"investment in social relations by individuals through which they gain access to embedded resources to enhance expected returns of instrumental or expressive actions" (p. 39)
	• Portes (1998)	"the ability of actors to secure benefits by virtue of membership in social networks or other social structures" (p. 6)
Internal	• Brehm and Rahn (1997)	"the web of cooperative relationships between citizens that facilitate resolution of collective action problems" (p. 999)
	• Coleman (1990)	"social capital is defined by its function. It is not a single entity, but a variety of different structures, and they facilitate certain actions of individuals who are within the structure" (p. 302)
	• Fukuyama (1995)	"the ability of people to work together for common purposes in groups and organisations" (p. 10)
	• Inglehart (1997)	"a culture of trust and tolerance, in which extensive networks of voluntary associations emerge" (p. 188)
	• Portes and Sensenbrenner (1993)	"those expectations for action within a collectivity that affect the economic goals and goal seeking behavior of its members, even if these expectations are not orientated from the economic sphere" (p. 1323)
	• Putnam (1995)	"features of social organisation such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit" (p. 67)
	• Renzulli *et al.*	"the relationship characteristics of a person's ties to others

	(2000)	who may provide access to important resources" (p. 525)
	• Schmid (2002)	"a person's or group's sympathy toward another person that may produce a potential benefit, advantage, and preferential treatment for another person or group beyond that expected in an exchange" (p. 750)
	• Thomas (1996)	"those voluntary means and processes developed within civil society which promote development for the collective whole" (p. 11)
• Both	• Adler and Kwon (2002)	"social capital is the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor" (p. 23)
	• Dakhli and De Clerq (2004)	"networks of relationships that constitute or lead to resources that can be used for the good of the individual or the collective" (p. 110)
	• Loury (1992)	"naturally occurring social relationships among persons which promote or assist the acquisition of skills and traits valued in the marketplace… an asset which may be as significant as financial bequests in accounting for the maintenance of inequality in our society" (p. 100)
	• Maurer and Ebers (2006)	"the core intuition behind the notion is that it signifies an asset available to individual or collective actors that draws on these actors' positions in a social network and/or the content of these actors' social relations" (p. 262)
	• Nahaphiet and Ghoshal (1998)	"the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit. Social capital thus comprises both the network and the

		assets that may be mobilised through that network" (p. 243)
	• Pennar (1997)	"the web of social relationships that influences behaviour and thereby affects economic growth" (p. 154)
	• Schiff (1992)	• "the set of elements of the social structure that affects relations among people and are inputs or arguments of the production and/or utility function" (p. 160)
	• Woolcock (1998)	• "the information, trust and norms of reciprocity inherent in one's social networks" (p. 153)

(Adapted from Adler and Kwon 2002: 20)

3.1.3 Collective, Individual or Both?

The definitions of social capital outlined in Table 3.1 highlight that the benefits accrued from social capital will be either for individuals, collectives, or both depending on the perspective adopted. An internal focus examines how individuals access and use resources embedded in social networks to gain returns in instrumental actions, such as finding a job, or to preserve gains through expressive actions, such as moving to a cohesive community (Borgatti *et al.* 2009; Lin 1999; Tsai and Ghoshal 1998). This stream of research tends to assume individuals use network ties instrumentally to pursue opportunities that benefit themselves (Bourdieu 1986). Lin (1999) argues that at this relational level, social capital can be seen as similar to human capital in that investments are made by individuals, with some expected return to the individual. Although the aggregate of individual returns will benefit the collective, the focal points for analysis are twofold: how individuals invest in social relations; and, how individuals capture the embedded resources in the relations to generate a return (Lin 1999). Demonstrations of this perspective are presented in Burt (1992; 1998; 1997; 2000), Marsden and Hurlbert (1988) and Portes (1998).

The alternative perspective has its focus on social capital at the group level, with the focal points examining two key aspects: how certain groups develop and maintain more or less social capital as a collective asset; and, how such a collective asset enhances group members' life chances (Lin 1999). Representative works in this perspective include Coleman (1988, 1990) and Putnam (1993). The central interest here is to explore the elements and processes in the production and maintenance of the collective asset, for example, how collective capital is maintained through dense networks. Another area of interest for this perspective is the contribution of norms and trust to the production and maintenance of the collective asset (Lin 1999; Putnam 1993). At the societal-group level and relational level, there is consensus that it is the interacting members who make the maintenance and reproduction of social capital possible. Critics of this perspective, such as Portes (1998) and Woolcock (1998) identify a conceptual problem arising when social capital is classified as a public good that is 'under-produced' by society. Social capital, in the form of trust, is created as a by-product of collective endeavours, such as participating in civic associations. However, this in itself is a public good which presents a problem when trying to distinguish between the sources of social capital and the benefits derived from these (Portes 1998).

As far as small firm network research is concerned, there are two broad camps of research: micro studies tend to focus on individual ego networks but neglect the larger context of constraints within which such networks are embedded; macro studies tend to focus on the structure of network relationships and organisational actions but neglect the role of the individual. Recent commentaries have suggested that individuals are heavily constrained by social structures rather than agents of their own fate, and therefore network researchers should consider individuals *and* social structures (Aldrich and Kim 2007; Anderson et al. 2010; Baron and Tang 2009; Edwards and Jones 2008; Ibarra *et al.* 2005; Jack 2010). In relation to entrepreneurship, Jack (2010) posits that social embeddedness, social context and links to social structure need to be considered to understand how entrepreneurial objectives can be achieved. Considerations when researching social capital in an entrepreneurial context will be returned to. First, the definition of social capital used in the present study is outlined.

3.1.4 Definition of Social Capital

There is significant agreement that social capital is intangible relative to economic and human capital (Bourdieu 1986; Coleman 1990). It is others, not the individual themselves, who are the sources of social capital and the motivations of others to make resources available is not uniform. An integration of the different conceptualisations of social capital is possible, as long as the analytical distinction is recognised between the structural properties of networks and the nature of the social resources embedded in networks, thus drawing a distinction between their form and their content (Lin 1999; Seibert *et al.* 2001; Shaw 2006; Shaw *et al.* 2008).

Woolcock (2001) argues that it is better to adopt a narrow agreed upon definition so that supporters and sceptics stick to the same rules. Having considered the various definitions of social capital, it is defined in the present thesis as:

> *… the goodwill available to individuals or groups. Its source lies in the structure and content of the actor's social relations. Its effects flow from the information, influence and solidarity it makes available to the actor* (Adler and Kwon 2002: 23).

This definition accepts that social capital can be made available to both individuals and collectives, and is selected for a number of reasons. Firstly, it makes an important distinction between the sources and outcomes of social capital, an argument echoed by commentators such as Lin (1999), Portes (1998) and Woolcock (2001). Secondly, it acknowledges both morphological and relational network dimensions as relevant to the sources of social capital – a perspective which is strongly supported by social network and social capital theory (Coviello 2005; Davidsson and Honig 2003; Greve and Salaff 2003; Hoang and Antoncic 2003; Jack 2010; Mitchell 1969; Shaw 1999). Thirdly, it identifies social capital as being contained *within* social relations rather than being possessed by an individual or a social unit. This recognition that social capital is not owned exclusively by any single party, but is a resource which individuals may be able to draw upon, is a key feature within the literature (Bourdieu 1986). Finally, this definition identifies the types of outcomes that can be obtained from social capital, another important dimension recognised in the literature (Lin 1999; Nahapiet and Ghoshal 1998).

3.1.5 Social Capital and the Unit of Analysis

Even within the same broad field, researchers adopt different definitions of what exactly constitutes a network and adopt different units of analyses, namely the business owner or the small firm (O'Donnell *et al.* 2001). Maurer and Ebers (2006) propose that to understand firm-level outcomes, the firm-level configuration and management of organisation members' social capital matters (Maurer and Ebers 2006). The Maurer and Ebers (2006) study found that a firms' organisation of relationship management is important for understanding the dynamic links between individual and firm-level social capital and their performance implications for the firm. In other words, to understand the configuration of individuals' or organisations' social capital, the internal organisation and management of the organisation's external relations need to be considered.

Selecting the small firm as the unit of analysis can be conceptually and empirically problematic. Social capital is, by and large, generated, maintained and drawn upon by individuals (Burt 2000). Founding business owners often use their individual social capital to gain needed resources at start-up, at which point the social capital possessed by their new ventures is virtually identical to that possessed by the firm's founder

(Elfring and Hulsink 2007; Hite and Hesterly 2001; Larson and Starr 1993). Davidsson and Honig (2003) found that while the focus of their study was individual entrepreneurs, the social capital which entrepreneurs brought to their ventures subsequently promoted inter and intra-organisational relationships. Supporting this, Adler and Kwon (2002) argue that particular to small firms, it can be difficult to distinguish between individual and organisational social capital. Ibarra *et al.* (2005) suggest that researchers should consider the interplay between levels of analysis, for example when individual and communal social capitals are juxtaposed and different interests vie for control. Particular to small business services, an assumption made is that owners' motivations and actions will, to some extent, merge with those of the firm, so making a study of the founder or business owner's social capital appropriate, and in line with other small firm studies (Anderson *et al.* 2010; Elfring and Hulsink 2007; Hite 2005; Jack 2005; Kim and Aldrich 2005; Starr and MacMillan 1990). Accepting this, the chapter now moves on to consider the sources of social capital, and will introduce social network theory as a mode of exploring the structural and relational aspects of social capital.

3.2 Sources of Social Capital

Much of the literature and extensive reviews of social capital (Adler and Kwon 2002; Nahapiet and Ghoshal 1998; Portes 1998) reiterate the need to separate the sources of social capital from the effects. As such, this framework will organise the current review. Both Adler and Kwon (2002) and Nahapiet and Ghoshal (1998) offer comprehensive frameworks for analysing the sources of social capital and are drawn upon in the following review.

3.2.1 Structural Sources of Social Capital

Network structure is defined as "*the pattern of direct and indirect ties between actors (and) a general proposition is that actors' differential positioning within a network structure has an important impact on resource flows, and hence, on entrepreneurial outcomes*" (Hoang and Antoncic 2003: 170). Sources of social capital are found in the formal structure of ties which make up the social network. Adler and Kwon (2002) call this determinant of social capital 'opportunity' which is created by an actor's network of social ties. In a similar vein, Nahapiet and Ghoshal (1998) see the structural dimensions of social capital as relating to network ties, networks configurations and appropriable organisation.

Different approaches have been taken by network researchers examining the configuration of network ties. Coleman (1988), for instance, focuses on 'closure' as a key facilitator of norms and trust which foster social capital. This perspective emphasises the benefits accrued from bonding social capital, dense networks and the state of closure (Coleman 1988; Lin *et al.* 1981). Group solidarity and closure are distinct advantages of social capital, as solidifying forces that make it possible to mobilise network resources. The opposing view sees the relative absence of ties, labeled 'structural holes' as facilitating individual mobility (Burt 1992). In this conceptualisation, bridging ties are better sources of resources and knowledge, as dense networks tend to convey redundant information and lead to stagnation.

Burt's (1992) theory regarding the positive impact of bridging networks considers the pattern of relationships among alters in an ego's social network. According to structural hole theory, it is advantageous for an ego to be connected to many alters who are themselves unconnected. Burt (1992) argues that this brings several important benefits:

more unique and timely access to information; greater bargaining power and thus control over resources and outcomes; and greater visibility and career opportunities. Social capital creates an advantage in *"... the way in which social structure renders competition imperfect by creating entrepreneurial opportunities for certain players and not for others"* (Burt 1992: 57). Closed networks of densely interconnected contacts are associated with substandard performance. Burt concludes that networks that span structural holes are associated with *"... innovation and creativity, positive evaluations, early promotion, high compensation and profits"* (2001: 45). Burt (1992) posits that brokers (individuals who connect otherwise disconnected actors) can exploit these structural holes to gain information and influence. A correlated but theoretically distinct social position is boundary spanning. Fleming and Waguespack (2007: 166) explain that "*brokers can span boundaries, but not all boundary spanners broker*" and their longitudinal study of open innovation communities concluded that brokerage positions are inherently distrusted, which is not found with boundary spanners.

Hoang and Antoncic (2003) note that, because of the challenges of gathering data to analyse the bridging concept, research lags behind that examining the impact of network size and centrality measures of networking. A limitation to structural holes theory is that the existence of structural hole does not guarantee the transfer of information. Some redundancy is needed, for instance, when the meaning of information or exchange is ambiguous or parties have different prior knowledge (Nahapiet and Ghoshal 1998). Nahapiet and Ghoshal (1998) also discuss appropriable organisation, which refers to the fact that social capital developed in one context, for example ties, norms and trust, can often be transferred to another setting, influencing patterns of exchange.

Burt (2000) later reasoned that the two arguments could be brought together by pointing out that range is the source of added value but cohesion and closure are critical to realising this value. Maurer and Ebers's (2006) research also suggests that firms can simultaneously benefit from cohesive ties with a small range of partners at the individual level, and the opportunities provided by a wider range of ties with different constituencies at the firm level. Hoang and Antoncic (2003) conclude that a contingency approach is needed, and that firms benefit from a mix of these ties, facing trade offs with different network configurations. Adler and Kwon (2002) see the differences in perspectives as reflective of different focuses and goals, and argue that both closure and sparse networks can yield benefits. Lin (1999) believes that differences are relative to the outcomes desired, as for preserving and maintaining resources (expressive actions), denser networks are more advantageous. The conclusions drawn are that the usefulness of structural holes and closure will be contingent upon the particular social network, interactions and outcomes concerned.

3.2.2 Measuring Structural Factors

One of the key early authors on social network theory, whose conceptualisation has been frequently drawn upon by subsequent social network researchers, is the social anthropologist Mitchell (1969). According to Mitchell (1969:2) a social network is defined as "*a specific set of linkages among a defined set of persons, with the additional property that the characteristics of these linkages as a whole may be used to interpret the social behaviour of the persons involved*". Social network theory asserts that social networks are created by processes of ongoing interactions, with fluctuating structures that have fuzzy boundaries (Johannisson 1986). To appreciate the nature of the relationships within a social network, both structural and interactional dimensions need to be considered. Size, defined as the number of direct links between a focal actor and other actors, has been used as a measure of network structure. Another, less researched measure of network position is centrality, which is similar to the size measure, but explicitly includes the ability to access resources through direct and indirect ties (Hoang and Antoncic, 2003). Hoang and Antoncic (2003) point out that whilst network size and centrality measure the amount of resources an actor can access, other patterns in the network influence their access to a diversity of resources.

Mitchell's (1969; 1973) morphological criteria including range, density, reach and anchorage, provide a thorough and robust framework for examining these location-related dimensions (Coviello 2006; Shaw 1999, 2006). Within structural analysis, location is often seen as a key element of identifying social capital, whether it be through the identification of structural holes (Burt 1992) or the bridging benefits of weak ties (Granovetter 1973). A review of network location variables identifies a similar set of location measures, sometimes using different terminology such as closeness (Hoang and Antoncic 2003; O'Donnell *et al.* 2001). Structural studies have often focused on quantifying the four dimensions (anchorage, density, reachability, and range) of relationships identified by Mitchell (Aldrich and Zimmer 1986; Birley 1985; Carson *et al.* 1995). These factors are used to measure the patterns of direct and indirect ties between entrepreneurs in terms of size, diversity and centrality (Hoang and Antoncic 2003; Neergaard 2005).

Anchorage

One of the key factors when addressing network studies is that, in practice, it is impossible to specify all linkages that spread from a community or organisation. The usefulness of such a task is also doubtful, considering the behaviour of individuals in a social context might be driven by circumstances outside the immediate context. How far the links of the network are traced depends on the researcher's focus of inquiry, implying a network will normally be traced from a starting point. Mitchell (1969) refers to this as the point of anchorage of a network, and is usually taken to be a specified individual being studied. The boundary of the network needs to be fixed in relation to the social situation being analysed, tracing links from the ego to the constituents of the network and amongst the constituents themselves (only as far as the links will throw light on the problems being studied). Mitchell (1969) writes that there can be no general rule here. This 'ego-centred' or personal network approach is common in the literature and, according to Mitchell (1969), makes better analytical sense. However, numerous studies have taken the organisation as the point of reference for the study, including ones focused on small entrepreneurial firms (Shaw 2006). It is proposed in the present study that the anchorage for the network inquiry will be the small business owner. As previously discused, the reason for selecting the owner as the unit of analysis has is twofold: because of the overlap between the owner's network and their firm's network; and because social capital is typically maintained and drawn upon by individuals.

Range

Range refers to the number of people who are in contact with the ego, combined with the social heterogeneity of the people concerned (Mitchell 1969). The ideal range will depend on the context of the interactions, and it is usually perceived that there will be a limit to the number of people with whom an individual will have direct and regular contact. People who have more contacts in more places (a greater range) are thought to have greater access to diverse resources and information (Granovetter 1973). High diversity may mean access to several different spheres of society, which may improve instrumental action. However, most people's relations tend to be with people who are similar to themselves upon multiple dimensions such as sex, age and race (Blau 1994). The more heterogeneous a person's network is, the greater the likelihood that they can obtain non-redundant or diverse information (Blau 1977). Heterogeneity may therefore increase a person's social capital by extending their knowledge through indirect ties to others beyond their immediate circle (Renzulli *et al.* 2000).

The *homophily* principle is that 'similarity breeds connection' and implies that network ties of every type, including work, marriage, friendship, and exchange, will be comprised of similar others (McPherson *et al.* 2001). The result is that people's personal networks are often homogeneous with regard to many sociodemographic, behavioural, and interpersonal characteristics. Although some subtle differences have been identified, McPherson *et al.* (2001) find that general patterns of *homophily* are remarkably robust over varying types of relations, such as marriage, career support and discussing important business matters (Marsden 1987, 1988). Patterns of *homophily* tend to get stronger as ties become more multiplex (McPherson *et al.* 2001; Ibarra 1992).

Reachability

Reachability describes how easy and to what extent network members can contact each other. If a large number of people can be contacted with a small number of steps the network is compact (Mitchell 1969). The notion of reachability should not be confused with density, or completeness, which refers to the extent to which everyone within a set of ego's contacts knows everyone else. Reachability purely implies that everyone can be contacted within a given number of steps from a fixed point. The ability to access and mobilise social capital will depend on reachability, and the associated costs will vary according to this dimension. In Granovetter's (1973) study, a key feature was that job information often only passed through one network contact from the employer to the potential employee, which he argued improved the quality of the information. The sociological implications of reachability, Mitchell (1969) proposes, are the transmission of information such as judgements and opinions that can reinforce norms and bring pressure to bear on a particular person. Compactness is distinguished by two dimensions: the number of people who can ever be contacted by each person in the networks; and the number of intermediaries that must be used to contact others (Mitchell 1969).

Density

Density is a measure of the extent to which actors in the network are connected to one another. Terms used to describe a dense network, include 'connected' or 'close-knit' (Mitchell 1969). Network density refers to the extent to which an ego's contacts also know each other. The more dense the network, the less likely it is that new resources will enter and the more likely it is that resources will recirculate within the group (Burt 2001). Such measures can therefore provide an indication of the opportunities which can be transmitted through an entrepreneur's network, for example, the speed with which resources such as information can be accessed (Shaw 1999). Structural dimensions such as density have been used to explain the frequency with which small firms enter collaborative relations (Walker *et al.* 1997), and the impact that number and diversity of ties, and centrality have on small firm growth (Powell *et al.* 1996). In a study of Angel financing networks and entrepreneurial development, Steier and Greenwood (2000) found that successful firms tended to have close, diverse and extensive ties. Here the work of Granovetter (1973) is cited, denoting the notion of weak and strong ties as influential in determining the type of resources that can be accessed through different types of network.

3.2.3 Relational Sources of Social Capital

Nahapiet and Ghoshal (1998) state that whilst structural dimensions of social capital have a primary impact on the condition of accessibility, the relational dimension of social capital influences access to parties for exchange, anticipation of value through exchange, and motivation to exchange. Making the distinction between structural and relational dimensions of social capital is a common theme across the literature (Adler and Kwon 2002; Burt 1992; Granovetter 1992; Nahapiet and Ghoshal 1998), although various terms may be used to denote these differences. Other terms used to describe relational dimensions are relational embeddedness (Granovetter 1992), behavioural aspects (Lindenberg 1996) and actors bonds (Hakansson and Snehota 1995). Granovetter (1992) viewed embeddedness as the kind of relationships people have developed with each other over a history of interactions. Other commentators discuss the role of trust and trustworthiness (Coleman 1990) or obligations and expectations (Burt 1992). The present discussion of the relational sources of social capital uses a framework presented by Portes (1998), as it is capable of capturing the key features identified by various commentators. This framework identifies two primary motivations: consummatory motivations, relating to norms, bounded solidarity and identification; and instrumental motivations, relating to reciprocity and enforceable trust (Portes 1998). It will be followed by a brief discussion of the strength of ties debate.

3.2.4 Consummatory Motivations

Norms

Norms and beliefs function not only as sources of social capital but also “*influence the value of a given stock of social capital”* (Adler and Kwon 2002: 33). Adler and Kwon (2002) use the example of entrepreneurship to show how norms and beliefs can be seen as legitimate in one context and in another might be seen as opportunistic and self-seeking. Gabbay and Zuckerman (1998) researched prevalent norms in organisational settings and found that in organisational cultures where heavy influence in placed on collective rather than individual orientated behaviour, social capital may be reduced by brokering and bridging of structural holes. The research concluded that network configurations derive their meaning from the larger context in which interaction occurs.

Adler and Kwon (2002) also term the relational aspect of social capital 'motivation'. ‘Consummatory’ motivation, for instance paying debts on time, occurs because people feel obliged to act in this manner. The internalised norms that make such behaviours possible are then appropriable by others as a resource, for instance, for those individuals who can comfortably loan money without fear of non-repayment (Portes 1998). Coleman (1988) referred to this source of social capital in his discussion of norms and sanctions. Norms exist when the socially defined right to control an action is held not be the actor but by others (Coleman 1990). Social norms, for instance of openness and teamwork, can assist cooperation and influence firm performance, for instance in the knowledge-intensive sector (Starbuck 1992).

Bounded solidarity and identification

Consummatory motivations also include ‘bounded solidarity’, in which identification with a group, sect or community can be a powerful motivational source (Portes 1998). Portes (1995) examined the extent to which ethnic ties can be turned into social capital because ‘bounded solidarity’ facilitates the reciprocation of aid and enforces norms for the common good. Coleman (1990: 273) refers to extreme forms of this as motivation as ‘zeal’, and sees them as an effective antidote to free-riding by others in collective movements. Nahapiet and Ghoshal (1998) also discuss ‘identification’ as a source of social capital, influencing both the anticipation of value and the motivation to exchange. Identification, resulting from membership of a group, or from taking the standards of other individuals or groups as a comparative frame of reference (Merton 1968), may therefore enhance the frequency of cooperation and reduce barriers to information sharing, learning etc. (Nahapiet and Ghoshal 1998).

3.2.5 Instrumental Motivations

Reciprocity

‘Instrumental’ sources of social capital can be viewed as the accumulation of obligations from others according to the norm of reciprocity. Access to resources is provided because of the expectation that it will be repaid, although perhaps in a different currency, at an unspecified point in the future. If a schedule of repayment did exist, the transaction would be defined as market exchange rather than one mediated by social capital (Bourdieu 1986; Portes 1998). Instrumental motivations, such as the norm of reciprocity and enforceable trust, work more along the lines of the unsocialised view of human nature in modern economics (Portes 1998).

Nahapiet and Ghoshal (1998) discuss these motivations as 'obligations and expectations', and note that they differ from norms because they represent a commitment or duty to undertake some activity in the future. Coleman (1990) conceives such obligations as a 'credit slip' held by A, to be redeemed by some performance by B. Mitchell (1969) outlines similar themes using the notion of 'durability' which is an interactional aspect of social networks indicating the recognition of sets of obligations and rights in respect of other individuals. Many organisation studies have assumed the rational actor model, with behavior driven by instrumental motivations, whereas less directly instrumental norms, such as generalised reciprocity can be key (Portes 1998; Uzzi 1997). Adler and Kwon (2002) view shared norms (and trust) as a motivational source of social capital, but only if the specific content of the shared norms make it so.

Enforceable trust

Another source of social capital comes from the fact that donors can rely on repayment as transactions are embedded in a common social structure (Portes 1998). Therefore, as with reciprocity, repayment can be expected but may not come from the recipient but the collectivity as a whole. The collectivity confers status and will act as a guarantor so that whatever debts are incurred will be repaid. Portes (1998) refers to this as ‘enforceable trust’. Trust is a debated feature of social capital. Coleman (1988, 1990) conceives trust as an outcome of social capital whereas Putnam (1993, 1995) views it as a source. Misztal (1996: 9) defines trust as the belief that *"the results of somebody's intended action will be appropriate from our point of view"*. This will be derived from four aspects of confidence: belief in the good intent and concern of exchange partners; belief in their competence and capapability; belief in their reliability; and belief in their perceived openness (Nahapiet and Ghoshal 1998: 254). Trust makes people more willing to engage in social exchange, particularly cooperative interaction, and in situations of risk and uncertainty.

Trust is pivotal in determining the strength of a tie. A common conceptualisation of trust is as a willingness to be vulnerable, to place one’s welfare in the hands of others and be confident that others will behave in a beneficial manner (Rousseau *et al.* 1998). Nahapiet and Ghoshal (1998) discuss relational trust, which refers to an individual's confidence that others will act beneficially because they care about their welfare. Trust emerges over time as the reliability and positive expectations from repeated interactions increases. Relational trust is based on the norm of reciprocity: the notion that donors provide privileged access to resources in the expectation they will be repaid in the future (Portes 1998). This alongside the enforceable trust created by both parties being members of a common social structure form the instrumental sources of social capital according to Portes (1998).

3.2.6 Strength of Ties

One of the key debates emerging with regard to relational sources of social capital emerges from debates over the strength of ties argument, and is often contrasted with the bridging structural holes approach in entrepreneurship (Elfring and Hulsink 2003, 2007; Evald *et al.* 2006; Jack 2005). Granovetter (1973: 1361) defines the strength of tie as *"... a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie".* The concept is based on relational features of social capital such as frequency of contact, emotional intensity, mutual confiding and reciprocity, although is often contrasted with notions of range and density which are related to structural sources of social capital. Weak ties are often a bridge between densely connected social cliques and thus provide a source of unique information and resources. Before Granovetter's (1973) seminal work on the strength of weak ties, it was generally though that dense networks, such as family circles, would be the most effective in finding jobs. Granovetter's (1973) research found that when information about a new job was obtained by professional, technical and managerial workers, it was usually accessed from weak ties (Granovetter 1973). Strong ties can serve as bridges, but there is a tendency to view such ties as providing mostly redundant information (Burt 1992; Evald *et al.* 2006; Ruef 2002).

For a number of social capital researchers, the notion of the strength of weak ties is not supported. According to Coleman (1988, 1990) and others, the best situation for generating social capital comes from smaller, denser networks of strong ties. Social capital can be useful through bonding actors and thereby enhancing internal organisational trust. Trust often results from obligations, threat of censure and exchange (Coleman 1988, 1990; Granovetter 1985). Coleman's (1988) view is that the benefits of cohesion and closure can only be achieved at the expense of the benefits of range. Subsequent research has found mixed support for the weak ties thesis in entrepreneurship research (Jack 2005; Evald *et al.* 2006; Lin 2001; Shaw 2006; Shaw *et al.* 2008). With respect to small enterprises, research has suggested that the relative importance of strength of ties will depend on the stage of the venture (Elfring and Hulsink 2007; Evald *et al.* 2006; Hite and Hesterly 2001; Larson and Starr 1993). Granovetter's (1973) perspective on weak ties was not intended to relate to the specifics of small firm development, so it's perhaps not surprising that weak ties have not always been found to be superior to strong ties in entrepreneurship research. A large-scale survey-based study by Bruderl and Priesendorfer (1998) found that strong ties were more critical than weak ties in explaining firm survival, but had a much smaller impact on sales growth. A study by Jack (2005) also confirmed the importance of strong ties for entrepreneurial ventures.

Task characteristics are the organisation's objectives, and they can help explain whether strong or weak ties are most valuable (Adler and Kwon 2002). Uzzi (1997) and Lin (1999) both differentiate between tasks requiring trust and cooperation in which it is preferable to have strong, embedded ties in a closely knit network. By contrast, when tasks require non-redundant information, such as job information, weak disparate ties become more useful (Lin 1999). Task contingency helps to clarify the tension between Coleman's view that closure is the key source of social capital and Burt's theory, that social capital is generated from sparse networks with many structural holes. In the small firm literature, variations in the resource needed at different stages in the entrepreneurial venture are a likely explanation for the different findings that emerge. Often studies have looked at emergence and found weak ties to be of benefit (Davidsson and Honig 2003; Jenssen and Greve 2002) while others have have examined relationships across the firms lifecycle and found that different ties have relative benefits according to the phase of the entrepreneurial process (Anderson *et al.* 2007, 2010; Elfring and Hulsink 2003, 2007; Evald *et al.* 2006; Hite and Hesterly 2001; Larson and Starr 1993; Steir *et al.* 2000). On balance it is unlikely that either only weak or only strong ties are more beneficial; rather, the character of the entrepreneur; the stage of the enterprise; and industry requirements are likely to influenced whetrher strong or weak ties are most beneficial.

3.2.7 Measuring Interactional Features

In addition to the morphological dimensions Mitchell (1969, 1973) outlines five interactional dimensions of content, intensity, frequency, durability and direction.

Content

The content of social networks describes the meanings which people attribute to their relationships (Mitchell 1969) and, from a sociological point of view, content is the most important interactional aspect of an individual’s relationships. Content can be economic assistance, kinship obligation, or friendship, for example. Shaw (2006) defines six areas of content that can be exchanged: information and advice; economic transactions; bartering exchanges; normative expressions and multiplex relationships. The need to investigate the contents of small firms networks has been repeatedly outlined in the small firm literature (Hoang and Antoncic 2003; Jack 2010; Lechner and Dowling 2003; O'Donnell *et al.* 2001; Renzulli *et al.* 2000; Uzzi and Lancaster 2003) but empirical findings are still relatively limited compared to other aspects of social networks (Shaw 2006; Shaw *et al.* 2008). The fact that there can be several contents in one link complicates the study of network content, but is essential to understanding the relationship properly. Relationships with several contents are described by Mitchell (1969) as a 'multiplex relationship'. Network links with one focus of interaction are called 'uniplex'. Multiplex relations are also seen as strong, based on the assumption that people who are bound together in many ways are more securely bound.

Directedness

Mitchell (1969) also refers to 'directedness', as an interactional dimension of networks, which specifies whether relationships between people in the network should be considered as orientated from one to the other or reciprocal. For instance, someone may choose to have someone as their friend, but their choice may not be reciprocated. Mitchell (1969) uses the example of employer-employee links, or patron-client links as being directional in this way: the influence of one person on the other will differ according to the direction of the interaction. The flow of interactions and the concept of reciprocity are important considerations in the relational aspects of social networks.

Intensity

A related aspect to trust is indicated in Mitchell's (1969: 27) framework through the discussion of ‘intensity’, which is "*the degree to which individuals are prepared to honour obligations, or feel free to exercise thee rights implied in their link*". Intensity is not necessarily indicated by frequency but by the strength of the ties. This indicates that intensity in a relationship based on kinship, for example, is likely to be greater than a work colleague. Kinship ties are often intense and defined by virtue of moral obligations. Likewise, if a relationship was both a business and a friendship, this might mean that obligations are honoured to a greater extent than if the relationship was purely on economic terms. The link between intensity and notions of obligations through norms, trust and bounded solidarity is thus suggested. Measures of intensity are difficult to devise (Mitchell 1969) so the fieldworker must rely on their own assessment.

Frequency

Frequency is regularly used as an indicator of networking activity in social network analysis (Aldrich *et al.* 1998; Johannisson 1988; Shaw *et al.* 2008) but Mitchell (1969) points out that its relevance to network analyses is marginal. Work colleagues may be seen frequently but their influence may be less than kin, who may be seen very infrequently. Counting the frequency of interaction does not explore the quality or nature of the tie which will ultimately determine its potential as a source of social capital. Frequency is a clearly quantifiable characteristic of network interaction but its usefulness is limited, as regular contact does not imply high intensity in a social relationship (Mitchell 1969). Frequency of contact could, however, help to assist the cognitive sources of social capital which are the final key source to be discussed.

Durability

A network exists in the recognition by people of sets of obligations and rights in respect of certain other identified people (Mitchell 1969: 26). When networks are used for some purpose, the rights and obligations remain as consciously appreciated expectations that people have about other identified people which may persist over time. These underlying rights and responsibilities are constantly changing as people build up new acquaintances, make new contacts or lose touch with each other. Ties which are constantly being activated in interactions are highly durable, while those which persist only for one or two activities are highly transient. While kinship obligations, for example, are very durable and are life long, those that arise for a particularly limited purpose are more likely to be fleeting. The dynamic nature of networks has been noted by many commentators (Hite 2003; Jack 2010; Larson and Starr 1993), yet little empirical evidence has been gathered on how individual's networks change over their life cycle. Strength of tie, bounded solidarity and norms may therefore be explored using the notion of durability.

3.2.8 Cognitive Sources of Social Capital

The cognitive dimension refers to similarities in actors' cognitive schemes and systems of meaning (Nahapiet and Ghoshal 1998). These qualify as social capital because acquiring this shared meaning involves an investment in learning and understanding. This investment thus creates an asset enabling actors to gain access to information and resources which they couldn't have obtained without this investment. Nahapiet and Ghoshal (1998) view shared language and codes as influencing social relations and perceptions, as well as shared narratives. Entrepreneurship research into cognitive social capital is at an early stage but studies have found that an exploration of the interplay between environmental factors (such as networks) and certain cognitive biases amongst business owners can impact on entrepreneurial behaviour (DeCarolis and Saparito 2006). A study of nascent entrepreneurs found that individuals lacking cognitive social capital were limited in their learning and their ability to obtain needed resources such as information, advice and referrals (Lee and Jones 2008). Shared cognitive social capital can arise from familiarity with long-term partners, which has been shown to further mutual understanding and facilitate cooperation (Gulati 1995). It has also been shown to have positive effects on an organisations' ability to learn, adapt and innovate (Maurer and Ebers 2006). Shared meaning might, however, leave open the possibility for individuals to filter out dissenting opinions or attitudes, leading to over-confidence and the illusion of control for entrepreneurs (De Carolis and Saparito 2006).

As the study presented focused on business owners in the professional services, it was decided that professional association would greatly increase the likelihood that participants would share similar representations, interpretations and systems of meaning (Nahapiet and Ghoshal 1998). Therefore cognitive aspects were not included in the conceptual framework and measures of cognitive bias (c.f. DeCarolis and Saparito 2006) were not used when collecting data. Had the focus of the study been cross sectional, comparing professionals with non-professionals, or included clients as well as business owners, it would have been useful to include the cognitive dimension. Additionally, it was felt that by using Bourdieu's (1986) notion of cultural capital, as opposed to more traditional conceptualisations of human capital (c.f. Becker 1968), differences in cognitive capital could still emerge by examining differences in the embodied cultural capital of respondents.

3.3 Benefits and Risks of Social Capital

A number of the key reviews of social capital emphasise that social resources and network structure need to be separately defined in order to examine the way social capital is embedded in networks (Adler and Kwon 2002; Burt 1997; Lin 1999; Seibert *et al.*'s 2001). Social resource theory focuses on the nature of resources held within a network (Lin *et al.* 1981). In this theory, it is not the weakness of ties or the bridging property of weak ties *per se* but the fact that such ties are more likely to reach someone with the type of resource required by the ego, that conveys advantage. This aspect is termed 'ability' in Adler and Kwon's (2002) schema. This section discusses the positive and less documented negative outcomes of social capital (Portes 1998).

3.3.1 Positive Consequences of Social Capital

Adler and Kwon (2002) identify three positive outcomes from social capital as information, influence and solidarity. It is these benefits of social capital that are often explored in the entrepreneurship literature (Anderson *et al*. 2007; Cassun and Della Giusta 2007; De Carolis and Saparito 2006) despite the fact that the negative outcomes of social capital can also impact on firm performance. The reason for this is that investments in social capital are not 'costlessly reversible or convertible', outcomes may benefit a focal actor but be negative for the broader aggregate and ultimately, value depends on a number of moderating factors (Adler and Kwon 2002).

Information

A principle direct benefit of social capital is information: "*for the focal actor, social capital facilitates access to broader sources of information and improves information's quality, relevance and timeliness"* (Adler and Kwon 2002: 29). Network research has demonstrated two key consequences of social capital. The first is to improve the efficiency of action, for instance, efficient information diffusion through weak ties or structural holes (Burt 1992; Granovetter 1973; Shane and Cable 2002). Interorganisational research has also demonstrated the role of network ties in accessing new knowledge and acquiring new skills (Borgatti and Foster 2003; Podolny and Page 1998; Uzzi 1997). Access to timely information and other resources are linked to success in various aspects of life, including career success for individuals, and business success for organisations (Burt 2001; Elfring and Hulsink 2003, 2007; Seibert *et al.* 2001). Psychologically, having access to information and resources is also likely to increase an individual's feeling of life satisfaction (Seibert *et al.* 2001).

Information and resources are fundamental bases of social power and enhance an individual's reputation (Kilduff and Krackhardt 1994; Podolny 2001) which has been shown to have an impact on success within organisations (Brass 1984). Social ties in certain strategic locations or hierarchical positions can provide individuals with useful information about opportunities and choices otherwise not available (Lin 1999). The second consequence is that social capital is an aid to *"adaptive efficiency and to the creativity and learning it implies…The concept, therefore, is central to the understanding of institutional dynamics, innovation and value creation*" (Nahapiet and Ghoshal 1998: 245)

Influence, control and power

Influence, control and power are other key benefits of social capital (Adler and Kwon 2002). As well as building up obligations from other actors, power benefits can also be built through actors who bridge unconnected groups. Lin (1999) also mentions the 'influence' social ties can exert on agents who play a critical role in decisions involving the actor. For example, social ties may influence recruiters of an organisation who play a critical role in hiring employees. Some social ties, due to their strategic location and positions (for example, bridging structural holes) carry more valued resources and exercise greater power. Therefore, an important member of an organisation 'putting in a word' for someone will carry a certain weight in the decision-making process regarding an individual. Burt (1992) examined the power benefits accrued by entrepreneurs who, because they have a say in whose interests are served by the bridge, can negotiate favourable terms and therefore become more powerful actors.

Social ties may also be seen as certification of the individual's social credentials, which will affect the individual's access to resources through social networks and relations (his/her social capital) (Greve and Salaff 2003; Elfring and Hulsink 2007; Lin 1999; Steir and Greenwood 2000; Zimmerman and Zeist 2002). Lin (1999) identifies four elements of social capital: information, influence, social credentials and reinforcement. Reinforcement refers to the fact that social relations are expected to reinforce identity and recognition, which serves to reassure and recognise an individual's claim to resources and to provide emotional support. Lin (1999) proposes that research has verified the proposition that the final outcome of social capital is enhancing the individual’s status, such as occupational status, authority and placement in certain industries. The link between network ties and legitimacy in small entrepreneurial firms was underlined in the findings of a study by Elfring and Hulsink (2007). Their research linked different outcomes such as radical innovation to the creation of network ties to prominent players in the field (Elfring and Hulsink 2007) and furthered the findings of Delmar and Shane (2004) that legitimacy enhances the abilities of founders to create social ties. Through these attained positions, the individual’s social capital can also enhance economic earnings. Burt (1997) and Podolny and Baron (1997) have shown that promotion and economic rewards are enhanced in organisations for individuals at strategic locations in informal networks.

Solidarity

Another benefit is solidarity: "*strong social norms and beliefs, associated with a high degree of closure of the social network, encourage compliance with local rules and customs and reduce the need for formal controls*" (Adler and Kwon 2002: 29). Coleman (1988) viewed the solidarity benefits of closure and trust as resulting in a low drop-out rate amongst Catholic school students. Solidarity may lower monitoring costs and increase commitment. The term 'community' has also been associated with social capital, indicating the concept is a pool of goodwill resulting from what people do, rather than something which is owned (Anderson *et al.* 2007; Bowles and Gintis 2002). Solidarity might be expected to be a strong benefit of membership of a professional association, for instance, as members are likely share norms, high commitment and mutual dependence. Solidarity benefits arising from trust networks may also allow more sensitive and richer information to be shared than in other types of networks (Krackhardt and Hanson 1993). Granovetter (1982) also points out important forms of solidarity can emerge from weak ties, especially ones that bridge unconnected groups as they add to the degree of integration of the larger aggregate.

3.3.2 Risks of Social Capital

The literature on the risks of social capital is much sparser than for the benefits. Adler and Kwon (2002) identify risks using the same framework as used above for benefits, namely information, power and solidarity. Portes (1998: 15) also examines 'negative social capital', identifying four negative consequences of social capital, broadly similar to those identified by Adler and Kwon (2002): exclusion of outsiders, excess claims on group members, restrictions on individual freedom, and downward leveling norms.

Information Risks

Information risks can occur because strong ties may provide access to redundant information (Granovetter 1972). Nahapiet and Ghoshal (1998) note that organisations with high levels of social capital can become ossified, due to their lack of access to diverse ideas and information. The creation and maintenance of some forms of social capital, particularly relational and cognitive, are costly and represent a significant investment. Fried *et al.* (2006) note the dysfunctional effect that network size can have on entrepreneurial firms, due to coordination costs and other resource requirements. The 'dilemma of capacity' is that those entrepreneurs who refrain from networking due to time and resource constraints may miss out on new network contacts, and also become 'uninteresting' due to their insufficient integration into the network (Fried *et al.* 2006)., Relationships involving emotional intimacy and multiplexity, which make possible resource-saving arrangements and coordinated actions must not be so strong that they hinder innovation and flexibility, create dependencies or block access to new resources (Fried *et al.* 2006: 7). Newly founded firms therefore need master the 'dilemma of intensity': to get the right balance of strong and weak ties (Fried *et al.* 2006).

The cost of maintaining linkages may increase as networks become larger and more complex, and therefore interdependence, interaction and closure may all have an impact on the upper limits of networks and social capital (Elfring and Hulsink 2007; Kim and Aldrich 2005; Steir and Greenwood 2000). Intensity can also be an issue. Strong ties built based on solidarity and trust are said to be useful for reducing risk through repeated transactions and increased expectation and reputation (Burt 1992). However, if this relationship is not carefully maintained, there is always the possibility that trust will be broken. This can herald serious risks for small firms through, for example, information flows (Fried *et al.* 2006). As well as the potential of redundant information, there is also the problem that group or community closure may, in certain circumstances, prevent the success of other group members in their entrepreneurial endeavours (Portes 1998). Granovetter (1995) also noted this problem, in that free-riding will occur in closely knit groups or communities, where the less successful members make demands backed by the shared normative structure. Those requiring help have social capital through their special access to resources held by other group members, but overall the process will impede entrepreneurial exploitation. The 'dilemma of compatibility' (Fried *et al.* 2006) is that entrepreneurs must maintain previous links to a homogenous network of contacts, but in order to access new resources may need to build heterogeneous relationships as well. This involves learning new rules and logics and therefore may imply cognitive overextension. Also previous network contacts may mistrust the process and feel exploited, thus devaluing the relationship based on reputation and trust.

Risks of influence, control and power

Power can be lost as a result of having contacts who have many links with other contacts, as although more information will be accessible, the focal actor's direct contacts will be less dependent. Strong solidarity within a group may result in overembeddedness, reducing the flow of new ideas into the group resulting in parochialism and inertia (Adler and Kwon 2002). Strong community and group participation can also create demands for conformity, leading to a loss of individual freedom. This is a classic example of the philosophical divide between those favouring community and society, and those who want to protect and preserve individual liberty. Group solidarity can also result in downward leveling norms in situations where groups experience adversity or opposition to mainstream society (Portes 1998). Any attempt to leave the downtrodden group undermines group cohesion, which propels the idea such an occurrence cannot happen. Portes (1995) uses this idea to discuss how individuals in some ethnic enclaves appear powerless to escape their community because of such downward leveling norms.

Solidarity

Portes (1998) notes that strong ties that bring benefit to a group commonly enable it to exclude others from access, for instance in the traditional monopoly of Jewish merchants over the New York diamond trade. Innovation and entrepreneurship could therefore be hampered by tight knit communities (Portes 1998) and problems in ethnic communities can be confounded (Waldinger 1995). Previous research has noted a strong tendency among entrepreneurs to team with partners with similar characteristics such as gender, education, status and beliefs (Maurer and Ebers 2006; McPherson *et al.* 2001), and also with those who they have had satisfactory relations with in the past (Uzzi 1997). The Maurer and Ebers (2006) study also found that inertia in partner selection was fostered by a particular configuration of firms' social capital that fosters relational and cognitive 'lock-in'. Individuals' capacity, incentives and competence to reconfigure their ties were constrained by close and cohesive relations based on reciprocity. Social capitals solidarity effects can also promote unethical behaviour and split the broader aggregate into factions with special interests (Brass *et al.* 1998). Overall, networks carry "*the risk of reinforced domination and the opportunity cost of wasted effort and missed opportunities for collaboration*" (Adler and Kwon 2002: 31).

3.4 The Value of Social Capital for Smaller Enterprises

The benefits of social capital for smaller enterprises is becoming an established feature of the small firm and entrepreneurship literature (Anderson *et al.* 2007, 2010; Davidsson and Honig 2003; Kim and Aldrich 2005). Anderson *et al.* (2007: 250) comment that *"no matter how broadly conceptualised, for entrepreneurship social capital has a particular salience, especially if entrepreneurship is conceived as a socio-economic process*". In entrepreneurship research, social capital is viewed as providing networks that facilitate the discovery of opportunities, and the ability to locate and utilise various resources in their social network (Elfring and Hulsink 2003, 2007; Fleming and Waguespack 2007; Maurer and Ebers 2006). Despite an increasing body of research in entrepreneurship, no definitive approach for studying networks and social capital exists at present (Jack 2010). This section will highlight current methods and approaches and discussion will raise key questions and directions for future research.

3.4.1 Methods and Approaches

In the previous chapter, certain methodological considerations relevant to the study of small firms were outlined. For instance, the relative infancy of entrepreneurship as a discipline might make exploratory or grounded studies appropriate (Jack 2005, 2010; O'Donnell and Cummins 1999; O'Donnell *et al. 2001*; Santos and Eisenhardt 2009; Shaw 1999, 2006) and it has been argued that network research is 'pre-paradigmatic', and research should therefore focus on theory-building rather than theory-testing (Hoang and Antoncic 2003; O'Donnell and Cummins 1999). Another common methodological feature of entrepreneurship and network studies is that they both require an appreciation of the social context and environment under consideration (Edwards and Jones 2008; Jack 2010; Slotte-Kock and Coviello 2010; Zott and Huy 2007).

A review of methods used to study networks in entrepreneurship research shows a predominance of quantitative approaches, often using cross-sectional surveys used for data collection (Baron and Markman 2000; Donckels and Lambrecht 1995, 1997; Drakopoulou Dodd and Patra 2002; Johannisson *et al.* 2002; Katz and Williams 1997; Lee *et al.* 2001; Lee and Tsang 2001; Lerner *et al.* 1997; Mason and Harrison 1997; Minguzzi and Passaro 2001; Yli-Renko *et al.* 2001). Quantitative approaches are particularly prevalent in studies which investigate finance, performance, social capital and growth. Quantitative approaches have made progress in describing networking activity, through the measurement of structural features alongside interactional data such as frequency of contact (Jack 2010). The problem is that such approaches do not explain the content of network relations and therefore have limited explanatory power for how and why some individuals may be able to use their network ties more effectively than others (Anderson *et al.* 2010; Ibarra 1993). Dubini and Aldrich (1991) also make reference to the subtle nature of the processes involved in small firm networks, which make the commonly employed cross-sectional survey one of the least appropriate. Tie strength is often looked at as only two categories (strong or weak), with studies relying on dubious indicators such as frequency of contact (Elfring and Hulsink 2003, 2007; Evald *et al.* 2006; Hite 2003; Jack 2005) and ignoring features such as trust and reciprocity that may be key factors in determining tie strength.

In a recent review of approaches to studying networks in entrepreneurship, Jack (2010) found that, of the 58 articles published between 1995 and 2005, 40 were quantitative and dealt mostly with structural features of networks, characteristics of ties and their impact on network development. These approaches have looked at aspects such as extensiveness, density, centrality and reachability and have, overall, generated considerable knowledge about the types of ties an entrepreneur uses (Birley 1995; Dubini and Aldrich 1991). Quantitative studies have advantages of generalisation and collecting data about multiple networks. This has been useful in refining knowledge about networks at one level, yet entrepreneurship researchers have long been calling for the use of qualitative methods to provide a deeper understanding of process aspects and a more detailed explanation of network activities (Anderson *et al.* 2007, 2010; Davidsson and Honig 2003; Evald *et al.* 2006; Hoang and Antoncic 2003; Jack 2010; O'Donnell *et al.* 2001; Slotte-Kock and Coviello 2010). This point will be returned to in a discussion of extant knowledge about social capital and time presented later in the chapter.

Another key argument made by network researchers in entrepreneurship (Anderson *et al.* 2007, 2010; Edwards and Jones 2008; Hite 2003; Jack and Anderson 2002) and other disciplines such as organisation studies (Adler and Kwon 2002; Elfring and Hulsink 2007) is that a better understanding of social structure is needed. Entrepreneurs are embedded in their social environment and their circumstances, and social behaviour should be understood within context (Parkhe *et al.* 2006; Sarason *et al.* 2006). Whilst the sociological foundations of network research would suggest social context matters, the predominance of quantitative approaches has limited understanding of how entrepreneurs are tied to a broader network of actors and pursue a range of economic and non-economic goals (Hoang and Antoncic 2003). In this respect, the conceptual framework proposed by Bourdieu (1986) of the overlapping forms of capital, and how they represent the imminent structure of the social world, could present opportunities for network researchers to understand capital and its relationship to social structure (Anderson *et al.* 2010).

In order to generate new theoretical ideas, researchers have suggested an inductive approach and qualitative methods (Hoang and Antoncic 2003; Jack 2010; Kim and Aldrich 2005; Santos and Eisenhardt 2009) and the use of approaches from disciplines that deal with social interactions, such as sociology and social anthropology (Anderson *et al.* 2010; Huggins 2000). Interpretive approaches may require the researcher to immerse themselves in the research situation, getting close to the entrepreneurs so the researcher can "*interpret their subjective understanding of reality"* (Shaw 1999: 60). Getting close to participants and their context is a preferable route to understanding the social structure in which networks are embedded (Anderson *et al.* 2010; Hite 2005; Jack 2005). Understanding context is also important in understanding issues such as network maintenance (Davis *et al.* 2006) and how networks are linked to outcomes (Renzulli and Aldrich 2005).

In addition to contextual factors, there has been an increasing interest in how individual level factors play a role in the value that can be generated from social capital (Anderson *et al.* 2007). Studies have explored the role of communication for business owners (Blackler *et al.* 2000), for instance, in the translation of knowledge and innovation. As part of developing a relational approach to agency, social skills are also cited as important (Edwards and Jones 2008; Emirbayer and Mische 1998). Baron and Markman (2003, 2007) have been particularly pre-eminent in developing and applying the notion of social skills to an entrepreneurship context. These authors conclude that social perception, expressiveness, impression management and social adaptability all exert significant effects on outcomes in a variety of contexts, including entrepreneurial ones (Baron and Markman 2003, 2007; Baron and Tang 2009). The interplay between social skill, context and social capital needs further elaboration, particularly in the professional services.

Qualitative studies have helped to uncover some of the subtle aspects of networks and networking, for example in terms of network content (Chell and Baines 2000; Shaw 2006) and how networks change over time (Jack 2005). Jack (2010) proposes that qualitative approaches may be particularly suited to four types of network research, namely: exploring network development, processes and motivations; looking to explain types of relationships and contact; revealing the interplay between business and social dimensions of ties and networks; and when trying to appreciate the relevance of context and how people interact with those in their environment (Jack 2010: 9). To understand process and the impact of time, longitudinal approaches need to be used and yet this has rarely happened in empirical studies (Davidsson and Honig 2003; Slotte-Kock and Coviello 2010; Soh 2003; Stier and Greenwood 2000). Thus Coviello (2005) posits that detailed explanations of how networks actually develop over time and the true processes involved are not always captured.

Arguments have also been put forward for an integrative research approach, or a stream of research (Gilmore and Carson 1996), which encourages researchers to combine the most suitable research methods at specific and appropriate stages of research (Carson and Coviello 1996; Coviello 2005). A number of studies have used mixed methods, combining quantitative and qualitative approaches (Chell and Baines 2000; Human and Provan 1997; Uzzi and Gillespie 2002). Arguably this mixed methods approach may eliminate some of the deficiencies of single methods and enhance the generalisabilty of findings (O'Donnell *et al.* 1999). Jack (2010) comments that studies combining quantitative and qualitative approaches have 'more rounded' findings. It may also allow the design of the study to build on what has been learnt from previous studies, and gain a fuller perspective of the networking phenomena.

Overall, findings from network studies have been criticised as being confusing and contradictory (O'Donnell *et al.* 2001). Although knowledge has been extended considerably, the implication may be that entrepreneurship and small firm studies will not find a comprehensive model that explains social capital or a universal network theory (Hoang and Antonic 2003; Jack 2010). What is apparent from the review of extant research into small firms and networks is that a key area in which further research is needed is in the interactional processes of networking and how networks develop over time (Slotte-Kock and Coviello 2010). Additionally, it appears that entrepreneurship researchers are in broad agreement that inductive approaches and qualitative methods are likely to provide the best route to understanding context and process (Coviello 2005; Davidsson and Honig 2003; Hoang and Antoncic 2003; O'Donnell *et al.* 2001; Shaw 2006).

Another factor which is relatively unexplored concerns the fact that social capital is just one form of capital in the entrepreneurial capital mix. As well as being dynamic, the forms of capital are fluid and overlapping, making the study of one form problematic: how can we discuss the effects of social capital when the results being examined may be affected by cultural, symbolic or economic forms? This thesis addresses these research gaps and will now move on to outline extant knowledge in terms of process-orientated research in the small firm field.

3.4.2 Process-orientated Research

The interactional dimensions of small firm networking and the process of networking have received relatively little research attention (Anderson *et al.* 2010; Blackburn *et al.* 1990; Coviello 2005; Curran and Blackburn 1994; Elfring and Hulsink 2003, 2007;

Evald *et al.* 2006; Hoang and Antoncic 2003; Jack 2010; Slotte-Kock and Coviello 2010). Few empirical studies have explored both the structure and the processes of small firm networks, meaning that there are significant gaps preventing a true understanding of small firm networks. Some significant research in this area has been put forward (Brown and Butler 1995; Elfring and Hulsink 2007; Hite 2003, 2005; Hite and Hesterly 2001; Larson and Starr 1993) but further empirical investigations of this type are required.

3.4.3 Conceptualising social capital over time

When examining the process of change in organisations, distinguishable phases are often identified, and are used to characterise the various stages an organisation is likely to pass through in an enterprise life cycle (Elfring and Hulsink 2007; Evald *et al.* 2006; McMahon 1998). Organisation theorists in particular have proposed numerous theories and models (Churchill and Lewis 1983; Greiner 1972; Hanks *et al.* 1993; Scott and Bruce 1987; Smith *et al.* 1985). Whilst there are differences in the number of stages and the processes involved, these theories share a 'life cycle' approach, in which the common pattern of organisational growth is comprised of start-up, growth and maturity (Hanks and Chandler 1994). The life cycle approach to small firm growth has been extensively reviewed and critiqued (Hanks 1990; Hanks and Chandler 1992; Hanks *et al.* 1993; Kazanjian and Drazin 1989, 1990; Macpherson *et al.* 2004; Perry 1982; Phelps *et al.* 2007; Quinn and Cameron 1983). Criticisms have typically included: that stage models assume all small firms pass inexorably through each stage; that they fail to capture nascent entrepreneurial activity; and that they pay insufficient attention to the external environment (O'Farrell and Hitchens 1988). For small firms in particular, where growth may occur in reactive, rather than proactive surges (Fombrun and Wally 1989), the orderly sequential view of growth is seen as too deterministic (Miller and Friesen 1984). Given the heterogeneity of the sector, it is also unlikely that a theory and explanation that fits all firms will appear in the future (Gibb and Davies 1990).

Despite certain limitations, the basic premise of identifying stages in small firm development is supported and included in the conceptual framework presented at the end of this chapter for a number of reasons. Although views may differ over the number of stages and the patterns of development, it can be argued convincingly that small firms have a 'life cycle' at least in terms of nascent, start-up and development stages (Davidsson and Honig 2003; Evald *et al.* 2006; Masurel and van Montfort 2006). The applicability of the life cycle to small professional service firms, in particular, has been explored and tested empirically. Findings have established different stages with distinct characteristics, and that the general life cycle model is a logical way to view small firms in this sector (Masurel and van Montfort 2006). As Greiner (1998) points out, researchers need to accept that these phases exist within their own unique structures, with entirely different processes and leadership styles. If this is accepted and incorporated into research designs, the stages framework can be a useful and necessary tool for evaluating and comparing results across firms and over time (Churchill and Lewis 1983). Collecting information on the nature of the flows of information, influence and solidarity at different stages will help to uncover the impact of different configurations, and determine if it is the flows of capital, rather than the stage of the enterprise *per se*, which have greater explanatory power.

To order the timescale over which social capital is created and used, a three stage process, common to the small firm literature, is identified (Evald *et al.* 2006). One of the most influential models, developed by Larson and Starr (1993) identifies a three stage sequence of development of networks and at each stage changes are made in the content and governance mechanisms of the relationship (see Appendix 1). Building on extant research, this includes nascent business owners and their motivation to initiate a business venture, the start-up phase, and thirdly the subsequent development and establishment of their business (Davidsson and Honig 2003; Evald *et al.* 2006; Greve and Salaff 2003; Hite and Hesterly 2001; Larson and Starr 1993; Wilken 1979). A dynamic perspective of entrepreneurial networks and their evolution is reiterated in the small firm literature (Aldrich *et al.* 1990; Hite 2005; Human and Provan 2000). A critical challenge for small firm owners is to understand and manage the evolution of their networks, in opportunity, discovery, and resource mobilisation (Hite 2005).

Nascent/motivation phase

Although there is broad agreement about the importance of networks for emerging firms, there is limited consensus as to which network characteristics are most advantageous in a firm's early stages (Coviello 2005). Studies have shown that emerging firms tend to leverage ties with the nascent business owners' family and friends to gain the key resources needed to establish firm viability (Evald *et al*. 2006). However, successful foundations often do not rely upon relationships within their familiar environment but build new and heterogeneous contacts during planning and establishment (Davidsson 2004; Shane and Ventakaraman 2000). The expansion of a network in entrepreneurial projects can lead to a gain in reputation and to improved access to venture capital (Fried *et al.* 2006). During this stage, nascent entrepreneurs are often highly motivated to discuss their ideas with others as this has been found to help develop their business concept (Greve and Salaff 2003).

Granovetter's (1986) strength of weak ties concept has been influential in many fields, and suggests that the social capital used in the opportunity recognition process is often based on weak ties (Adler and Kwon 2002; Elfring and Hulsink 2007; Hoang and Antoncic 2003; Lin 2001). Access to resources such as financial capital or marketing information which may be useful at the nascent stage can often be accessed through bridging social capital, which is usually based on weak ties at the individual level (Davidsson and Honig 2003). That said, where the entrepreneur has experience of business ownership acquired from family members, the bonding social capital generated by this enhances their opportunity recognition (Davidsson and Honig 2003; Evald *et al.* 2006). Therefore evidence is mixed: the family socialisation process may increase the desire for autonomy, with strong ties providing access to more resources; conversely, many successful foundations do not rely on strong ties but build new contacts during planning and establishment (Davidsson and Honig 2003; Fried *et al.* 2006).

Start-up phase

Evald *et al.* (2006) comment that researchers tend to investigate different starting points in the entrepreneurial process, and for some (c.f. Hite and Hesterly 2001), this means the newly established firm. Social factors have been found to be instrumental in gaining the resources to start a business and to exploit opportunities (Aldrich 1986; Davidsson 2004; Shane and Ventakaraman 2000). Most research seems to identify that weak ties are more important at the outset, providing access to valued resources such as finance, and that as relationships develop over time they become more multiplex, characterised by more and higher quality information exchanges (Hite and Hesterly 2001; Larson and Starr 1993). The social capital used in the discovery process is often based on weak ties, and entrepreneurs use these ties to access resources such as advice (Davidsson and Honig 2003). Bridging structural holes allows organisations the opportunity to gain advantage from this information, using a web of overlapping structures based loosely couples open systems (Burt 1980, 1992).

There is growing 'reflexivity' (Shaw 2006) about the role of weak ties in the entrepreneurial process. Whilst uniplex ties might function better in some environments, it has been suggested that the role of multiplex ties is key in certain entrepreneurial contexts (Shaw 2006). Larson and Starr (1993) view the key activities at the discovery phase as identifying contacts that will provide the critical resources to start the business. This makes strong ties important, and a significant amount of time is spent developing and maintaining contacts. Similarly, at the organisational level, Coleman (1990) found that bonding social capital, rooted in trust, provides extra information and efficiency gains through threats of censure or reciprocity. A study by Maurer and Ebers (2006) showed that the organisation of relationship management can help to explain the dynamics of start-up development. In line with earlier research (c.f. Larson and Starr

1993), their findings "*suggest that the cohesive configuration of social capital fosters the successful emergence and take-off of firms"* (Maurer and Ebers 2006: 285).

Hite and Hesterly (2001) try to reconcile the different perspectives on network dynamics by proposing that as firms move from emergence toward early growth, they require new and additional resources to support continued growth. Hite and Hesterly (2001) therefore advocate a dynamic approach to understanding the firm's network which incorporates both the embedded perspective and the structural holes perspective. This is because firm networks that are primarily identity-based ensure access to needed resources at emergence but are not adequate for the more diverse, dispersed resources needed to sustain growth in later stages. These networks will become more calculative over time to meet the increased quantity and scope of the resource needs (Hite and Hesterly 2001). This approach shares some similarities with the life cycle approaches to small firm evolution, although Hite and Hesterly only focus on the emergence and early growth stages because "*these stages seem most likely to highlight the tension between whether networks characterised by embeddedness and cohesion or those rich in structural holes are more likely to confer benefits to firms"* (2001: 276). Evald *et al.* (2006) concur that the newly established firm will evolve from relying on strong to a mixture of strong and weak ties, as weak ties can be potential future business contacts.

Social capital assists individuals by exposing them to new ideas and viewpoints. At the early stages of the process of new firm formation, information tends to be limited and therefore access to both bridging and bonding capital may be needed. Davidsson and Honig (2003) further distinguish that the bridging social capital from communities that are rich in ideas, innovations and opportunities will encourage self-employment. Similarly, the bonding social capital of individuals that come from families that own businesses will also allow a person to ultilise their individual level social capital resulting in more successful discovery activities than those who do not. Davidsson and Honig (2003) did find in their study that the probability of entry into business was much greater for those who had parents or close friends or neighbours in business. The conclusion drawn is that whilst research demonstrates that social factors are instrumental in gaining the resources to start a business and to exploit opportunities (Aldrich 1986), consensus is limited as to which network characteristics are most advantageous in a firm's early stages (Coviello 2005).

Development/establishment phase

There are even greater gaps in our knowledge as to the relative benefit of types of network structure and configurations over time (Elfring and Hulsink 2007; Slotte-Kock and Coviello 2010). There is evidence showing a link between a firm's performance and the coherence between a firms' social capital and its evolving resource needs (Hite and Hesterly 2001). Unfortunately most models which attempt to conceptualise the process of networking concentrate on the emergence and early growth stages of enterprise (Davidsson and Honig 2003; Hite and Hesterly 2001; Johannisson 1996; Larson and Starr 2003). This has left a gap in understanding of where and how social capital is developed, and how the process of social capital development influences organisational outcomes, although some progress has been made (Arregle *et al.* 2007; Elfring and Hulsink 2003, 2007; Johannisson *et al.* 1994; Larson and Starr 1993; Steir *et al.* 2000; Uzzi 1996).

Gaining a better understanding of how social capital is developed by the small firm is an important stream of entrepreneurship research which will *"contribute to our understanding of internal sources of competitiveness and the role of social relationships in the creation of value"* (Arregle *et al.* 2007: 91). Burt (1997) underlines the importance of taking a contingent view when analysing the value of social capital, particularly in terms of the different information and resource needs at the start-up and development stages. To perform well, firms need to "*align the configuration of their social capital so that it accommodates their changing resource need"* (Maurer and Ebers 2006: 285). Maurer and Ebers' (2006) study found that the configuration of social capital that is conducive for a firm's start-up hinders its performance in the development phase. In the development phase, successful firms maintain their established ties but also develop new cohesive ties that can fulfill evolving information and resource needs. The key challenge for the developing small firm is to avoid the cognitive and relational lock-in that might accompany an increasingly dense network configuration (Adler and Kwon 2002; Maurer and Ebers 2006; Nahapiet and Ghoshal 1998).

For Larson and Starr (1993), development denotes that exchange relationships become more multiplex, and instrumental relationships may adopt social or affective components (also governance shifts to trust and concern over reputation). Further on, the relationships gain further complexity and are characterised by more and higher quality information exchange and interaction is routinised. Other research has also found that, over time, network ties become more multiplex and that the sharing of numerous contents can assist development (Shaw 2006). Using data from Germany, Bruderl and Preisendorfer (1998) find evidence that strong ties (spouses, parents and relatives) improve business outcomes at the development phase. As with the nascent and start-up phases, findings are contradictory. Some emphasise the benefits of bridging social capital (Davidsson and Honig 2003) and traditional market exchange (Hite and Hesterly 2001; Larson and Starr 1993), whilst others the value of strong ties (Bruderl and Preisendorfer 1998). Evald *et al.* (2006) conclude that the mix of strong and weak ties in the development phase are likely to contain a business dimension, some with a multiplex social dimension, and potentially one-shot-deals business contacts. In summary, the findings for the business development stage are limited and, at present, raise more questions than answers.

3.5 Overlapping Forms of Capital

Portes (1998) claims that Bourdieu's conceptualisation of social capital provides the greatest theoretical promise. In Bourdieu's (1986) seminal work on the forms of capital, he proposes that in order to account for the structure and functioning of the social world it is necessary to introduces capital in all its forms. Bourdieu writes that:

> *Depending on the field in which it functions, and at the cost of the more or less expensive transformations which are the precondition for its efficacy in the field in question, capital can present itself in three fundamental guises: as* economic capital*, which is immediately and directly convertible into money and may be institutionalized in the forms of property rights; as* cultural capital*, which is convertible, on certain conditions, into economic capital and may be institutionalized in the forms of educational qualifications; and as* social capital*, made up of social obligations ('connections'), which is convertible, in certain conditions, into economic capital and may be institutionalized in the forms of a title of nobility* (Bourdieu 1986: 241)

Within the entrepreneurship literature, researchers have become interested in the notion of 'entrepreneurial capital' which has been operationalised and defined in various ways but ultimately places entrepreneurial activities in the context of access to financial and non-financial resources (Anderson *et al.* 2010; Erikson 2002; Firkin 2001, 2003; Shaw *et al.* 2008). It is likely that enterprises in general, and therefore small professional service firms, also rely on access to financial and non-financial forms of capital. A common theme of research into entrepreneurial capital is that researchers focus on the variety and amounts of various capitals possessed, and are concerned with the convertibility of different forms (de Bruin-Judge and Leigh 2008; Firkin 2003).

The term 'entrepreneurial capital' is relatively new to the field and has not been precisely defined, although the concept builds upon the resource based view (RBV) of the firm (Barney 1991) and the RBV of entrepreneurship (Brush *et al.* 1997). Erikson (2002) defines entrepreneurial capital as a multiplicative function of entrepreneurial competence and entrepreneurial commitment, extending Ulrich's (1998) proposition of intellectual capital to a practical framework of entrepreneurial capital. It is more common, however, for 'entrepreneurial capital' studies to draw on Bourdieu's conceptualization of non-financial capital as including cultural, social and symbolic forms of capital (de Bruin-Judge and Leigh 2008; Firkin 2001, 2003; Shaw *et al.* 2008, 2009). Other terminologies such as human, physical, organisational and personal capital are also employed (Boden and Nucci 2000; Casson and Della Giusta 2007; Davidsson and Honig 2003; De Carolis and Saparito 2006). Bourdieu's perspective on capital also provides an insight into context, which is increasingly seen as important in appreciating the outcomes that can result from relational forms of capital (Edwards and Jones 2008; Elfring and Hulsink 2007; Zott and Huy 2007). A brief discussion will be presented about the various forms of capital and their convertibility. Following on from this, the forms of capital as they relate to the small professional service firms will be discussed and the conceptual framework for the thesis will be presented.

3.5.1 Economic Capital

Bourdieu (1986) does not explicitly define economic capital, but makes reference to it being the most material form of capital, mentioning monetary profit, private property, and wage labour as some its forms. It can therefore be suggested to indicate those forms of capital which might appear on a balance sheet (factories, stockpiles, shares, financial capital et cetera). Bourdieu is sometimes criticised by sociologists for the fact that his theory of the forms of capital establishes that all forms of non-economic capital can be converted into "economic capital" (Lebaron 2003). Therefore Bourdieu seems to suggest that individuals are orientated towards economic capital and certainly that 'economic capital' is the primary mode of domination in capitalist society (Lebaron 2003). It is more appropriate to view Bourdieu's (1986) theory of capital as something which develops against the rational actor school of economics in which all individuals ultimately strive for profit maximization. Bourdieu recognises the convertibility potential of non-economic forms of capital, but also that the efficacy of economic capital as a principle of domination is being constantly challenged by fractions of the dominant class, such as intellectuals, professionals and artists. Although cultural and social capital can be converted, with varying levels of difficulty, into economic capital, they remain effective *because* they conceal their relationship to economic capital (Bourdieu 1986).

3.5.2 Cultural Capital

Cultural capital, Bourdieu (1986) writes, can exist in three forms: in the 'embodied' state, i.e., in the form of long-lasting dispositions of the mind and body; in the 'objectified state', i.e., in the form of cultural goods such as pictures, books, dictionaries, instruments, machines, etc.; and in the 'institutionalised' state, a form of objectification such as educational qualifications. This conceptualisation of cultural capital is somewhat different to the notion of human capital which has been used more widely in studies of entrepreneurship. Becker's (1964) conceptualisation of human capital has become a standard reference across a number of business disciplines, and has been adopted by a number of small business studies (Davidsson and Honig 2003; Carter *et al.* 2003).

In Becker's (1964) definition, human capital is similar to a physical means of production, as you make investments (in the form of education and training) and it subsequently acquires attributes that lead to increased levels of productivity (in the form of a better job or higher wages). Human capital is therefore like a stock of assets one owns, which allows one to receive a flow of income (like interest earned). Commonly human capital is analysed in terms of education, training and occupational experience, but can also extend to judgement, insight, creativity, vision and intelligence (Dollinger 1994). In entrepreneurship, the relative importance attributed to human and social capital has varied from study to study (Batarjal 2007; Haber and Reichel 2007; Mosey and Wright 2007; Shrader and Siegel 2007). Davidsson and Honig (2003) found that it was only useful in predicting who might start a business, not who would consequently achieve success. Cooper *et al.* (1994) found that the more specific human capital is to the nature of the entrepreneurial venture, the more likely is was that the business would be a success.

Bourdieu (1986) is critical of Becker's view of human capital which explores the relationship between the rates of profit on educational investment and on economic investment. This is because:

> *... measurement of the yield from scholastic investment takes account only of monetary investments and profits, or those directly convertible into money, such as the costs of schooling and the cash equivalent of time devoted to study; they are unable to explain the different proportions of their resources which different agents or different social classes allocate to economic investment and cultural investment because they fail to take systematic account of the structure of the differential chances of profit which the various markets offer these agents or classes as a function of the volume and the composition of their assets* (Bourdieu 1986: 143)

Most studies of human capital have focused on institutionalized cultural capital, but many properties of cultural capital are in fact embodied and take the forms of culture and cultivation (Thompson 1999). Institutional recognition of cultural capital, the academic qualification, makes it possible to compare qualifications and to establish conversion rates between cultural capital and economic capital by guaranteeing the monetary value of a given academic capital. The material and symbolic profits which an academic qualification guarantees also depend on its scarcity meaning that investments (in time and effort) may turn out to be less profitable than was anticipated when they were made. The link between economic and cultural capital, Bourdieu (1986) proposes, is established through the mediation of the time needed for acquisition. Another element Bourdieu (1986) defines is that cultural capital can be acquired unconsciously, and always remains marked by its earliest conditions of acquisition (such as regional pronunciation) that help to determine its ultimate value. In the present study, the perspective on cultural capital is informed primarily by its institutionalised forms (education and professional experience), whilst being cogniscent of a wider range of indicators embodied cultural capital may present.

3.5.3 Symbolic Capital and Conversions

The notion of convertibility and symbolic capital are central to understanding Bourdieu's theory. Bourdieu (1986) writes:

> *The convertibility of the different types of capital is the basis of the strategies aimed at ensuring the reproduction of capital (and the position occupied in social space) by means of the conversions least costly in terms of conversion work and of the losses inherent in the conversion itself (in a given state of the social power relations)* (p. 155)

Cultural capital can be converted into economic capital, just as economic capital can be converted into cultural capital but these conversions happen at different rates. Economic capital is more liquid and more easily transferable from generation to generation which is why it is so useful in reproducing class legitimacy and domination over time. Cultural capital also maintains its legitimacy over time, and to ensure both its convertibility and its ability to reproduce itself, the educational system creates a market in cultural capital with certificates as the currency (Garnham and Williams 1990). Educational qualifications can be converted relatively easily into economic capital in the form of higher wages. Unlike economic capital, cultural capital is embodied and therefore non-transferable, and runs the risk that its value may drop over time if it becomes less scarce (for instance, the value of a degree lowers when many students go on to higher education).

To determine the rates of conversion and values of different forms of capital, Bourdieu (1986) introduces the concept of symbolic capital. Symbolic capital is defined as:

> … *the form that the various species of capital assume when they are perceived and recognized as legitimate* (Bourdieu 1989: 17).

Holders of symbolic capital can sanction or guarantee other forms of capital, for instance, professional bodies offer credentials which allow their members to practice, thus recognising the legitimacy of the professional's cultural capital. Symbolic capital is unrecognised as capital but confers legitimacy, prestige, honour and the right to be listened to to holders of capital. Symbolic capital can affect the rate of return and convertibility of social and cultural capital by yielding profits of distinction for the owner. In cultural capital, the rarity of a certain qualification from a particular school will yield symbolic profits for its owner. Sociability may be viewed as a long term symbolic investment that results in non-specific indebtedness, called gratitude. Building and converting social capital involves a 'subtle economy of time' (Bourdieu 1986). There is ambiguity because of the possibility of bad faith from the other party and a risk that the other party will not recognise the debt that should be honoured. The more that happens to disguise the economic aspect of the transaction, the greater the risk of loss (Bourdieu 1986). Bourdieu uses the example of taking time to personalise a gift which, in economic terms, could be viewed as wastage but in the logic of social exchange, it is a valid long term investment.

3.6 The Forms of Capital and Small Professional Service Firms

When applying the concept of overlapping forms of capital to professional service firms, there are a number of industry-specific factors which need to be considered. In terms of cultural capital, the education, skills and previous employment experiences of entrepreneurs have been found to impact on the successful creation of small firms (Bates

1995; Cooper *et al.* 1994; Reynolds *et al.* 2002; Robinson and Sexton 1994). In their study, Davidsson and Honig (2003) found the relationship between education and entrepreneurship to be stronger than skills and previous employment. Particular to small professional service firms it might be expected that owners will possess high levels of institutionalised and embodied cultural capital, in terms of both education and the acquisition of skills over time (Bates 1995). Wood (1990) drew attention to this by arguing that it is critical for the owners of such firms to convince their clients of the quality and value of their knowledge and experience.

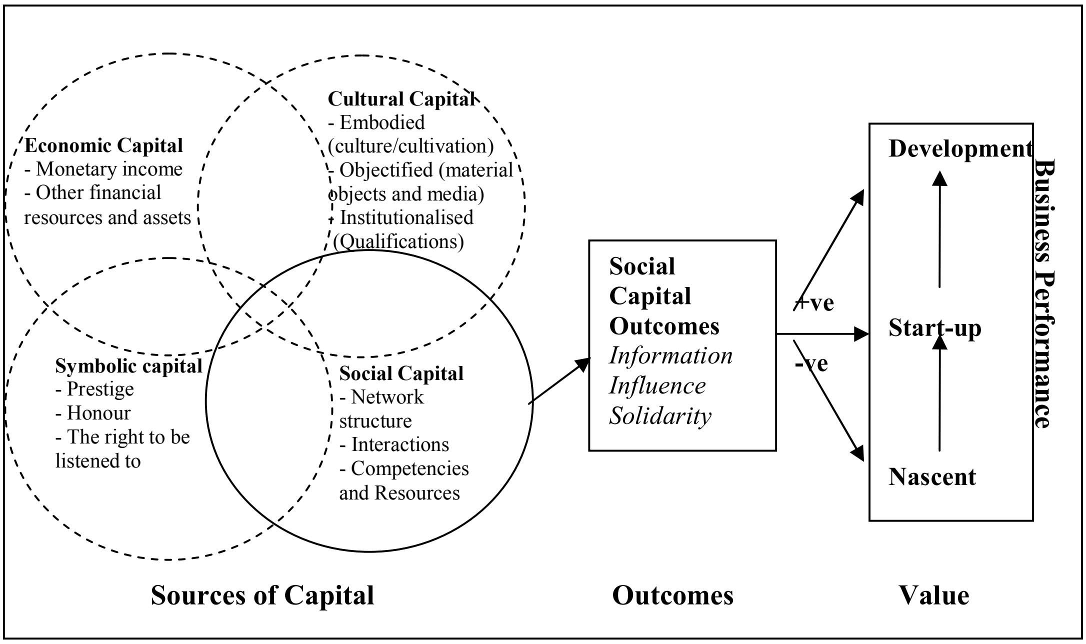
Drawing on Bourdieu's (1989) discussion of symbolic capital, this suggests that high levels of cultural capital are critical to the reputation and the success of professional service firms through enhancing the actor's 'credit of renown'. Research with small firms have also emphasised the importance of symbolic management, but is at a relatively early stage (Zott and Huy 2007). Specific to independent liberal professions, such as accountancy, the requirement for practitioners to acquire credentialed professional knowledge, legitimated through a formal knowledge system, suggests that the owners of such firms will possess high levels of cultural capital (Hitt *et al.* 2001; MacDonald 1995). Cultural capital is indicated through professional qualifications, which must be re-legitimised periodically through continuing professional development (Hanlon 1997). The professional legitimacy offered from professional associations also increases the symbolic capital of business owners, helping them to represent themselves as "*impartial purveyors of truth*" (Carter and Crowther 2000: 24). Collectively this suggests that, as a sector, small professional service firms display high levels of institutionalised cultural capital. Building on this, it can be argued that while some variance in levels of human capital possessed by the owners of such firms may arise from different levels of expertise and experience, differences in the performance of such firms may depend more on the owner's possession of and access to other forms of capital.

In the small firm literature much research attention has focused on how access to financial capital affects business ownership. The fact that women, for example, may have different experiences and success rates in business ownership has often been linked to financial issues, such as lower levels of capitalisation (Brush *et al.* 2001; Carter and Rosa 1998; Rosa *et al.* 1994; Rosa *et al.* 1996). However, the relevance of examining finance in isolation from the other capitals is questionable. A bank is unlikely to overtly discriminate against women attempting to acquire finance, but the nature of the relationship between the bank and the borrower (in terms of trust and reputation) are likely to be key. These nuances are far less tangible and harder to uncover, particularly in surveys which have tended to dominate this field. With regard to financial capital, the service sector as a whole tends to have relatively low entry barriers and low set-up costs (Chell and Baines 1998, 2000; Shaw 2006). Value, in a professional service firm, is generated by cultural capital (the specialised information and knowledge embodied in the professional), for which there is increasing demand and high returns (Hanlon 1997; Robertson *et al.* 2003; Silversides 2001). Therefore, access to economic capital may have less effect on small professional service firms which rely mainly on the professional's cultural and symbolic capital to create value for their clients (Løwendahl 2005).

3.6.1 Conceptual Framework

In developing the conceptual framework for this study a variety of work, but principally that of Bourdieu (1986), Nahapiet and Ghoshal (1998), Adler and Kwon (2002) and Portes (1998), have been informative. Figure 3.1 below outlines the core features of the framework. The framework builds on the understanding that an individual's capital is comprised of economic, cultural, symbolic and social capitals each of which overlap and influence one another (Bourdieu 1986).

Figure 3.1: Conceptual Framework for the study of Social Capital[6]



The current research concentrates on the role of social capital which results from network structure, interactions and the competencies and resources at the nodes of network connections (Adler and Kwon 2002; Nahapiet and Ghoshal 1998). The conceptual framework includes the overlapping forms of capital as described by Bourdieu (1986) as it akcnowledges the interplay between the different forms of capital and the convertibility of social capital over time which must be considered. By applying the framework in a professional service context, differences in performance may be attributable to social capital, given that small professional service firms have low economic capital requirements and high levels of cultural capital.

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[6] Note: This framework focuses on individual level processes through which social capital is accessed by business owners for the performance of their firms. Bourdieu's social theory also includes the notions of field, habitus, practice, doxa and illisio (Golsorkhi et al. 2009). Whilst cogniscent of these concepts, this thesis focuses on the configurations and convertibility of the forms of capital available to small business owners, as outlined in Bourdieu's (1986) 'The Forms of Capital'. This point will be returned to in the discussions and limitations outlined in chapter seven.

Social network theory is drawn upon to help operationalise the social capital concept. Mitchell (1969, 1973) suggests that network structures can be analysed in terms of their range, density, reach and anchorage. The value of analysing social capital along these dimensions is that it can then be assessed by referring to the notions of structural holes (Burt 1992, 1997), embeddedness (Granovetter 1985) and *homophily* (McPherson *et al.* 2001). Particularly in the professional service context, the relationship between time and the relative value of bridging and bonding social capital is not fully understood (Putnam 2000; Werner and Spence 2004). Examining the structure and configuration of business owner's networks at different points in time will be an important contribution of the study.

Also fundamental to understanding sources of social capital are the role of trust, norms, motivations and relational factors (Adler and Kwon 2002; Portes 1998). These features are uncovered by analysing the interactional dimensions of relationships, namely their content, directedness, durability, intensity and frequency of interactions (Mitchell 1969, 1973). The need to investigate such relational dimensions has been repeatedly outlined in the literature (Hoang and Antoncic 2003; Jack 2010; O'Donnell *et al.* 2001; Renzulli *et al.* 2000) but empirical findings are still relatively limited compared to other aspects of social networks (Jack 2010; Shaw *et al.* 2008, 2009; Shaw 2006). Also relevant to the examination of interactional aspects of social capital are multiplexity and the relative strength of ties (Granovetter 1973). Weak or loose relationships are useful in obtaining information that would otherwise be costly or difficult to locate and often provide a bridge between densely connected social cliques. Subsequent research has found mixed support for the weak ties thesis (Jack 2005; McFadyen et al. 2009; Shaw 2006; Shaw *et al.* 2008). By exploring the relational features of social capital, the conceptual framework will add to extant knowledge of how trust, reciprocity, norms, and obligations motivate individuals to donate needed resources to small business owners over time (Adler and Kwon 2002; Nahapiet and Ghoshal 1998; Portes 1998).

In addition to the structural and relational components of social capital, some indication also needs to be made as to what competencies and resources are available at the nodes of the network (Adler and Kwon 2002; Lin 1999). The owner of a professional firm may occupy a strong position in a network, bridging many structural holes, and forming many strong and multiplex links with a wide range of disparate individuals. However, unless these ties can give the business owner access to resources, in the form of information and influence, it is not likely to improve the performance of the business.

Information and influence and are the foremost outcomes that can be drawn from an individual's social capital (Adler and Kwon 2002). The potential benefits and risks of social capital will need to be addressed to evaluate the relative value of different configurations and outcomes (Adler and Kwon 2002). As social capital is acquired and used over time, network data needs to be captured at different phases in the entrepreneurship process. Conceptualising a framework for small firm growth has been problematic due to the diverse nature of the sector. Despite certain limitations of stage models approaches to small firm development, a three stage approach of nascent, start-up and development (common to the entrepreneurship literature) is adopted as it allows a comparison of social capital configurations and resource requirements over time. The practical issue of collecting data will be discussed in the next chapter.

As well as gathering social capital data, performance-related data will need to be gathered over the development of the firm. The use of non-financial indicators has been highlighted as important in the small firm literature (Masurel and van Montfort 2006) and were discussed in Chapter 2. The framework should allow a contextually grounded definition of performance, as related by the business owner, rather than imposing objective financial measures such as turnover which are less useful in comparing performance across different types and sizes of firms (Davidsson 1991; Robinson and Sexton 1994; Srinivasan *et al*. 1994).

3.7 Conclusion

A review of social capital has been presented and has been argued that structural and relational sources of social capital must be separated from the outcomes of social capital. Social network theory was discussed as a method for operationalising the social capital concept. Social capital, networks and networking have become a dominant paradigm in explaining small firm performance. This chapter identified two problems with current research into social capital and the networking behaviour of small firms. One is that many previous studies have tended to only capture data from one point in time, achieving a 'snapshot' of the networking phenomenon (Aldrich and Zimmer 1986). There is some consensus in the literature that effectively researching the dynamics and processes of entrepreneurial firm networks requires a holistic and humanist approach, including observation and in-depth interviewing of entrepreneurs in their own environments and over a period of time (Anderson *et al.* 2010; Coviello 2005; Hill *et al.* 1999; Hoang and Antoncic 2003, Jack 2010; Larson and Starr 1993; Shaw 1999, 2006). Blackburn *et al.* (1990) criticise 'inappropriate research strategies' employed for networking, particularly when they neglect to consider the motivations of entrepreneurs in relation to their participation in networks. Therefore, an 'inductive phenomenological research' is seen as particularly appropriate when rich, deep, process-based network information is required (Coviello 2005; Slotte-Kock and Coviello 2010).

A second problem is that many studies fail to account for the overlapping and convertible forms of capital. Bourdieu's (1986) 'Forms of Capital' proposes that in order to understand capital, it must be analysed in all its forms. Economic, cultural and symbolic capitals were subsequently discussed alongside issues of convertibility. This chapter concluded by presenting a conceptual framework that would capture the structural and relational components of social capital change over time, by gathering social network data at nascent, start-up and development phases. The professional service context has been considered a useful setting to explore social capital, given that economic capital is less important creating value than cultural capital. For professional accountants, institutionalised cultural capital will be consistent amongst the sample, which may mean that performance differences are attributable to social capital. The next chapter will discuss the specific research questions to be addressed and outline the research approach and methods chosen for the empirical study.

CHAPTER FOUR

Research Methodology

4.0 Introduction

This chapter begins by outlining the research aims and objectives which emerged from the literature review and during the research process. The philosophical foundations for the research are briefly discussed, justifying the use of multiple qualitative methods within an interpretive framework. The nature of the substantive topic and exploratory aims of the project identified both inductive and deductive approaches as appropriate. Whilst there is a need to explore social capital processes inductively, the study adopts a conceptual framework as a foundation for the collection of data and as a lens through which to conceptualise and compare the findings with extant theory. The first stage of the research process was informed by the life story technique, which is a well established technique in the social sciences for gathering detailed personal, retrospective narratives from individuals. The second part of the study used a semi-structured interview guide to collect detailed and comparable data on social and other forms of capital. To gather detailed structural and relational data on networks, the study utilised the critical incident technique, another well established social science method which has been increasingly adopted for use in marketing and entrepreneurship studies framed within an interpretive approach. The research design is described in some detail including the role of the researcher and ethical issues. The rationale, interview procedures, analysis techniques and data evaluation are explored for each method used. The chapter closes with a discussion of the limitations of the research methodology used.

4.1 Research Aim and Objectives

Forms of capital are dynamic, overlapping and convertible, and it has been difficult for researchers to isolate and identify which volumes and configurations are most conducive to the performance of small firms. In light of this gap, the principle aim of this research is to explore the configurations and convertibility of capital in small professional service firms, and to consider their impact on the development of such firms. Social capital and its interplay with firm development can be particularly illuminating in this sector as professionals rely on complex, esoteric knowledge and skills to create value, making economic capital requirements low and human capital consistently high.

In contrast to positivist research, in which precise objectives are specified before collecting and analysing data, these broad research aims guided the initial stages of the research. More specific research objectives emerged as the researcher combined relevant empirical facts with existing theoretical knowledge. In applying the heuristic framework of the forms of capital to the phenomena observed and recorded in the field, the following aims and objectives emerged:

Aim

The aim of this thesis is to contribute to an understanding of the interplay between social capital and the development of small professional firms.

Objectives

> *To describe the structural and relational features of social capital in small accounting practices, highlighting the positive and negative outcomes of social capital for firm development.*

To further understanding of the process of networking by examining configurations of social capital at start-up and development phases and exploring how social capital is generated and used over time.

To explore the dynamic and overlapping forms of capital in the professional services context.

To better understand convertibility and implications of various capitals for the development of small professional service firms.

Having outlined the focused series of objectives that emerged, discussion will now turn to a brief outline of the research approach, which was guided by these research objectives, and by the nature of the problem under investigation.

4.2 Research Philosophy

This section outlines the research philosophy which guided the study presented. There are a number of factors which underlie paradigm choice in research. Firstly, the researcher has their own set of beliefs about the nature reality (Easterby-Smith *et al.* 1991; Guba and Lincoln 1998). This is referred to as 'ontology' and helps the researcher establish the nature and form of reality they wish to pursue. Broadly speaking, ontology in the social sciences is divided between two or arguably three (Guba 1990) factions: Positivism, which is rooted in a *realist* ontology, the belief that a reality exists and can be objectively discovered; Postpositivism which is rooted in *critical realism*, the belief that a real world exists but that it is impossible for humans to truly perceive it; and Interpretivism, the belief that there are multiple realities, that reality is socially constructed, and is dependent upon the perceptions of individual, social actors. Philosophical approaches that may be considered as having similar implications and can be regarded as lying within the interpretivist paradigm include the constructivist approach (Hill and McGowan 1999), the phenomenological approach (Cope 2003; Patton 2002; Thompson *et al.* 1989) and the humanist approach (Hill *et al.* 1999; Hirschman 1986).

The interpretive tradition is well established in the social sciences and is being increasingly adopted by researchers of small businesses (c.f. Anderson *et al.* 2010; Bouchikhi 1993; Chell and Pittaway 1998; Cope 2003; Rae 2000; Santos and Eisenhardt 2009; Zott and Huy 2007). The interpretive paradigm is concerned with the world of 'lived experience', which should not be stripped of its context and meaning. Advocates of an interpretive paradigm believe that meaningful analysis can only emerge if the research approach adopted preserves the social context of small firms (Borch and Arthur 1995; Brown and Butler 1995). It was identified in the literature review that the study of networks has been dominated by quantitative approaches, which have been criticised as leading to theory verification rather than theory building (Borch and Arthur 1995; Jack 2010; O'Donnell *et al.* 2001; Shaw 1999). The requirements for network research, according to O'Donnell and Cummins (1999) are five-fold: to allows the phenomenon to be examined within its social context; to allow the phenomenon to be viewed in its totality; to allow the researcher to get close to the participants; to be sensitive to the holistic nature of the phenomenon; and to be carried out longitudinally. These conditions are best met within a broadly interpretive paradigm (Cope 2003; Denzin and Lincoln 1994; Gill and Johnson 1991; Guba and Lincoln 1994; Miles and Huberman 1994; Morgan and Smircich 1980) that stems from the belief that reality is socially constructed. This ontological stance, emphasising the study of social beings in social contexts was identified as appropriate for the present study and is also the approach favoured by the researcher.

One issue that arises from this ontological stance is the presentation of a conceptual framework at the end of the previous chapter. This demonstrates that the researcher is engaged with prior theoretical understanding which might be construed as contrary to a truly interpretivist ontological stance. The present research was *"informed by prior theoretical understanding, but is not so determined or constrained by this understanding that the potential for making novel insights is foregone"* (Finch 2002: 57). Theory regarding the forms of capital, conceptual frameworks for the study of social capital and empirical findings about the impact of networks on the development of small firms helped the researcher determine what to research and how to research it. A position of relativism is assumed, in that this research accepts different constructions and aims to search for "*ever more informed and sophisticated constructions"* (Lincoln 1990: 26). Findings relating to social capital and small firm development are being consciously sought, and as phenomena are gathered, the conceptual framework will be returned to and re-examined in light of these.

In this sense the research is akin to a reflective spiral (Alvesson and Skoldberg 2000) and similar to the approach taken by Anderson *et al.* (2010) who refer to the 'dance' of theory and data. Overcoming the 'dualism' of objectivity and subjectivity has been highlighted as important by Bourdieu and others skeptical of the 'either-or' of subjectivity and objectivity (Hodkinson *et al.* 2008). Ethnographer's discuss similar themes when they discuss emic and etic approaches[7]. Bickman and Rog (1998: 476-477) explain:

> *An etic perspective is an external, social scientific perspective on reality. Some ethnographers are interested only in describing the emic view, without placing their data in an etic or scientific perspective. They stand at the ideational and phenomenological end of the ethnographic spectrum. Other ethnographers prefer to rely on etically derived data first, and consider*

[7] Denzin and Lincoln (2000: 12) also write: Qualitative researchers… are committed to an emic, idiographic, case-based position that directs their attention to the specifics of particular cases…Qualitative researchers believe that rich descriptions of the social world are valuable, whereas quantitative researchers, with their etic, nomothetic commitments, are less concerned with such detail.

> *emically derived data secondary in their analysis… Today, most ethnographers simply see emic and etic orientations as markers along a continuum of styles or different levels of analysis… Just as thorough fieldwork requires an insightful and sensitive cultural interpretation combined with rigorous data collection techniques, so good ethnography requires both emic and etic perspectives.*

The aim of the research is still to *explore* and *generate understanding* rather than test existing theory. This identifies the qualitative paradigm appropriate, as this approach enables the researcher to generate new and alternative theories in an emerging field. The interpretive approach adopted begins with a conceptual framework (an etic perspective) and seeks to explore the perspectives of small business owners (an emic perspective) and will continually reflect on the data collected in relation to the conceptual framework. The approach is neither wholly deductive or inductive but combines strategies in a cyclic process that allows for movement between theorising and doing empirical research (Wallace 1971). This stance aligns with an abductive interpretivism (Anderson *et al.* 2010) in which gaining the insider's view is seen as important but that the first order constructs, being participants' views and explanations, are necessarily moved to second order constructs, based on the researcher's interpretations.

The ontological position adopted in the present study also determines the relationship between the researcher and research findings: the 'epistemology'. The epistemological implications arising from the ontological position adopted relate to the nature of the relationship between the researcher and the subject of research. The nature of the research problem is to explore the dynamic and complex overlapping capitals in a small professional business context. The social context element is a central consideration of the research, which will need to be conducted in the context of the small firm taking into account the dynamic operating environment of the small firm, its unique characteristics and the personalities active within that firm (Gummesson 2006; Hill *et al.* 1999; Shaw 1999). The research problem will explore small business owners' networks, and it has been posited that the study of people calls for special people-orientated methods (Hill *et al.* 1999). Using an interpretivist paradigm "… *allows firms to be viewed in their entirety and permits researchers to get close to participants, penetrate their internal logic and interpret their perceptions"* (Shaw 1999: 60). Interpretivism is particularly appropriate for the study of networks which involve relationships shared between overlapping social phenomena (Coviello 2005; Jack 2010; Shaw 1999). The positivist paradigm would require the researcher to be as objective as possible, ideally having no direct impact on the research situation other than its design. This research situation, in contrast, requires subjectivist inquiry, and close interaction between the researcher and research participants (Curran *et al.* 1993; Gummesson 2006; O'Donnell and Cummins 1999; Shaw 2006). Many of the calls for research on the dynamics and processes of entrepreneurial firm networks also advocate a focus on social process, with the researcher embedding themselves within the entrepreneur's environment over a period of time (Carson and Coviello 1996; Larson and Starr 1993; Greve and Salaff 2003; Hoang and Antoncic 2003).

4.3 Research Design

4.3.1 Research Design Considerations

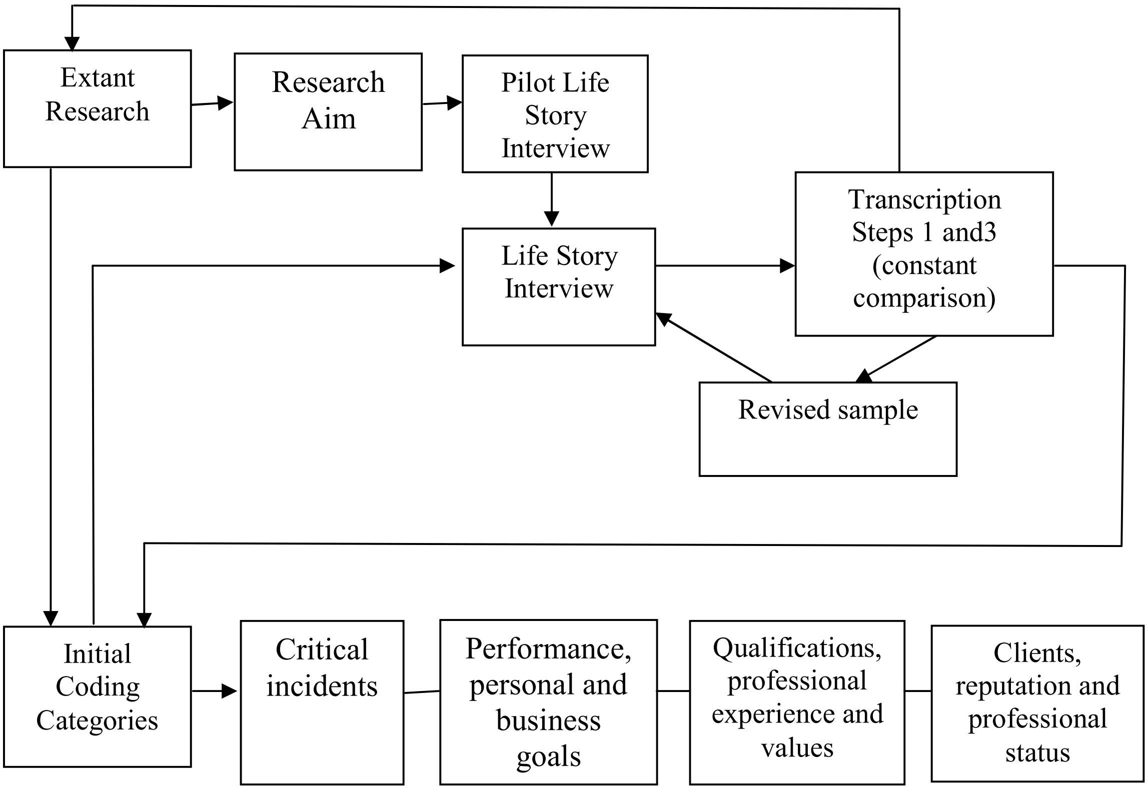
This research supports the discovery of theory grounded in a systematic approach to data analysis (Corbin and Strauss 2008; Strauss and Corbin 1990) but also acknowledges that the researcher understands phenomena through their internal cognisance of concepts and frameworks. Therefore the approach should be seen as abductive, moving between the data and theory in a reflective spiral (Anderson *et al.* 2010; Alvesson and Skoldberg 2000). The study did not use the principles and practice of grounded theory as suggested by Corbin and Strauss (2008), but their work informed the research design, with regards to theoretical sampling, coding, theoretical saturation and constant comparison.

4.3.2 Research Process Overview

Figure 4.1 presents an overview of the research process. To simplify the representation, the stages of data collection and analysis are separated into two stages, although in reality, the ongoing nature of data collection and analysis made the stages overlapping and akin to a research spiral. The research process was iterative, characterised by noticing, coding, collecting, reading, thinking, noticing new things, recoding, collecting, reading, thinking, and so on. This diagram serves to visually present the stages involved in data collection and analysis, which will be discussed in detail in the remainder of the chapter.

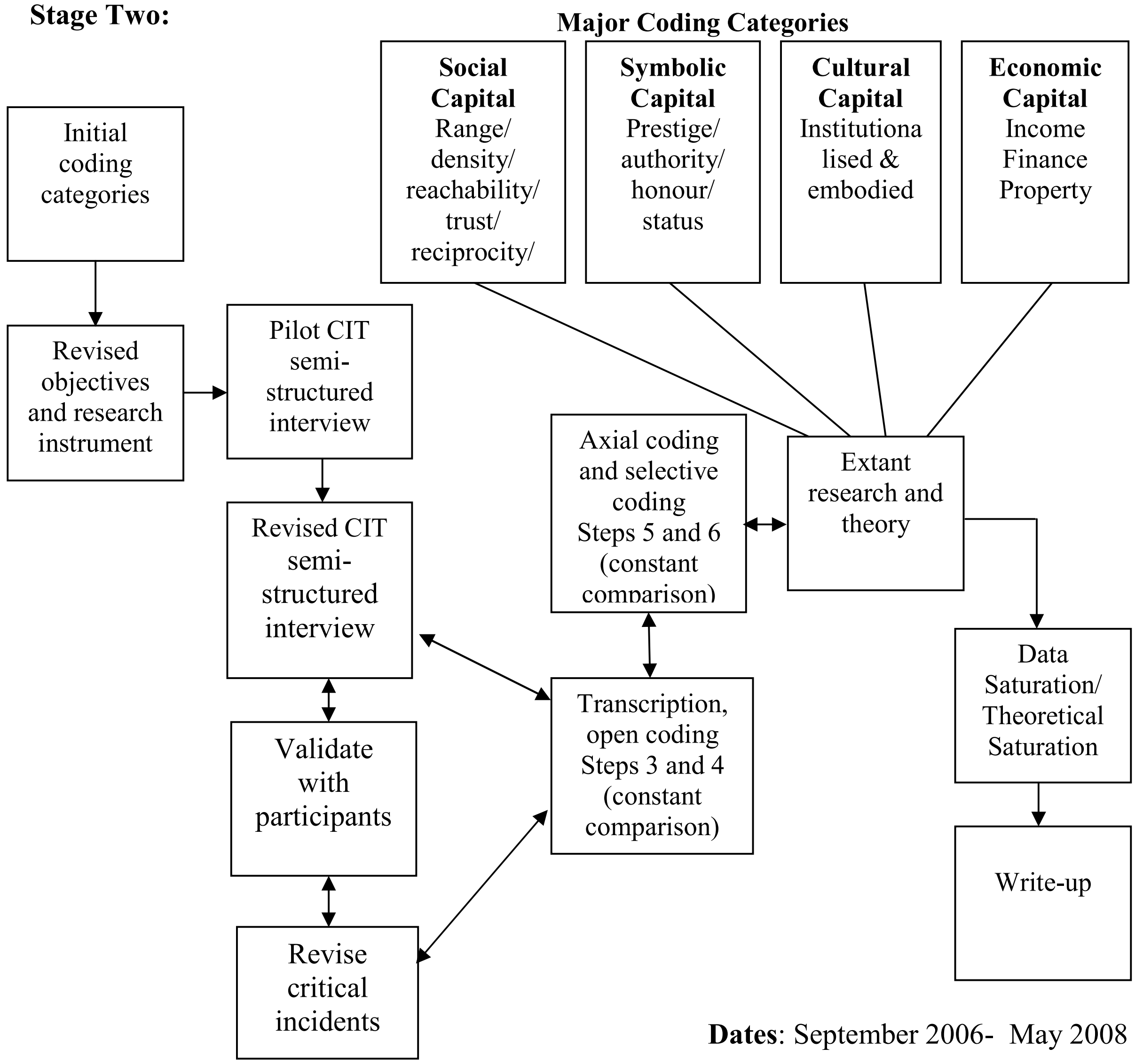
Figure 4.1: Process of Data Collection and Analysis

Stage One:



Dates: November 2005- April 2007

Stage Two:

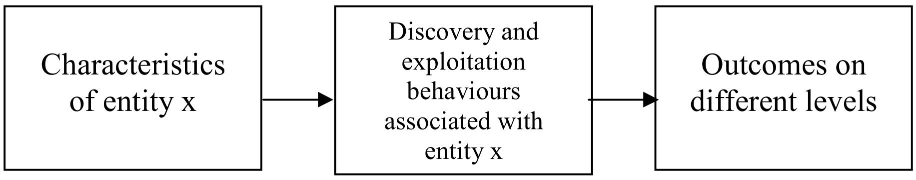


Dates: September 2006- May 2008

4.3.3 Unit of Analysis

Making the decision about the unit of analysis is an important stage in the research process: specifying ‘what’ or ‘whom’ is being studied, and what the analysis will be able to say something about (Patton 2002). This decision is particularly difficult in the small firm context, where owner managers are so central to the organisational resource base and strategic orientation that they seem to merge with the firm itself. In discussing the unit of analysis in entrepreneurship, Davidsson (2006) posits that research can be conducted at any level of analysis- individual, firm, region, nation, or something else, as long as the research design at least includes the middle box from featured in figure 4.2:

Figure 4.2: Entrepreneurship Research Design Possibilities



(Source: Davidsson 2006: 126).

The unit of analysis is so called because it is the analysis undertaken in the study that determines what the unit is. In the present study, the aim is to generate information about capital configurations and convertibility, and how these have affected the performance or position of small businesses. It was discussed in the literature review that when researching small firms, the boundary between the business owner and the firm is often hard to distinguish, as particularly at start-up, the resources of the firm and the founder will be very similar. It was also noted that social capital is most often defined as a resource that is drawn on by individuals, and that in the professional services context, ties are often established with the professional rather than the firm. Therefore, the unit of observation and the unit of analysis will be the individual business owner.

The selection of participants described below relies on both organisational and agency-based criteria. Sampling criteria used small firm characteristics, such as size, location and sector, as well as personal characteristics, such as membership of a professional association, professional credentials and length of time running the business. When selecting critical incidents for the second phase, the criteria for selection were those incidents which had the greatest impact on the performance from the participants' perspectives. For the second part of the analysis, where analysis aggregates the volume and configuration of capital data, the unit of observation and analysis is again centred on the individual participants although examines what this data revealed about the performance or outlook for different businesses or groups of businesses.

4.3.4 Selection of Participants

A key feature of qualitative research is that its proponents often support the use of non-probability sampling methods, such as purposive sampling, as opposed to the statistical probability sampling methods preferred by quantitative researchers (Marshall and Rossman 2006; Morse 1994; Patton 1990, 2002). The reason is that purposive sampling allows cases (people, incidents, organisations, communities etc.) to be selected because they are 'information rich and illuminative' (Patton 2002). The principle ways of selecting participants in biographical research are also selective, judgemental or purposive sampling, in which participants are chosen on a conceptual basis (Schatzman and Strauss 1973; Strauss and Corbin 2008). Qualitative studies are not concerned with generalising from a sample to a population and focus instead on selecting cases that will generate insight about the phenomenon of interest. Small samples of people who are nestled in their context and can be studied in-depth are sought out (Miles and Huberman 1994). Generalisability may be achieved if the ideas and theoretical contributions reached at the end of the work are generalisable to future work that can advance progress already made, indicating theory rather than data generalisability (Johnson and Harris 2002: 103).

Having decided that the unit of analysis would be small business owners, decisions were made about the type of small firms to be included in the study. The literature review revealed that for various reasons, such as the rapid concentration of growth and the forms capital most prevalent for success, that the professional services would be an informative sector in which to explore configurations and convertibility of capital. Furthermore, the accounting sector was proposed as an interesting area of focus for reasons such as the rapidly changing environmental context for small accounting businesses (which is under-researched at present) and the impact that professional accountants have on the performance of the small firm sector as a whole (Kirby and King 1997).

The first decision to make was to define what in the present study would constitute a 'small' accounting firm. Objective measures of firm size such as employee numbers or profitability have little meaning when applied at a sectoral level, as in some industries all firms might be small and in others none would be (Storey 1994). The sample chosen for this study fits the quantitative and qualitative definition for small firms proposed by the Bolton Report (1971) but the specifications became more refined as the researcher engaged with the accounting sector, speaking with practitioners and professional bodies, and examining statistics on accounting firms in the UK. The field of accounting firms is clearly delineated between the Big Four, the mid-tier, and a large number of smaller firms in practices of various sizes. A 'grounded' definition of small emerged as:

> *Owned by an individual accountant or small partnership of accountants; managed independently of any larger organisation; the field for clients is principally local to the firm and does not operate out of multiple premises; the participant holds a practicing certificate; and the business has ten or less full time qualified accountants excluding the partners or owner-managers.*

Participants were also able to confirm in the interviews that they felt that their firm was considered to be small within the accountancy sector, to clients, their professional bodies and other relevant stakeholders.

In order to achieve the research aim of capturing context-rich data and the process through which capital, particularly social capital, is accumulated and used by small businesses, a purposive sampling strategy was used. Patton (1990, 2002) provides an overview of sampling strategies, and the purposive strategy denotes that "*cases (are) selected on the basis of meeting a pre-determined criterion of importance*". The sample needed to rich in data that captured process. Thus, it was specified that all firms had to be established for more than 3.5 years. This is the figure used by the Global Entrepreneurship Monitor to denote an established firm which has passed beyond start-up and early stage entrepreneurial activity, to 'persistence' (Reynolds *et al.* 2005; GEM 2008). This requirement allowed data to be collected from nascent through to start-up and subsequent development, which would assist the capture of process related data.

The advice on conducting life story interviews is that they need to be in a location where the participants will feel at ease (Miller 2000). Participants were asked to specify their preferred location for the two interviews and all chose their work location, which in some circumstances was also their residential address. Logistical constraints meant that a final criterion was that all interviews needed to be conducted at locations that were within feasible travelling distance for the researcher, who was located in Glasgow. The catchment area was considered to be the central belt of Scotland and the final sample was spread across numerous central belt locations including Edinburgh, Perth, Linlithgow, Bo'Ness and Ayr. Professional criteria used in some previous studies were treated with caution given the changes which have occurred in the sector in recent years. Ram and Carter (2003), for instance, specified that accountants in their small firm study should be able to undertake auditing work but since the threshold has been raised, auditing is no longer a key area of business for small practitioners (Ramirez 2009).

Participants needed to hold a current practicing certificate with one of the main professional accounting bodies.

Prior to entering the field it was considered that gaining access to willing participants might be problematic. Life story interviews can be a lengthy process (Miller 2000) and participants also needed to make a commitment to a second interview. Life story interviews may also be seen as an invasion of privacy, even if the interviewer assures them of their academic neutrality. In order to establish trust and gain initial access to small accounting firms, the researcher decided to approach a professional body to negotiate access. There are six main professional bodies that represent accountants in the UK and Ireland, which are:

- Association of Chartered Certified Accountants (ACCA)
- Chartered Institute of Management Accountants (CIMA)
- Chartered Institute of Public Finance and Accountancy (CIPFA)
- Institute of Chartered Accountants in England and Wales (ICAEW)
- Institute of Chartered Accountants in Ireland (ICAI)
- Institute of Chartered Accountants in Scotland (ICAS)

These six professional accountancy bodies have between them more than 350,000 members and more than 365,000 students worldwide (Key Note 2008). As the research was conducted in Scotland, ICAI and ICEAW were not relevant bodies for accounting practitioners. CIMA deals specifically with management accountants and therefore trains people for a career in business, teaching skills such as business strategy. Therefore accountants working in private practice will not have this qualification as they need to train in external audit and tax issues. Similarly, CIPFA specialises in public finance for accountants in public services which will not be relevant to small accounting practitioners either.

This leaves two professional bodies that represent most of the small accounting practitioners in Scotland. The ACCA is the world's largest professional accounting body with 131,500 members and 362,000 students and has 7,200 students, affiliates and members in Scotland (ACCA 2009). The ACCA has been established for over 100 years and enables its members to call themselves 'Chartered Certified'. ICAS has over 17,000 members globally and is therefore considerably small than the ACCA (ICAS 2009). ICAS was the world's first professional body of accountants, and sustains prestige through being the first to adopt the designation 'Chartered Accountant' and along with the ICEAW, it's partner in England and Wales, are the only bodies able to permit members to use the designatory letters 'CA'. Because ICAS require its students to train within a CA practice, accountants who train in industry positions need to gain their qualifications through ACCA. For this reason, the overall proportion of ICAS members in practice is higher than in the ACCA.

The ACCA, the largest global professional accounting body, was approached to help mediate between the researcher and its members. A condition of their support was agreement that the findings of the study would be available to them. ACCA Scotland contacted a selection of its members and asked them to agree to be interviewed as part of the study. This was very helpful in gaining access to participants but progress was slow and many contacts could not be used given the sampling criteria outlined above. Changeable workload demands throughout the year emerged as a major barrier, notably in December and April when no one was willing to be interviewed.

As the data was collected and analysed, the researcher discovered that the professional body with which an accountant was affiliated had interesting implications for capital configurations and convertibility that might shed light on the aims and objectives of the thesis. Therefore, six months after data collection had begun it was decided that, for both pragmatic and conceptual reasons, the sample should be extended to include members of the Institute of Chartered Accountants in Scotland (ICAS). The ICAS website was used to locate members with a practicing certificate in the central belt of Scotland and letters and follow-up phone calls were administered in order to gather additional participants (a copy of the letter is included in Appendix 2).

In common with other life story studies (Bertaux and Bertaux-Wiame 1981) and most qualitative inquiry (Patton 2002), sample size was not determined *a priori*. The saturation approach was used to determine sample size, which was reached when new interviews would not add significantly to what had been found already. Bertaux (1981) considers that when using life story method, the concept of saturation is more relevant than issues of sampling. The flexible research design meant that as the data was being collected and analysed concurrently, the sample criteria could be adapted to as a result of this ongoing analysis. For instance, the strong theme that emerged regarding professional bodies led the researcher to approach chartered as well as chartered certified accountants. Comparing the themes and explanations that were emerging with respect to the context and performance participants' businesses, it became evident when data saturation had been reached. Extensive life stories had been collected from fifteen participants, and it was found that the stories gathered were no longer saying anything new about the substantive research problem.

4.4 Research Strategy

4.4.1 Depth Interviewing

Interviews often constitute a very effective means of collecting data when the qualitative researcher seeks to better understand organisational and group processes (Patton 2002). Easterby-Smith *et al.* (2008) view the in-depth interview as the most fundamental of all qualitative methods. The main reason for conducting interviews is to understand how individuals construct the meaning and significance of their situations from the complex personal framework of beliefs and values which they've developed over their lives (Burgess 1982; Jones 1985). Two key aspects of in depth interviewing are to avoid *a* *priori* assumptions by allowing the participant to explain matters in their terms, and allowing rich contextualisation, rather than forcing them to squeeze isolated fragments into a few lines on paper (Jones 1985: 46).

There are a number of factors which make depth interviews particularly appropriate to the present research. Firstly, the research is examining relationships and discussing the positive and negative outcomes that can result from them. Discussing this type of personal information requires the ability to build rapport and a high degree of trust between the interviewer and respondent (Webb 1995) which is achievable with depth interviewing. The analysis will also be complex, exploring attitudes, beliefs and feelings, perhaps of a confidential or sensitive nature, which also favours depth interviewing (Easterby-Smith *et al.* 2008). Depth interviews provide the researcher with the opportunity to engage the interviewee, respond to emerging issues and, through careful execution of the process, to provide a framework in which the participant can discuss issues and answer questions honestly and accurately. The research needs to be subtle and context specific which also makes interviewing an appropriate tool (Dubini and Aldrich 1991).

4.4.2 Capturing Dynamics of Change

The research also aims to find out about the process of capital accumulation and its impact on performance. Gummesson (1991: 30) states that "*qualitative interviews… provide the best opportunity for the study of processes*". As well as collecting rich and deep data about network interactions and structures, an important aim of this research is to develop a dynamic time-based understanding of capital. In the small firm context it has been shown that businesses have different resource needs at different phases in the business and will turn to different sources of social capital as they move from nascent through to start-up and development phases (Davidsson and Honig 2003; Greve and Salaff 2003; Hite and Hesterly 2001; Larson and Starr 1993). As was discussed in the previous chapter, organisation theorists have proposed numerous theories and models (Churchill and Lewis 1983; Greiner 1972; Hanks *et al.* 1991; Scott and Bruce 1987; Smith *et al.* 1985) with various numbers of stages and processes involved, sharing a 'life cycle' approach comprised of start-up, growth and maturity (Hanks and Chandler 1994). The life cycle approach to small firm growth has been extensively reviewed and critiqued (Hanks 1990; Hanks and Chandler 1992; Hanks *et al.* 1993; Kazanjian and Drazin 1989, 1990; Macpherson *et al.* 2004; Perry 1982; Phelps *et al.* 2007; Quinn and Cameron 1983).

Despite certain limitations, the basic premise of identifying stages in small firm development is proposed as the best method for conceptualising and studying network issues and resource acquisition in the present study. Although views may differ over the number of stages and the patterns of development, the cycle from nascent to start-up and development stages works well within the small firm context (Churchill and Lewis 1983; Davidsson and Honig 2003; Elfring and Hulsink 2003, 2007), and is appropriate to small professional service firms (Masurel and van Montfort 2006). Collecting information from depth interviews on the nature of the flows of information, influence and solidarity at different stages will help to uncover the impact of different configurations, and determine if it is the flows of capital, rather than the stage of the enterprise *per se*, which have greater explanatory power.

4.4.3 Structuring Depth Interviews

There are a variety of interview forms which can be used when interviewing but the most commonly used form is individual, face to face verbal interchange (Denzin and Lincoln 2000). Interviews also vary in structure: at one end of the scale interviews are totally open and non-directive, with no predetermined questions; at the other end of the scale there are interviews which have closed, fixed response categories. Unstructured interviews allow questions to flow from the participant and immediate context, and this method would suit a grounded theory approach (Corbin and Strauss 2008) or preliminary exploratory research where very little is known about the parameters of a topic. A problem with this method of data collection is that the lack of any structure can make it less systematic and comprehensive, and data analysis can be challenging. Highly structured interviews also suffer weaknesses: long sets of questions can appear impersonal and mechanistic to the participants (Patton 2002); the respondent's real meaning may be lost as they are forced to answer only within the parameters of the researcher's categories; and a lot of the richness of data could be lost. A key advantage is that data analysis is much simplified as responses can be compared and easily aggregated.

The current research lies between the two extremes of tight pre-structured and loose emergent design. Something is known about the phenomenon, but parts are not well understood. It is seen as useful for the interviewer to have some open-ended questions or themes for discussion planned in advance of the interview (Patton 2002). The requirement for the collection of contextual and rich background information from participants, in addition to detailed data on social capital, led the research design to develop into two stages of data collection, using different methods and separated in time. This process began with a relatively unstructured first stage of interviews, informed by the life story technique. As the business histories of the participants unfolded, a range of critical incidents were identified that were discussed in the second phase. A semi-structured research instrument was then used to collect social capital data drawn upon during the incidents, and to pursue interesting themes that had emerged from the first interviews. The rationale for using these two primary techniques will now be discussed, in addition to discussing and justifying other features of the research design and procedures.

4.4.4 Data Collection

Successful data collection is dependent on a number of key issues which include: the degree of structure; interviewing skills; obtaining trust; interviewer bias; and ethical issues (Easterby-Smith *et al.* 2008). These issues will be discussed in terms of the procedures and data collection strategy which are outlined below. Qualitative research must balance the need for flexibility in design, so that findings can *"unfold, cascade, roll and emerge"* (Lincoln and Guba 1985: 210) and still provide a plan that is logical, concise, self-aware and thorough (Marshall and Rossman 2006). The planning of the research design was solidly grounded from the extensive theoretical and practical advice offered by key proponents of the life story method (Atkinson 1998; Bertaux and Kohli 1986; Denzin 1996; Miller 2000; Tagg 1985). The life story method has not been extensively applied in small firm research, although autobiographical and narrative techniques have been used by studies in management and organisation (Boje 1995; Brown 1998; Hatch 1996). Further advice was sought from extant research that had applied the life story or life history method in the professional services context (Baskerville 2008; Carnegie and Napier 1996; Collins and Bloom 1991; Haynes 2004, 2006). The research design was also informed by more general advice offered by to qualitative researchers from Lincoln and Guba (1985), Miles and Huberman (1994), Patton (2002) and Strauss and Corbin (2008).

4.5 Data Collection Stage One: Depth Interviews Informed by the Life Story Technique

4.5.1 Rationale

The key aim of the first stage of the research was to collect exploratory background data on the context for small accounting practitioners and issues which have impacted on the performance and management of their businesses. A significant amount of flexibility was needed at this early stage to gather data on any issues relevant to the substantive research area, rather than probing preconceived theories or notions derived from different research contexts (Corbin and Strauss 2008). The search for a suitably flexible data collection method guided the researcher towards the life story interview. There were three principle aims for the first interviews stage:

1) To get to know the participants, to build rapport and gain their trust so that the second interviews could delve deeper into some of the critical and relational issues that arose. It was considered that it would be too intrusive to expect a stranger to talk candidly about issues related to their relationships on the first meeting.
2) To gather contextual background and retrospective information on the participants and their businesses.
3) To allow for the unprompted emergence of critical events and episodes that could be used to explore social capital configurations during the second interview.

Miller (2000) reviewed the reemergence in the social sciences in the 1970s of methods variously referred to as life history, life story, life course research, the (auto)biographical perspective and the narrative approach. Miller's (2000) review indicates a revival of a sociological perspective that emphasises the placement of individuals within an ongoing and evolving social structure. For the purposes of the present research, the sociological uses of life stories offer valuable illustration into context, and "*what it is like to be in a world made up of change*" (Atkinson 1998: 13). Atkinson comments:

> *A life story can help the researcher define an individual's place in the social order of things and the process used to achieve that fit. It can help explain an individual's understanding of social events, movements and political causes or how individual members of a group, generation, or cohort see*

> *certain events or movements and how the way they see, experience or interpret those social events links to their individual development* (1998: 13-14).

As well as individual participants recounting their own stories, the social reality and context existing outside of their own story can be revealed. Therefore, in this initial stage, it serves as a useful method for exploring how small practitioners running accounting firms interpret events in the field and relate these to their individual development. In light of the overview of accountancy in Chapter Two, and the overlapping forms of capital discussed in Chapter Three, contextualizing the data collected is important when trying to understand performance.

Life story is also an effective tool for gathering data on processes, which is central to an understanding of the convertibility and configurations of capital that this thesis investigates. Miller (2000) writes emphasising the individual as a unique entity located in a complex network of social relationships that change and evolve over time, distinguishes the biographical approach from other qualitative techniques. Musson (2004: 42) confirms that life story methods are *"… best used in circumstances where the researcher seeks to understand the complex processes which people use in making sense of their organisational realities"*. Life stories are also used for determining the relationship between language and social practice, the relation of self to others and the creation of social identity (Linde 1993). This suggests the method will be particularly useful for exploring social capital, and how and why some participants have more access to, or are more able to draw benefits from their social networks. Becker (1970) also noted that life story:

> *…more than any other technique except perhaps participant observation, life story interviews can give meaning to the overworked notion of process. Sociologists like to speak of 'ongoing processes' and the like but their*

methods usually prevent them from seeing the processes they talk about so glibly (Becker 1970: 424-5).

Driven by the need for personal narratives that are rich, with detailed descriptions and an understanding of process and change, the life story technique was considered as an appropriate research tool for this exploratory stage (Becker 1970).

As a method for identifying critical incidents, the life story technique was seen as an ideal type of loose framework from which participants would reveal the incidents and episodes that had been most positive or negative for performance. Chell (2004) used a similar loose framework, asking participants' to describe the development of the business over the last five years focusing on anything that happened that changed the fortune of the business for good or bad. In common with Chell (2004), this study aimed to reveal which incidents were most important for the participant, and to allow incidents to unfold which might be completely unanticipated.

4.5.2 Role and Conduct of the Researcher

In common with the epistemological assumptions of the qualitative research paradigm, the researcher felt she could not remain distant from and uninvolved in the social phenomenon in which she was interested. The observer is inextricably linked to the lived world in which phenomena occur (Cope 2003) and the description of phenomena represents one personal interpretation of the researched (Schwandt 1994). Therefore, in the field, the researcher became the 'instrument' of data collection, and needed to get close to participants, to interpret and understand participants' perspectives of social reality (Patton 2002). It was seen as particularly important to the nature of the data collection method (life story), and the substantive topic area (social and other forms of capitals) that good relationships were developed with participants so that they would be willing to discuss these types of topics and personal issues.

Being tolerant of uncertainty and flexible in the data collection process were seen as important (Bédard and Gendren 2004) but advice on interview preparation, conduct, ethical and other procedural considerations were taken into account before entry into the field. Some general points of advice for researchers using life story technique are noted in Figure 4.3:

Figure 4.3: General points about interviewing and collecting life stories

1) Ask questions in everyday language and avoid complex wording.
2) Avoid poorly worded questions, such as double negatives, or double barrelled questions.
3) If there are delicate questions to be asked, have versions of these ready beforehand and be prepared to ask them without hesitation or embarrassment.
4) Probe generalisations.
5) When respondents give long discursive replies, be willing to listen to the whole account even if they seem to be drifting off the point of the interview. You may be wrong and it may also affect subsequent offers of information that will be relevant.
6) The opposite can also be welcomed. Do not fear pauses as these can give the respondent a chance to gather their thoughts.
7) Be prepared to concentrate and follow your interviewee's train of thought. If using semi-structured interview schedule make sure you don't ask something the interviewee has already talked about.
8) At the same time watch for consistency of the answers and if you are doubtful about something try returning to it subtly from another angle.
9) Notes are useful, for instance to give yourself reminders or to record the non-verbal behaviour of the respondent. If you make them explain to the respondent why you are doing so.
10) Finally, try to end the interview on an upbeat, as this may allow the interview to lead on to another.

(adapted from Miller 2000: 90-93)

The conduct of the interviewer during the life story interview plays an important role in the quality of the outcome. Thompson (1988: 196) writes:

> *There are some essential qualities which the successful interviewer must possess: an interest and respect for people as individuals, and flexibility in response to them; an ability to show understanding and sympathy for their point of view; and, above all, a willingness to sit quietly and listen.*

General advice was taken on the conduct of the interview, such as not interrupting, paying attention and remaining non-evaluative and reflective (Bogdan and Taylor 1975). A number of authors raise the issue of how to deal with apparent contradictions in participants' stories. Bogdan and Taylor (1975) propose that contradictions should either be discussed with participants directly, or commented upon to the readers. In the present study, inconsistencies when noticed during the interview were negotiated with participants and were also identified when transcribing the interviews. This could be returned to in the second interview which minimised this source of error.

The researcher had key chronological periods mapped out which she encouraged the participants to discuss in the interviews. Interviews began by discussing why the accounting profession had been chosen as a career, and subsequently to discuss their professional history since qualifying. At the end of the interview, once the business related areas had been covered and rapport had been built with participants, the earlier stages of their life were also probed to explore any insights that might emerge from their pre-professional years, such as network ties from school and university. Logical advice about sequencing of questions was taken into account, for instance, the first questions were not be related to potentially sensitive issues. Lines of questioning are also seen as potential sources of error in life story interviews:

> *At low levels of directiveness, respondents may either be uncertain what is required or may construct fanciful elaborations. At higher levels of*

directiveness, questioning may produce guessing because of the desire of the respondent to produce an acceptable reply (Tagg 1985: 192).

An intermediary level of directiveness was used in the present study, whereby a list of themes, prompts and questions were produced to direct the participants as and when this was required. A list of over 200 prompts and questions compiled by Atkinson (1998) were consulted when compiling the prompts used in this study. Using probes effectively is important in qualitative research, for deepening responses, probing incomplete information, clarifying ambiguities, gaining specific information, and for encouraging the participant to elaborate (Easterby-Smith *et al.* 2008; Patton 2002). These themes and prompts were used in conjunction with the chronological cues mentioned above, and it was felt that the level of directiveness was appropriate for participants to feel comfortable and for the life stories to be readily comparable (the list of themes and prompts is included in Appendix 3). Field notes were also made during the interviews as it was useful to note down significant information and reminders for follow up questions to ask later during the interview. At the end of the interview each participant was asked if they had anything they would like to add with regard to the topic which had not been raised. All interviews were digitally recorded and transcribed verbatim. The length of the first interviews varied from 58 minutes to over two hours, which is fairly usual for a limited life story collection that is not collecting a full autobiography or life history (Atkinson 1998; Bertaux 1981).

Data analysis was an ongoing process which happened in the interviews themselves as the researcher made notes on key incidents. As the incidents were recorded, tentative categories were established and subsequent critical incidents were placed within them. Sample size, according to Flanagan (1954) should not be determined by the number of participants but rather the number of critical incidents reported and whether they represent adequate coverage of the activity being studied. As the critical incidents unfolded from the life story interviews, it became apparent when a large enough number of incidents at nascent/start-up phases had been collected. As previously mentioned, the saturation principle guided the number of life stories that were collected. Exhaustiveness or saturation was achieved at the point at which new categories of incidents stopped emerging from data and it was considered that the number and range of incidents to be discussed would satisfy the aims of the research aim. The emergent themes were compared with other CIT studies in entrepreneurship (Chell and Pittaway 1998; Curran *et al.* 1993; Deakins and Freel 1998; Stokes 2000; Tjosveld and Weicker 1993) and at the saturation point similar themes were evident. Comparing the categories that formed with extant literature to identify if they were supported is a way of determining theoretical agreement or validity (Maxwell 1992; McCormick 1994). The exploratory nature of the study and its professional context meant that some new categories of incidents were added, such as partnership.

The codes are included in Appendix 7 alongside an example of each type of incident (grounded in the data), and the final categories of critical incidents into which they were placed. A more detailed description of the data analysis is featured in section 4.9.

4.5.3 Ethical Considerations and Building Trust

There are three traditional areas where researchers have concern regarding ethics: informed consent (receiving consent by the subject after having carefully and truthfully informed him or her about the research); right to privacy (protecting the identity of the subject); and protection from harm (physical, emotional or any other kind) (Fontana and Frey 2000: 669). In the first stages of the interview it was important to reduce the risk of response bias and make the participants more willing to freely answer questions. Bédard and Gendren (2004: 198) comment that "*The importance of being trustworthy in the eyes of the interviewees should not be downplayed since the validity of the data depends on it*". Using the ACCA for access was valuable in gaining this initial trust, and being referred to them by their professional body helped to ensure the participants contributed fully and were confident in the quality of the research and the abilities of the researcher.

Firstly, the participants were told about the context and purpose of the research, and the objectives of the research were restated. Following the procedures used in the Bédard and Gendren (2004) study that also used the life story method to interview accountants, the informed consent form was subsequently introduced. This was used to establish the boundaries and ethical assurances of the project: to ask permission to tape the interviews; to specify their right to refuse to answer any question; to specify the procedures that would be used to ensure anonymity and confidentiality; to discuss the dissemination of the findings; and to emphasise that the owner would have the right to verify the accuracy of the interview transcript and make subsequent changes. Following these comprehensive ethical procedures, including asking the participants to sign the consent form, was a useful way of establishing trust with participants and, in common with the Bédard and Gendren (2004) study, no concerns or questions were raised. The informed consent form that was used was constructed according to the guidelines set by the Economic and Social Research Council, and informed by the Bédard and Gendron (2004) example. A copy of the informed consent form can be found in Appendix 4.

A short questionnaire was designed to gather personal details from the participants such as date of birth, marital status and educational and professional background in case these points were not covered in the interview. Participants were given a stamped address envelope and asked to return it within seven days. A few participants did not return the form and therefore the questions were included in the second interview. A copy of the questionnaire is included in Appendix 5.

4.6 Data Collection Stage Two: Semi-structured Interviews using the Critical Incidents Technique

As has been noted, a key aim of the first stage of interviews was to collect critical incidents from the life stories of the participants which would be used to explore social capital in the second interview.

4.6.1 Rationale

The critical incident technique (CIT) was developed by Flanagan (1954) from work in the US Army Air Forces Aviation Psychology Program to identify critical job requirements for the training and selection of personnel. CIT is a set of procedures for collecting direct observations of human behaviour, often focusing specifically on the identification and study of specific observations of extremely good or bad performance. At the time CIT was developed the positivist approach to social science investigations was largely unquestioned but the method has now been developed as an investigative tool within an interpretive or phenomenological paradigm (Chell 2004). Chell (2004) defines CIT as follows:

> *The critical incident technique is a qualitative interview procedure, which facilitates the investigation of significant occurrences (events, incidents, processes or issues), identified by the respondent, the way they are managed, and the outcomes in terms of perceived effects. The objective is to gain an understanding of the incident from the perspective of the individual, taking into account cognitive, affective and behavioural elements* (2000: 48)

CIT has become a widely used qualitative research method, utilised in a wide variety of disciplines, and importantly for this study, used in the field of entrepreneurship, services marketing and network research (Chell 1998, 2004; Chell and Pittaway 1998; Curran and Blackburn 1994, 2001; Curran *et al.* 1993; Deakins and Freel 1998; Garud and Van de Ven 1992; Harrison and Mason 2004; Neergard *et al.* 2005; Pittaway 2000; Shaw 1999; Stokes 2000; Tjosvold and Weicker 1993; Wheelock and Chell 1996).

One key reason for using critical incidents to study social capital is it puts a boundary around the collection of data. Part of the problem with collecting social network data is the volume and complexity of the structural and interactional data that emerges. CIT is a method that allows small firm researchers to focus their collection of social network data into fixed points in time that will be memorable because of their criticality (Curran and Blackburn 1994; Shaw 1999). By choosing incidents that positively or negatively impacted on performance, the method allows the collection of data to identify networks that are of importance of the performance of small businesses. Furthermore, by covering a range of events and episodes through the nascent, start-up and development phases, CIT can offer valuable insight into networking processes. The primary focus of CIT is uncovering behaviours and attitudes, which also allows an understanding of the content and interactions of networks to be understood: the motivations, meaning and expectations of owner managers. For this reason, small firm researchers such as Curran and Blackburn (1994) and Shaw (1999) used the CIT approach as a means of exposing the character and content of the linkages, and to understand the reasons behind network activity rather than describing the phenomenon.

CIT allows the researcher to get close to the subject (Bryman 1989), collecting accounts that are context rich, and capable of revealing a fine grained analysis and detailed explanation of the behaviours, strategy and outcomes (Chell 2004). Also, unlike techniques such as participant observation, it is overt and thus raises fewer ethical issues. CIT it is more focused than an unstructured interview, enabling the interviewer to probe and gather relevant accounts which aids analysis (Cope and Watts 2000). When used across multiple sites, as in the present study, the researcher can look for:

... evidence of commonality in themes, that is, 'incidents' that increase generalisability. A further advantage of the CIT if that the analysis enables the researcher to relate context, strategy and outcomes, to look for repetition of patterns, and thus to build up a picture of tactics for handling difficult situations. This gives first hand evidence of the relationship between context and outcomes (Chell 2004: 47)

In the present study, the critical incidents are explored using the extant conceptual framework of social network theory (Mitchell 1969) Using a semi-structured data collection instrument, the incidents although unique in themselves can be compared with other types of incidents, contexts and outcomes apparent in other cases, aiding the development of theory.

4.6.2 Data Collection Methods

CIT was not intended to be a rigid set of rules governing data collection (Flanagan 1954) but rather a flexible set of rules that can be modified to meet the requirements of the topic being studied (Burns *et al.* 2000; Hopkinson and Hogarth-Scott 2001). Harrison and Mason (2004) confer that there is no single, unequivocal 'critical incident technique'. Easterby-Smith *et al.* (2008) advocate the use of the technique in an open, less structured way in which the importance of the incident is not quantified in advance but is allowed to emerge during the respondent's account. This style was adopted by Curran *et al.* (1993) in their study of the networks used by small business owner. As a starting point, recent commentaries on CIT (c.f. Butterfield *et al.* 2005; Gremler 2004) were reviewed as well as revisions that have been made to the technique in its various applications in the small firm field (Curran *et al.* 1993; Chell 1998, 2000; Cope 2003; Stokes 2000). The principle areas to be considered for this study were the nature of 'criticality', what was considered to be an 'incident' and how the data would be collected.

4.6.3 What is an Incident?

Flanagan defined an 'incident' as follows:

> *By an incident is meant any specifiable human activity that is sufficiently complete in itself to permit inferences and predictions to be made about the person performing the act* (1954: 327).

For Flanagan (1954), incidents should be developed from systematically defined criteria. It is clear in his paper that ontologically he has a positivist outlook, believing that critical incidents could be used to tap into little known phenomena, and therefore uncover more of the objective and tangible real world. Flanagan (1954) defines an incident as an act which is sufficiently complete to permit 'inferences' and 'predictions' to be made about the person performing it. The language of inferences and predictions, as well as the conceptualisation of incidents as clearly bounded examples of human behaviour, indicates the philosophical approach underpinning Flanagan's (1954) work and numerous studies that have applied this original definition (Burns *et al.* 2000; Grove and Fisk 1997; Herzberg *et al.* 1959; Jones 1999).

In the present study, the 'incidents' were embedded within the broader life stories recorded in the first interview. In this way, incidents could be related to the broader life story of the business, alluded to by life cycle theorists (Elfring and Hulsink 2007; Greiner 1972). The critical events were categorised initially by the stage at which they occurred (nascent, start-up, development) but the incidents did not always occur at transitional points as life cycle theorists seem to imply. Life cycle theorists often refer to crises, which are similar to but not the same as critical incidents. A crisis may be more related to a transitional process (often cyclical or sequential) which business owners may face, and it is often during these periods that owners may also experience critical episodes. Critical incidents in the present study were not only related to organisational transitions, for instance as the firm moved through stages of development, but could also be sporadic and unrelated to the organisations evolution. There was often a complex interplay and interdependence between incidents, forming sub-stories rather than isolated events. This concurs with Cope and Watts (2000: 112) who concluded that:

> *... the term 'incident' tends to trivialise the diversity of critical experiences faced by entrepreneurs who often endure prolonged, difficult and highly emotional critical periods or episodes.*

This idea was central in the definition of an incident that emerged from the analysis (Cope 2003; Cope and Watts 2000). Often incidents did not have clear chronological and perceptual boundaries but were a complex set of circumstances and actions that could be reactive or proactive, and that represented a tangible or intangible change in performance of their business. 'Incidents' in the present study, in line with Deakins and Freel (1998), Chell (1998) and Cope (2003), were broadly conceptualised as *periods, episodes, processes* or *issues,* that provided an insightful view of business activity and performance.

4.6.4 What is Critical?

Flanagan (1954: 327) stated that to be 'critical' an incident:

> *... must occur in a situation where the purpose or intent of the act seems fairly clear to the observer and where its consequences are sufficiently definite to leave little doubt concerning its effect.*

This approach focuses on a limited set of issues pertaining to the incident itself, and plays down the role of clusters and sequences of events that may be embedded in relationships (Edvardsson and Roos 2001; Harrison and Mason 2004). Edvardsson and Roos (2001) discuss variants of CIT in relation to psychological theory focusing on the concepts of time, history and memory. To analyse criticality these authors propose that one cannot just look at the act but must also take into account contextually defined phenomenon that depend on the actors involved and the surrounding relationship infrastructure. This argument builds upon earlier studies which have begun to move towards a process based view of critical incidents, and one in which critical incidents are relationally embedded, making the analysis of interactions important. Edvardsson and Strandvik (2000: 84) write that *"an increased focus on relationships instead of focus on episodes become natural and necessary".* Incidents were seen as critical in many cases because an event or issue had altered the state of a particular relationship. Given that this stage of the research aims to collect process-orientated information on social capital, a relational and process-orientated view of criticality was seen as appropriate for the research.

The definition of criticality was thus process-orientated, relational and most importantly, critical from the participant's perspective. Critical incidents often involve business relationships, and conflicts which have an emotional dimension (Cope and Watts 2000). The researcher was sympathetic to including episodes which the participants felt had the most impact on their personal, family and/or working life (Cope 2003). Although the research was examining performance, objective measures of criticality such as changes in employee numbers or turnover were not relied upon as evaluative tools of criticality. As the life story interviews were analysed for critical incidents, it transpired that critical episodes, from the participants' perspectives, could have both tangible and intangible effects. For instance, many of the participants referred in the first interviews to periods at which they had lost a particularly large or lucrative client. When asked if this was seen as a critical episode, almost all said it was not and that it was just a day to day aspect of running a small practice. Previous studies (c.f. Curran *et al.* 1993) have used losing a major client as a prompt for uncovering critical incidents, but the grounded approach in this study questions whether small business owners really see this kind of event as critical. By contrast, joining an external organisation or changing the direction of the business may not have had a direct impact on tangible performance figures, but was considered by the participant to be a critical turning point.

4.6.5 The CIT Interview

Flanagan (1954) believed that the preferred method of data collection was the use of expert observers but realised this is not always possible in reality, thus advocating four alternative ways of obtaining recalled data: individual interviews; group interviews; questionnaires; and record forms. Other methods have also included focus groups, workshops, and systematic record keeping which have been analysed qualitatively and quantitatively (Harrison and Mason 2004; Mallak *et al.* 2003). Concerns over data collection are generally related to the twin problems of retrospection and introspection, which can also be a disadvantage of the life story technique. CIT is a retrospective research method, and therefore one of the main criticisms is that it may be flawed by recall bias (Michel 2001). The method requires participants to remember certain episodes and to be able to provide a detailed and truthful description of those incidents, which may have occurred some time before the data is collected. Recall bias has been said to be reduced by using the critical incident technique, because by focusing on the 'critical' experiences, which generate intense and profound feelings, it is more likely that these will be remembered accurately than normal day to day activities (Gremler 2004).

The second interview began with a general chat about the business and whether any significant developments had occurred since the first interview which had been undertaken from five to thirteen months previously. This opening was found to be useful for getting the participants to relax, re-establishing the relationship with the interviewer and helping to identify whether any critical incidents had happened since the first interview. Part of the reason for having a two stage research process was to increase the familiarity between the interviewer and the participants so that sensitive and personal information would be more readily disclosed (Hansen and Schuldt 1982).

The first task for the participants was to view the list of episodes chosen as critical to the performance of the business, to add or edit these incidents and then to rate them in terms of how critical the participant felt they were to the performance of the business. Edvardsson and Roos (2001) discuss issues relating to the fact that participants may not be accustomed to or willing to take the time to tell a complete story when describing a critical incident. In the present research, the participants had already described various incidents within the context of their life story. It was the participant's choice as to which incidents they wanted to discuss in depth at the second interview which alleviated problems associated with low response rate (Johnson 1995). The interview began by discussing the most important incident and covered the second most important if there was enough time. The interview guide is included in Appendix 7, and is the final form, having been piloted twice with the same participants that were used in phase one.

Where available, tested measures and constructs were used from research instruments employed to examine social capital and social network theory in previous research (c.f. Aldrich and Zimmer 1986; Shaw 1999). The research instrument used multiple name generators (up to five) to collect information about the types of ties that were involved in the incidents discussed. This approach is commonly used in ego-centred network analysis, and an advantage of multiple name generators is that it allows the researcher to tap into strong and weak ties (Burt 1992; Elfring and Hulsink 2007). To alleviate concerns that people tend to forget weak ties more easily (Lin 2001), participants were prompted to name ties that might be business, professional, family, friends etc. The incidents were seen as 'critical' and using name generators to subsequently collect detailed information about the ties, their quality and their development has been used in other research (Van de Ven and Englemen 2004). Once the list of ties was determined, various 'name interpreter' questions were used (Marsden 2005). This began with demographic information (gender, age, occupation, family connection etc.) which is important for linking to key sociological concepts such as homophily and range, as well as some indication of the strength of the tie (McAllister and Fischer 1982; McPherson et al. 2001; Mitchell 1969).

Further 'name interpreter' questions elicited explicit information about the relationship between the participant and each of the named ties. Questions were based on those used in other social network research (Aldrich and Zimmer 1986; Shaw 1999) and correlated to the morphological and interactional criteria required by Mitchell (1969, 1974). Questions 1-13 collected this data, and some examples of the measures included were: 'How long have you known each tie?' (durability); 'What do you speak with them about?' (content); 'Would you discuss important personal matters with this person' (content); 'Have you reciprocated and how?' (reciprocity/directedness); 'How many hours per month did you spend communicating with these ties at the time of the incident? (frequency); 'To what extent do these ties know each other?' (density); 'How would you describe the networks of these ties' (range); 'Rate the ties on the following characteristics: reliability, openness, good intent and concern, and competence and capability' (intensity); 'How has your relationship with this person changed since the incident?' (durability/intensity). All of these constructs were taken from prior social network research, strengthening the comparability of the data collected (Aldrich and Zimmer 1986; Burt 1992; Shaw 1999).

The collection of detailed social network data based around these constructs allowed for the creation of patterns of relationships for incidents across various points in the development of the participant's firm. Social network theory was the analytic methodology used to generate an understanding of the structural and relational forms of social capital from which the business owners were drawing (Tsai and Ghoshal 1998). It was therefore important to incorporate measures for outcomes and the embedded resources available from different ties in order to study social capital (Lin 2001), thus participants were asked 'In this particular situation, what did they offer you?'. Finally, for each incident, participants were asked at the end of the discussion which tie had been most important in the incident discussed. Determining the relative importance of the ties involved by way of a summary was also used by Elfring and Hulsink (2007). Using similar constructs, such as frequency and range, some general patterns of networking were also collected at the end, to gauge potential access to social capital resources out-with the incidents discussed.

The first stage interviews, informed by the life story technique, were 'open' conversational interviews with few predetermined questions. The second phase used a detailed interview guide, in which topics and the sequence and wording of questions were thought out in advance. The semi-structured interview guide was devised from extant literature on social network theory which is well established and has been used in other studies to explore social capital (c.f. Curran *et al.* 1993; Neergaard *et al.* 2005; Shaw 1999; Shaw *et al.* 2008). The researcher felt that having explored and identified incidents and themes inductively in stage one, the best method for allowing incidents to be usefully compared, to each other and to extant theory, was to use a structured guide with existing measures and constructs. Whilst this may have lost some of the richness of data that could have been collected from an unstructured inductive inquiry, it facilitated abductive analysis of the data and an appropriate balance to be reached between an etic and emic perspective. An outline was used to increase the comprehensiveness of the data gathered and make the data collection relatively systematic, whilst enabling the interviews to remain fairly conversational, flexible and context-rich (Patton 2002).

The remainder of the interview collected data on a range of themes which were relevant to the aims of the research and emerged from the analysis of the life story interviews in the first interview. These related to the initial codes that were emerging from the ongoing analysis, namely: clients, reputation and professional status; qualifications, professional experience and values; and, performance, personal and business goals. These themes and the questions used to explore them were grounded in the data from phase one. Dealing with the issue of performance was one of the problematic issues. It was found that growth was not a relevant indicator of performance as many of the professionals interviewed were not concerned with growth, and had different objectives for starting their firm, such as independence, control and better client relationships. The participants were also unwilling to disclose financial performance indicators such as fee income and turnover, a problem that is often encountered in research conducted with smaller enterprises (Birley and Westhead 2006; Haber and Reichel 2005; Kallenberg and Leicht 1991; Shane and Venkataraman 2000). Given objective performance measures were not available, a range of relativist performance evaluation measures were used, which emerged as important to the participants' overall satisfaction with the profile of their businesses. The use of subjective, non-financial measures is supported by other small business researchers (Pelham 1997; Reid and Smith 2000; Taticchi *et al.* 2008). In this thesis, a grounded definition of performance emerged as related to:

> *The extent to which the participant was satisfied with the current profile of the business; the extent to which the participant wanted to grow the business any larger; the extent to which the participant would like to grow the business but did not want to take on the additional risk this would entail; the extent to which the participant wanted rapid growth; and finally, how the participants perceived the level of difficulty in attracting customers and competing with other businesses.*

Further details and the limitations of such measures will be reported on further in the thesis.

All interviews were digitally recorded and transcribed verbatim as for phase one, so that full and accurate responses were captured for the analysis. As well as transcribing the interviews, certain items of data were recorded in spreadsheets using *MS Excel. Excel* was effective for record-keeping and to organise and display data as a small constituent part of the ongoing analysis which included coding and the use of specialised qualitative software. Although considered a quantitative analysis tool, qualitative researchers also use *Excel* when overwhelmed by the amount of data and "*in need of tools to extend their* *human senses"* (Meyer and Avery 2009). It should be noted that, as with all qualitative research, analysis and interpretation were the responsibility of the researcher rather than the software. The process of data analysis for phases one and two will be further described below.

4.7 Evaluation of Qualitative Data

The evaluation of qualitative data has been the source of considerable controversy. It is often acknowledged that the development of interpretivist approaches has been constrained by the 'machinations of positivism' (Shenkar and Patterson 2001). Therefore efforts to demonstrate the validity or reliability of qualitative data are often seen as inappropriate or irrelevant (Guba and Lincoln 1998). Validity, for instance, is seen as a positivist notion which should be substituted for 'authenticity' (Guba and Lincoln 1989) or 'understanding' (Mishler 1990). Maxwell (2002) provides an overview of validity in qualitative research, concluding that validity is relative to purposes and circumstances: data itself cannot be valid or invalid, only the inferences that are drawn from it. Maxwell (2002) concludes that there are five broad categories of understanding that are relevant to qualitative research. These are summarised in Table 4.1, along with a description of how validity, or authenticity, was strengthened in the present study:

Table 4.1 Types of validity and evidence from the present research

TYPES OF VALIDITY	CATEGORIES OF UNDERSTANDING	STRENGTHENED IN THE PRESENT STUDY THROUGH…
Descriptive Validity	Factual accuracy of account and primary understanding	• Digital recording of interviews • Full transcription by researcher
Interpretive Validity	Reflects the participant's perspective and meaning	• Confirming critical incidents with participants • Probing inconsistencies • Allowing participants to check manuscript
Theoretical Validity	Explains rather than just describes phenomena	• Strengthened through the legitimacy or consensus within the research area for the concepts or theories used
Generalisability	Can be extended to other persons, times or settings than those directly studied	• Aided by purposeful or theoretical sampling- the general may reside in the particular
Evaluative Validity	Evaluative framework implicit in an account has been critically examined	• The present study used iterative analysis and adopts a reflective spiral of emic and etic perspectives

Life Story Method

Reliability, mostly referred to as 'credibility' when dealing with qualitative research, has to do with the extent to which questioning will yield the same answers whenever and wherever it is carried out (Lincoln and Guba 1985; Miller 2000). For life story interviewing, the insider's viewpoint is being sought based on the belief that they are giving a thorough and truthful representation of events. Therefore Miller (2000) states that by the very nature of the method, no two researchers will record or analyse a life story in a completely replicable way. Reliability was not seen as the most appropriate valuative standard for a life story interview, but certain concerns do need to be met. The principle tenets are: research methods should fit with the research aims and research problems; and procedural decisions and the content of the interview should be aligned to research orientation (Tagg 1985). The present research problem required rich exploratory data, and the research orientation emphasized the importance of 'getting in close', acknowledging that the research will be value-laden and incorporate multiple realities (Hill and McGowan 1999).

Internal consistency was sought during the interviews as a primary quality check, asking the participant to clarify earlier comments if they appear to be different (McCracken 1988). Internal consistency is seen as more important than external consistency when using the life story technique relating to: "*internal coherence as experienced by the person rather than the external criteria of truth or validity*" (Miller 2000: 61). Corroboration was also used when possible, for instance, participants were encouraged to read the transcript and confirm its contents, and were all required to confirm the critical incidents in the second interview.

Other relevant questions about the trustworthiness of research proposed by Lincoln and Guba (1985) are: 'transferability'- how readily can the findings be derived by application to similar contexts and environments. The ontological and epistemological standpoints underpinning this research acknowledge its findings are context-bound and that the transferability of concepts and universality of its findings are not assured. Also, given the rapidly changing nature of the accounting industry it is questionable whether future research could find contexts that are adequately similar to derive similar findings.

Critical Incident Technique

Butterfield *et al.* (2005) in their review of CIT literature state that there are few standards around credibility and trustworthiness checks to guide researchers engaging in CIT research. Earlier studies which collected data on observable and objective behaviours justified their reliability and validity using positivistic language (Andersson and Nilsson 1964; Ronan and Latham 1974) but this is more problematic when the events are recalled rather than observed. Cross-checking of incidents by participants is considered to be an important element of the data collection process (Butterworth *et al.* 2005). Having a two stage interview process like the one used in this study is known as participant cross-checking and was introduced by Alfonso (1997). The data from the first interview which had been analysed and placed into categories was shown to participants to confirm that the categories made sense and to add, delete or amend them as needed. Treating participants as people and respecting their expertise over their own histories and perspectives has been noted to be of importance in qualitative research, when trying to get close to and interpret realities of participants (Fontana and Frey 2000). It is also a credibility measure for determining the degree of interpretive validity, which is important in qualitative research (Maxwell 1992). Descriptive validity was assured through the digital recording of the interviews and working from full transcriptions (Alfonso 1997).

Self-disclosure can also be an issue when collecting details about critical incidents, and this is affected by three principal factors: the characteristics associated with participants in terms of disclosure; how familiar targets are to the informant; and by the nature of the disclosure topic (Burns *et al.* 2000). The topic of discussion is high involvement, covering periods of changing performance in the business, which Burns *et al.* (2000) state will tend to generate more disclosure than low involvement topics. However, this must be reconciled with the fact that participants are being asked to disclose the structural and relational attributes of social networks involved in the incidents. It has also been noted that personal or intimate information may be less easily disclosed than more public or superficial matters (Burns *et al.* 2000). Sensitivity was used when designing the research instrument, for instance beginning with more generalised discussion of the structural features of the social network and building up to a more detailed discussion of interactional aspects such as content.

As far as the characteristics of participants were concerned, it has been found in some instances that people disclose more to similar others (Cline and Musolf 1985) and that women tend to divulge more about themselves than men (Cozby 1973; Dindia and Allen 1992). Burns *et al.* (2000) propose that a balanced representation of men and women in the informant group helps reduce narrative biases caused by gender. After conducting the life stories, the researcher did not find that women were disclosing more than male participants. Also, given that the contacts generated by the ACCA included very few females, an equally balanced sample was not used in the present study but narrative text biases were borne in mind when conducting the interviews and subsequent analysis.

4.8 Overview of Data Analysis

There are few clear cut rules or guidelines for qualitative data analysis, which is characterised by large volumes of unstructured textual material which is not straightforward to analyse (Miles and Huberman 1994). The particular requirements of different studies and other contextual factors mean that there is no formula for the correct or best way for researchers to inductively analyse data (Yin 2008). Bogdan and Biklen (1998: 7) describe qualitative data analysis as follows:

> *The process of data analysis is like a funnel: Things are open at the beginning (or top) and more directed and specific at the bottom. The qualitative researcher plans to use part of the study to learn what the important questions are. He or she does not assume that enough is known to recognize important concerns before undertaking the research.*

Unlike quantitative studies in which analysis is postponed until all data have been collected, qualitative analysis begins nearly as soon as data collection begins (Ezzy 2002). The first phase of analysis was occurring in the field as the researcher probed responses and made written and mental notes during the interviews. Miles and Huberman (1994: 66) state that *"qualitative research depends heavily on ongoing analysis and coding is a good device for supporting that analysis*". In line with the suggestions made by Miles and Huberman (1994), transcription, coding and preliminary analysis were performed after each interview and before the next set of data was collected, so that early discoveries were driving the research process. Running the data open in this way allows the researcher to identify leads and to guide the collection of further data. The detailed advice offered by Corbin and Strauss (2008) and Miles and Huberman (1994) were used to develop the process of data analysis.

This study used the constant comparative method to analyse the data (Denzin and Lincoln 1994; Miles and Huberman 1984; Strauss and Corbin 2008). Comparison is the dominant principle of the analysis process in many types of qualitative research, as Tesch (1990: 96) writes:

> *The main intellectual tool is comparison. The method of comparing and contrasting is used for practically all intellectual tasks during analysis: forming categories, establishing the boundaries of the categories, assigning the segments to categories, summarizing the content of each category, finding negative evidence, etc. The goal is to discern conceptual similarities, to refine the discriminative power of categories, and to discover patterns.*

By comparing, theory emerges more or less inductively from the data (Boeije 2009). At the start of the data analysis, the researcher was aware of key concepts and constructs concerning social and other forms of capital (Bourdieu 1986). Therefore, analysis was not 'grounded' in the rigid way specified by Glaser (2002), referred to by Wacquant (2002: 1481) as "*the epistemological fairytale of grounded theory*". The analysis allowed concepts to emerge from the data inductively but extant theory and research were used throughout the analysis to make sense of the findings and the tentative categories that emerged (Wasserman *et al.* 2009). The principle of constant comparison is that data is analysed continuously: a cycle of comparison and reflection on old and new data which can be repeated many times. Questions that arise can be therefore be included and answered through the ongoing collection of data and when new cases do not bring any new information to light, the categories can be described as saturated. There are no direct rules to govern the process of constant comparison, and Corbin and Strauss (2008) describe it as a creative process concerned with interplay between the data and the researcher when gathering and collecting the data.

The text that resulted from the transcriptions of interviews from stages one and two provided the input for the analysis. The process of coding and retrieving was conducted using the NVivo software package for qualitative data analysis but this was only a tool for organising the data. In particular, the software was useful because it facilitated the use of multiple coding for blocks of data. In qualitative data analysis: "*The researcher does not search for the exhaustive and mutually exclusive categories of the statistician but, instead, identifies the salient, grounded categories of meaning held by participants in the setting"* (Marshall and Rossman 2006: 154). In the present analysis, many blocks of data had multiple codes, relating to the nature of the critical incidents, the forms of capital and other emerging exploratory themes. NVivo enabled the researcher to sort out coded chunks of data, and to assist in recoding or uncoding blocks of data and organising codes into sets that could be compared more easily. The process of comparison and the identification of categories that shed light on the substantive research problem must be discovered by the researcher. The analysis involved six main steps which were:

1. Comparison within individual interviews
2. Comparison between first stage interviews
3. Comparison within second individual interview
4. Comparison between first and second individual interviews
5. Comparison between second stage interviews
6. Comparing all sets of interviews

As with the research process diagram features in figure 4.1 these steps help to present the key stages of the analysis process in a clear way. In reality, the process of analysis was not linear and the steps can be found in all the research phases, supporting the cyclical method in qualitative research. At each stage, comparisons were made based on the aim of the research, the questions asked, the results, and the data involved. In line with suggestions made by Krueger (1994), the quality of analysis was also improved by the researcher considering the points outlined in figure 4.3:

Figure 4.4: Improving quality of data analysis in qualitative research

- Considering the meaning of the words used by participants. A variety of words will have the same meaning.
- Considering the comment or question that triggered a particular response, the tone used by the participant and the context?
- Taking note of the frequency, extensiveness and passion of certain responses.
- Focusing on specific and detailed responses as opposed to vague comments.

(Adapted from Krueger 1994: 149-151)

Step 1: Comparison within first individual interviews

At the first stage, open coding was conducted within each individual interview, with every passage studied to determine what has been said and, where relevant, to label each passage with an adequate code. Comparing different parts of interview allowed the researcher to check for consistency and to note whether any clarification would be needed at the second interview. As certain codes emerged more than once, for instance, 'audit threshold' the codes were compared to uncover whether the information was repeated or generated new information about the category. For instance, some participants viewed the raising of the minimum audit threshold as positive, others as negative for the performance of their businesses.

The aim during the open coding process was to develop categories of critical incidents, labelled with appropriate codes and to uncover any interesting points of difference or themes that could subsequently be explored in a second interview. The central themes or core categories of the analysis were derived from the research aims (Chell 2004; Strauss and Corbin 1990). This part of the analysis represented an attempt to interpret parts of the interview, such as critical periods of performance, in the context of the entire story as it had been told by the participant. Step one analysis led to the development of a summary of each participant's story, an initial list of open codes, critical episodes and emerging themes to explore in the second interview.

In line with Flanagan's (1954) conceptualisation of the categorisation process, this was subjective rather than objective and followed an iterative process through which tentative categories were established, redefined, modified and added to until all incidents were classified. A key benefit of the inductive nature of the research was that performance was not solely gauged using preconceived measures such as turnover, but was relative to the participant's view of criticality. As incidents were identified, the codes and categories were compared with subsequent data collected and with concepts and themes suggested in extant research. Careful organisation of the data in *Excel* facilitated the identification of the most salient and insightful episodes for the second interviews. The final codes and categories of critical episodes are featured in Appendix 6.

Step 2: Comparison between first stage interviews

As more interviews were conducted, the constant comparative method was used. The selection of new participants (for instance, from ICAS) was based on questions raised by the comparison process (for instance, the issue of professional status). Axial coding at this step sought to make links between categories and codes and 'to integrate codes around the axes of central categories' (Strauss and Corbin 2008). Codes were explored and compared, their interrelationships were examined, and codes and categories were compared to existing theory. Central themes functioned as the criteria for the systematic comparison of interviews and some participants could be grouped together because they were similar with regards to certain criteria (for instance, those participants who felt that ACCA had lower status than ICAS). In some cases, codes were combined with other codes and patterns were identified for combinations of codes.

The aim of step two was to develop the conceptualisation of the subject. Axial coding involved searching for indicators and characteristics, and discovering combinations of codes that existed (Miles and Huberman 1994; Corbin and Strauss 2008). Certain clusters began to emerge at this stage, for instance, participants with particular views about chartered versus chartered certified status. The amount of codes extended until no more codes were needed to cover the various themes contained in the interviews. Over the nascent/start-up phase and development phase, coded groups of incidents were formed around human resources, professional development, client circumstances, operations, finance and family and kinship that were both positive and negative for performance. Three additional emerging categories were seen as relevant to understanding performance differences across the participants' firms: how performance is perceived and the participants' personal and business goals; qualifications, experience and professional values; and clients, reputation and professional status. By focusing on the purpose of the study when coding, and by reading and rereading the transcripts 'analyst-constructed typologies' emerged which were grounded in the data but not necessarily used explicitly by participants (Marshall and Rossman 2006).

Step 3: Comparison within second individual interviews

This step served as a cross check of step one with the input from the second interviews. Open coding took place as each new transcript was analysed and new codes were compared with any additional emerging codes. The approach here served to further substantiate codes developed within the first interview and allowed new themes to emerge. In some cases where there was potential ambiguity within the data set, the axial codes already developed from the steps one and two could be improved and clarified.

At step three, a large number of codes were generated around various topics that helped to understand how and why some participants were more able to draw benefit from social capital to assist the performance of their firms. No new participants were sampled at this stage but ongoing analysis meant that interesting themes could still be explored in the remainder of the second interviews. A summary of each participant's critical episodes was written.

Step 4: Comparison between first and second individual interviews

At this step, the interviews from stage one and two were compared using the constant comparative method to check for consistency and to determine if participants were giving the same perspectives in the first and second interviews. A more refined summary of the business stories of the participants was produced and issues emerged that were useful to compare the whole group of participants, for instance, ethical issues and their outlook on traditional professional values.

Step 5: Comparison between second interviews

This step repeated step two with the analysis of the second interviews. Each new interview was added, coded and the codes were compared with those that had occurred in other interviews. Axial coding explored the interrelationships between codes, and codes and categories were compared to existing theory (Miles and Huberman 1994). Certain themes functioned as the criteria for the systematic comparison of interviews, for instance, examining the theme of *homophily* in the important ties that were mentioned in the critical incidents discussed. By this stage, no new codes emerged and codes were compared, combined and in some cases recoded to develop combinations with common characteristics. Corbin and Strauss (2008) state that when no new patterns or themes emerge, theoretical saturation has been reached. The configurations of social capital used in the nascent/start-up and development phases was identified and categories emerged that were relevant to explaining the convertibility of social capital and the performance of participants' firms.

Step 6: Comparing all sets of interviews

The final stage of comparison made comparisons across all interviews. Groups of participants that shared characteristics, such as being satisfied with the profile of their firm, were compared with other groups that were not. In one instance, comparison was made between two participants (Melanie and Joyce) as they knew each other, so their stories and perspectives were compared in order to see how their relationships and views related to each other. The aim at the final stage was to conceptualise issues of performance and how and why some participants' were able to use social capital to help the performance of their firms. At this final stage, selective coding took place. This is when a core code is identified and the relationship between that core code and other codes is made clear, and the coding scheme is compared with extant theory (Miles and Huberman 1994; Strauss and Corbin 2008). Selective codes centred on cultural, economic, social and symbolic capitals and were formed into sets in NVivo. Groups of participants were then compared for evidence of these various forms of capital and when related to issues of performance, the pattern between forms of capital and performance emerged.

To present these findings, a range of descriptive methods were used but the real purpose of this final stage was to interpret these categories. Having related the findings back to the theory (Bourdieu 1986, 1989, 1990) and extant research (Anheier *et al.* 1995), the analysis at this stage explored whether or not there were patterns in capital volumes and configurations across the participants. The emerging groups of participants with similarities in capital were the subject of interpretation and analysis in the final stage of analysis, as the complexities of performance and capital convertibility was considered. Even at these latter stages of analysis, earlier phases of analysis such as memos and critical incident analysis were included in the on-going and iterative process of analysis.

A summary of the codes and categories is provided in table 4.2 and Appendix 8 features this information in addition to examples of each code grounded in data:

Table 4.2: Coding and Categories from Analysis of Interview Data

CATEGORIES		CODES
CULTURAL CAPITAL	▪ Institutionalised	AUDIT
		PROFESSIONAL ED/CPD
		HIGHER ED
		PREV EMPLOYMENT (TACIT)
		INDUSTRY EXPERIENCE (TACIT)
		GENERALISTS (TACIT)
		NON-ACCOUNTING (TACIT)
	▪ Embodied	SOCIAL SKILLS
		SOCIAL ADAPTABILITY
		LINGUISTICS
ECONOMIC CAPIITAL	▪ Income	FEE INCOME
		PROFITABILITY
		SETTING PRICES
		ETHICS
	▪ Finance/loans	START-UP FINANCE
		DEBT
	▪ Property	LOCATION
SOCIAL CAPITAL	▪ Range	*HOMOPHILY*- STATUS
		HOMOPHILY- VALUE
	▪ Density	LOOSE
		TIGHT
	▪ Reachability	CLIENT CONTACT
	▪ Content	UNIPLEXITY
		MULTIPLEXITY
	▪ Reciprocity	REFERRALS
		BROKERING
	▪ Trust	PARTNERSHIP BREAKDOWN
		CLIENT TRUST
SYMBOLIC CAPITAL	▪ Prestige	HIGH PROFILE
		PRESTIGIOUS ASSOCIATIONS
		NON-ECON ACTIVITY
		REPUTATION
		SOCIAL CONTRIBUTION
	▪ Status	PROF BODY STATUS
		SIZE OF FIRM
		SIGNALLING
		ASCRIBED STATUS
	▪ Authority	CREDIBILITY (OF CHARTERED STATUS)
		SPECIALIST EXPERTISE
		TECHNICAL EXPERTISE
		GIFT EXCHANGE
	▪ Honour	INDEPENDENCE
		PROFESSIONAL VALUES
		CLIENT INTIMACY

4.9 Methodological Limitations

Having outlined how the study was conducted and justified the decisions made, it is also necessary to acknowledge some possible limitations of the research. Firstly, the sample was purposively rather than randomly selected and therefore the findings that emerge from the study are not generalisable to the wider population of small accounting practices or small firms. This decision was justified when providing details of the sample earlier in the chapter, and revolved around the aim of this thesis, which was to generate substantive understanding rather than test hypotheses. Although the final sample was small (15 participants), the level of detail collected from each participant was large, meaning that this study had many of the benefits provided by case-based research designs (Eisenhardt 1989; Santos and Eisenhardt 2009). Studies based on a small number of cases can be particularly useful for theory building, particularly as the general often resides in the particular (Yin 2008).

In attempting to capture process-based information, this thesis relied on two retrospective techniques: life story and critical incidents technique. It was acknowledged that the methods used can suffer from recall errors and bias although every efforts was made to limit such problems through research design, interviewing technique and analysis. Taking a truly longitudinal approach, where data is collected from participants only on recent events and collected over an extended period of time may reduce such biases but was unfeasible in the present study. A problem which is particularly difficult to eradicate is the fact that participants will not necessarily be truthful when giving their accounts. The triangulation of methods allowed the researcher to cross check the responses given by the participants which helped to strengthen the credibility of the accounts in this respect.

CIT is a qualitative method designed when the positivist approach to scientific investigation was the dominant paradigm in the sciences (Butterfield *et al.* 2005; Chell 1998). The application of CIT in this thesis has drifted considerably from Flanagan's

(1954) original description of the technique. Using the interpretive approach in the present study did nevertheless responds to calls for more applications of CIT within the interpretive paradigm (Gremler 2004). CIT is also increasingly accepted as an investigative tool that can be used within a small firm context (Chell 1998, 2004).

In designing the research, an attempt was made to minimise narrative text biases that accompany the technique (Burns *et al.* 2000), and numerous measures were taken to ensure the credibility and trustworthiness of the findings as proposed by Butterfield *et al.* (2005), including: conducting two separate interviews; verifying the incidents with the participants; stopping the collection of data at the point of theoretical saturation; and using digital recorders to improve descriptive validity. Nevertheless, some checks were not included for logistical reasons such as lack of time, or access to the necessary experts and these included: using an independent judge to categorise 25% of the incidents into the categories chosen by the researcher; to submit tentative categories to two or more experts in the field; and to ask an expert in the CIT research method to listen to a sample of interview tapes to check the interview fidelity (Butterfield *et al.* 2005). Given that the CIT method was used in the present study to explore relational data and psychological constructs and experiences, using all the standardised credibility and trustworthiness checks suggested by Butterfield *et al.* (2005) may have been useful, for supporting the credibility claims of the research as well as enhancing the method's robustness.

Delays in gaining access to the sample also meant that the process of gathering participants took a considerable amount of time. Accountants were inaccessible for interviews during certain times of the year, such as December and April. As such, there was a gap of over a year between the interviews undertaken with one participant whereas another had a gap of only five months. It may have been useful for all interviews to have the same gap, to enable better comparison of this longitudinal data.

4.10 Conclusion

This chapter has discussed the background to the research, beginning with detailing the aims and objectives of the study. The nature of the problem under investigation as well as the aims and objectives were key factors in deciding on an interpretive approach. However, given there are robust conceptual frameworks for exploring the forms of capital (Bourdieu 1986) and work has progressed considerably in the area of small firm network research in recent years (Jack 2010), the study used inductive and deductive approaches. Whilst a conceptual framework organized the collection of data, the study was flexible and designed so that it could capture personal narratives and process-based data. Throughout the process of data collection and analysis there was a reflexive spiral between the empirical findings and theory, so that both emic and etic accounts could surface in the analysis. Purposeful sampling and theoretical saturation resulted in fifteen participants with whom two in-depth interviews were conducted. Two well established social science methods were used, the life story and critical incidents technique which enabled the capture of retrospective data. In keeping with qualitative analysis traditions and informed by grounded theory, data analysis and collection were overlapping and iterative. The chapter concluded by acknowledging limitations of the study.

CHAPTER FIVE

Social Capital: from Emergence to Development

5.0 Introduction

This chapter opens by providing an overview of participants' firms. The purpose of this is to provide some context within which to consider the critical incidents discussed later in the chapter. The critical incidents identified during phase one interviews are presented chronologically, beginning with the nascent and start-up stages before presenting the findings for those incidents occurring during development. Particular reference is made throughout to the performance implications and outcomes of social capital for participants' firms. Network theory and associated network concepts are used to analyse data collected during phase two interviews. This chapter considers the structural features of social capital categorised by range, density and reachability. Relational features of social capital were categorised by content, trust and reciprocity. Tie strength is also considered. The analysis presented in this chapter is contextualised with extant research, which is evidence of the ongoing and iterative nature of the qualitative research process. The chapter concludes with the presentation of general patterns in networking data that were identified by participants during interviews, and highlights issues concerning the overlapping forms of capital that are considered in more detail in Chapter Six.

5.1 Overview of Participants and their Firms

The following section will provide a concise overview of the participants and their firms. Subsequent sections will describe in more detail the context of their businesses and how they were performing according to participants' estimations. This data was collected from three sources: the first interview; a short questionnaire the participants were asked to complete following the first interview; and the second interview. Table 5.1 below provides a concise overview of the participants and the size, status and locations of their firms.

Table 5.1 Overview of Participants and their Firms

NAME	SEX	LEGAL STATUS	YEAR BUSINESS STARTED	YEAR JOINED BUSINESS	LOCATION	PROFESSIONAL BODY OF PARTICIPANT (AND BUSINESS)	NO. EMPLOYEES
Jeff (54)	M	Limited	1994	1994	Glasgow	ACCA	4
Patrick (43)	M	Limited	2005	2005	Glasgow	ICAS	0
Gavin (58)	M	Sole trader	1964	1983	Ayr	ACCA	4
Phil (48)	M	Limited	1994	1994	Glasgow	ACCA	2
Samuel (52)	M	Sole trader	1996	1996	Glasgow	ACCA	6
James (52)	M	Partnership	1981	2003	Glasgow	ACCA (ICAS)	14
Richard (53)	M	Sole trader	1993	1993	Glasgow	ICAS	2
Henry (33)	M	Partnership	1985	2000	Glasgow	ACCA (ICAS)	30
Melanie (53)	F	Sole trader	1997	1997	Linlithgow	ICAS	0
Simon (47)	M	Partnership	1985	1994	Glasgow	ICAS	2
Jim (48)	M	Sole trader	2005	2005	Hamilton	ACCA	0
Andrew (50)	M	Partnership	1979	1996	Perth	ACCA	17
Joyce (58)	F	Sole trader	2002	2002	Balfron	ICAS	0
Irene (55)	F	Partnership	1997	1997	Edinburgh	ACCA	0
Janette (51)	F	Partnership	2002	2002	Bo'Ness	ACCA (ICAS)	7

5.1.1 Overall Performance of Participants' Firms

A number of indicators were used to consider the performance of participants' firms. Data such as turnover was not useful for comparing performance across the participants' firms. The reason for this was the differing legal structure and size of participants' firms: Joyce, Melanie and Jim were sole traders with no employees; Gavin, Richard, and Samuel were sole traders with employees; Simon, Janette and Irene were in two-partner partnerships; James, Henry and Andrew were in partnerships with more than two partners; Jeff, Phil and Patrick were in limited liability companies. Figures on numbers of employee numbers were principally collected to determine whether businesses had grown since inception. Using objective measures of performance such as turnover and employee number were not appropriate for considering the *relative* performance of the participants' firms. This is supported by prior research which has confirmed that many business owners want their firms to remain small often because they do not want to take on the additional risk and responsibilities involved in growing larger (Chell 1985; Deakins and Freel 1998; Stanworth and Curran 1976; Storey 1994). This does not imply an inability of owners to grow their businesses but rather reveals the owners intentions not to do so.

Given that numerical criteria were not available or useful in assessing the relative performance of participants' firms, a number of alternative, qualitative indicators were used. This reflects calls for more theoretical and industry-specific choice of indicators for small firm performance and growth, and the use of multiple indicators (Davidsson 1991; Davidsson *et al.* 2005). The indicators relevant to participants included:

(v) the extent to which they were satisfied with the current profile of the firm;
(vi) the extent to which they wanted to grow the firm any larger;
(vii) the extent to which they wanted rapid growth and attitude to risk;
(viii) and finally, how the firm perceived the level of difficulty in attracting customers and competing with other firms.

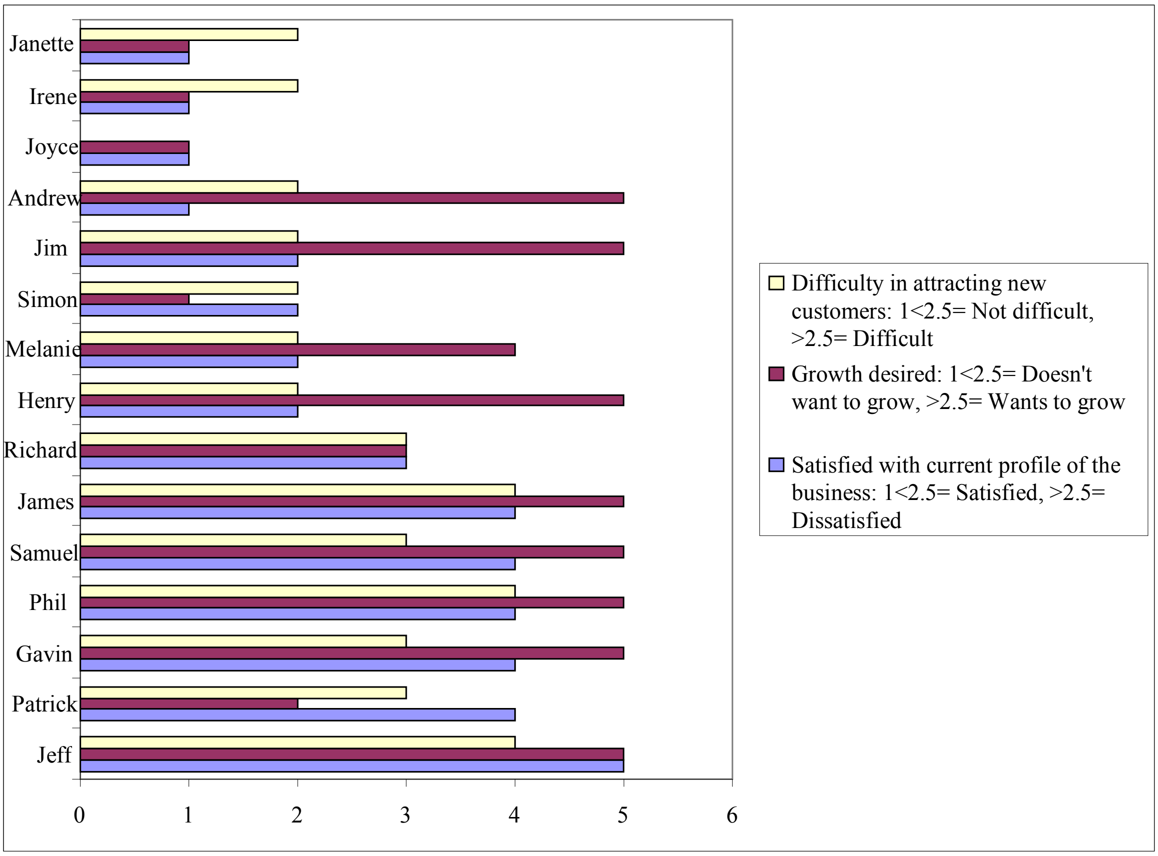
The decision to use such indicators is supported by research which has demonstrated that profit and growth may conflict with entrepreneurial objectives and that firm characteristics are of limited value when explaining performance (Davidsson *et al.* 2005; Glancey 1998; Wiklund and Shepherd 2005). Examining entrepreneurial motivations may be a more appropriate way of understanding performance in small entrepreneurial businesses, and studies have suggested the need for more in-depth understanding of the development processes of small firms (Davidsson *et al.* 2005; Vinnell and Hamilton 1999). Attitudes, personalities and goals are considered to be some of the factors that make up the personal motivations and perspectives of small business owners (Culkin and Smith 2000; Steyaert 1997)**.** The results are detailed in table 5.2. The key is inserted at the foot of the table for each type of response.

Table 5.2: Performance of Participants' Firms

Participant	Satisfied with Profile	Desire Rapid growth	Willing to take on Risk	Desire Growth	Attracting Customers	Competing with other businesses
Jeff	5	5	3	5	4	4
Patrick	4	2	2	2	3	3
Gavin	4	1	3	5	3	3
Phil	4	2	2	5	4	4
Samuel	4	1	5	5	3	N/A
James	4	4	4	5	4	N/A
Richard	3	1	2	3	3	4
Henry	2	1	3	5	2	2
Melanie	2	1	1	4	2	N/A
Simon	2	1	2	1	2	N/A
Jim	2	2	5	5	2	N/A
Andrew	2	4	2	5	2	3
Joyce	1	1	1	1	N/A	N/A
Irene	1	1	3	1	2	N/A
Janette	1	1	2	1	2	2
Key	**1= Very satisfied 5= Not at all satisfied**	**1= Very Accurate 5= Very Inaccurate**	**1= Very Accurate 5= Very Inaccurate**	**1= Very Accurate 5= Very Inaccurate**	**1= Very easy 5= Very difficult**	**1= Very easy 5= Very difficult**

To illustrate the data in a clearer way a bar chart was produced (figure 5.1) which includes: the satisfaction of participants with the profile of their firms; the desire for growth; and the difficulty in attracting new customers.

Figure 5.1: Performance of Participants' Firms



There are some clear patterns evident in the data regarding performance, particularly between participants being dissatisfied with the current profile of their business and finding difficulty in attracting new customers. The desire to grow was, for a number of participants (Andrew, Jim, Melanie, Henry), combined with both satisfaction with the current profile of the firm, and relative ease in attracting new customers. These participants were identified as performing well, according to their owners' estimations. The data also revealed that some participants did not want their business to grow, but were performing well according to the other variables (Janette, Irene, Joyce, Simon, Richard). It was found that such participants were either involved in businesses that they were winding down for retirement or were currently operating at what they believed was maximum capacity. Those participants dissatisfied with the profile of their businesses often had ambitions for growth yet expressed difficulties in attracting new customers (James, Samuel, Phil, Gavin, Jeff). Such businesses can be described as performing below the aspirations of the participants. As they were unable to attract new clients easily, this suggests they have fewer competencies in marketing and other functions important for growing a client base. Patrick was an outlier in the sense that he was dissatisfied with the current profile of his firm but did not want to grow it as time and other resources were restricted.

These indicators were considered important in gaining a rich, contextually driven understanding of the performance of the participants' firms, as perceived by the participants. These indicators will be referred to in the analysis of capitals presented later. The profiles of the participants were grouped and reviewed according to three profiles featured in figure 5.2 below:

Figure 5.2: Group profiles of the participants' firms

Profile 1: Dissatisfied with the profile of their business

Jeff, Patrick, James, Samuel, Gavin Phil

Profile 2: Neither satisfied nor dissatisfied

Richard

Profile 3: Satisfied with the profile of their business

Irene, Joyce, Janette, Andrew, Jim, Melanie, Simon, Henry

Detailed summaries for these profiles can be found in Appendix 9. A short synopsis of the profiles are presented below.

Profile 1: Dissatisfied with the profile of their business

For those participants who were dissatisfied with the profile of their firms, growth was, in two cases (Gavin, Richard), only desired by the participants for succession reasons. The fact that they found attracting new customers difficult meant that the future growth of the firm was not assured. Other participants desired growth due to a recent loss of business (James, Samuel) or because the business was at a plateau (Phil). The performance of these businesses was more unstable, with problems such as staff leaving interrupting the growth of the businesses. As these participants found attracting new customers difficult and there was potential for further instability, performance was not considered to be strong in these firms. The firm performing least well was Jeff, who had an unstable performance history over which growth targets had not been met, and finding customers and competing with other businesses was seen as difficult. Patrick was not satisfied with the profile of his business and wanted to grow but realized growth could only be small and incremental due to a need for flexibility in his working hours. Most of the businesses that were dissatisfied with their profile were in Glasgow, all of them were male, and only one of them was in a multi-partner practice.

Profile 2: Neither satisfied nor dissatisfied

Richard was the only participant who responded that he was neither satisfied nor dissatisfied with the profile of his business. The performance of Richard's current firm was stable although two previous partnerships had broken down. Richard did not want to grow the business in a high growth or risky, time-consuming way, but did look towards growth so there would still be work for his employees when he retired. Overall, the performance of the business was steady but the diminishing client base and succession issues were a concern.

Profile 3: Satisfied with the profile of their business

To summarise the findings of those participants satisfied with the profile of their business: there were a significant number of participants for whom growth was not an objective (Simon, Janette, Joyce, Irene) and they were satisfied with the profiles of their businesses. The reason they did not want to grow was that they were either nearing retirement (Joyce, Irene) or already operating at maximum capacity (Simon, Janette). All these participants perceived attracting new clients was quite easy, should they wish to do so. Three of the participants were in two partner practices. Of the remaining participants, two were in relatively large practices with three or more partners and at least ten employees (Henry, Andrew). These participants wanted to grow their firms, they said they could attract new clients easily, and they were quite satisfied with the current profiles of their practices. This could be explained by the fact that larger practices have more capacity for growth and more resources to take on new staff should they require them. The remaining two businesses were small sole traders working from home (Jim, Melanie). Whilst they both wanted to grow and found it easy to attract new clients, it was unclear whether they would have the capacity to grow further unless they took on staff and premises. The satisfied participants, in firms that were performing well according to their owner's estimations, contained all the women in the sample and were from across the central belt of Scotland. There were a proportionately higher number of partnerships as opposed to sole traders.

Overall, the results add further support to literature which suggests that many small business managers refrain from exploiting opportunities to expand their firms (Davidsson *et al.* 2005; Hogarth-Scott *et al.* 1996). Because small firm and entrepreneurship literature has often been influenced by policy needs and the impetus to stimulate growth in small firms, the fact that many do not want to grow, or believe that growth will have negative consequences has not been extensively researched. Wiklund *et al.* (2003) examined how small business manager's attitudes towards growth influenced the consequences they expected from growth. This study found that employee well-being, loss of independence and control, personal income and the ability to survive crises were all factors which led owner managers to have a negative attitude towards growth. Performance from the owner's perspective is not always related to growth through employee numbers or increased turnover but retaining independence, control, stability and a satisfied workforce. This study confirms these findings and adds to the body of literature that acknowledges small firm owners are often not willing to pursue growth, even if they may be capable of doing so (Davidsson 1989; Delmar 1997, 2008; Delmar and Wiklund 2003; Gundry and Welsch 2001; Storey 1994; Wiklund *et al.* 2003)

5.2 Critical Episodes for Participants' Firms

Phase one interviews collected the life story of participants, concentrating on the history of their firms (Curran *et al.* 1994; Chell 2000). Critical incidents focus specifically on the identification and study of specific observations of notably good or bad performance (Harrison and Mason 2004). In line with other qualitative or interpretive studies of entrepreneurship, incidents were broadly defined to include episodes that might include a number of related incidents over a period of time, rather than single isolated incidents (Cope 2003; Cope and Watts 2000). Objective measures of performance (such as changes in employee numbers and turnover) have been used in some previous studies (Robinson and Sexton 1994; Srinivasan *et al.*1994; Davidsson 1991) but were not always appropriate for identifying incidents which were of major importance to the firm from the participants' perspectives. Thus, changes in performance were also assessed by considering subjective indicators, such as changing the direction of the practice after joining an external organisation, or going through a divorce which had long term implication on personal relationships and organisational structure. Easterby-Smith *et al.* (2008) advocate using critical incident interviewing in this more open, less structured way to ensure that the importance of the incident is not quantified in advance but is allowed to emerge from the participants' accounts.

A comprehensive set of incidents was then determined for each participant, and a cross case classification system was derived (Flanagan 1954). Categories of incidents were defined inductively from coding the incidents. These categories were similar to those identified in other small business critical incidents studies (Curran *et al.* 1993; Tjosvold and Weicker 1993), namely personal (family and kinship), marketing, human resources, finance and operations. Three additional categories were more specific to the professional services context. These were defined as professional development, client circumstances and regulatory change (see Appendix 7 for full list of codes and categories). Each incident was also categorised as having a positive or negative outcome (Chell and Pittaway 1998), and as happening at the nascent/start-up or development phase.

Participants varied in the number of incidents defined, with one having as few as nine critical episodes (Irene), whilst another participant had as many as twenty three (James). Between four and six episodes were chosen by the researcher to present to the participant in the second phase for validation and discussion. These incidents were indentified using four distinct criteria: the criticality of the incident in terms of changes to performance; within the context of each story, incidents which were of particular importance to the participant; incidents that were context-rich particularly in terms of relationships, which would help shed light on the substantive research questions; and finally, incidents that would cover a range of positive and negative incidents over the nascent/start-up and development phases. These criteria were necessary due to the natural inclination of participants to discuss more recent incidents, and also to focus on positive incidents (Chell and Pittaway 1998; Cope 2003; Curran *et al.* 1993; Tjosvold and Weicker 1993).

The period between phase one and two interviews was between four and eleven months. Participants were therefore asked if anything significant has happened to the business during this time. Any new incidents were then added to range of critical incidents presented at the beginning of the second interview. Each participant was asked to examine the incidents and to confirm if they were an accurate representation of the most critical episodes for their firms and to evaluate their relative criticality. Performance, it was explained to participants, could be relative to turnover and employee numbers or simply to their own perception of importance to the operations and the overall success of the business. Positive confirmation was given by all participants that the selected incidents had been most critical to their firms with four participants adding incidents which had occurred since the first interview. The two stage interview process was important in allowing for the emergence rather than the imposition of an evaluative schema (Ruben 1993), and using the life story technique was validated as an appropriate way of identifying the events and dimensions of experience that were most salient to the participants. The critical incidents identified are summarised in a table in Appendix 10, which provides detail of the nature of the incident and a brief description of the outcome.

A number of participants became reflective and philosophical when their critical episodes were presented to them in such an objective way. For instance, Richard commented:

> *Its funny how, I've never really stood back from all of this. Seeing it all in print you really think start to think, 'wait a minute'.*

It was also common for participants to find the process of evaluating the relative importance of the episodes a difficult cognitive exercise. Comments were made such as "*well, you tend to remember the most recent*" (Samuel), or "*everything happens in sequence*" (Richard). The relative impact of incidents therefore tended to be cumulative in that critical events shape future actions (Chell 2004). Also, processes of growth and entrepreneurial learning mean that participants tend to report their experiences as multiple incidents extending over time rather than bounded individual incidents (Cope 2003; Cope and Watts 2000). When asked to assess criticality Jeff commented:

> *It's difficult to answer because at the time that would have happened in 1996, that was the biggest that had ever happened, and whatever the next*

thing that happened, that was the next most earth-shattering thing that had happened, the most critical for the business.

Participants were able, upon deep reflection and discussion with the researcher, to arrive at a decision based on personal judgment of non-organic events or episodes representing general or specific performance changes.

Depending on the time taken to elicit data regarding the incidents, each participant discussed either one or two episodes. The following analysis will present the findings to emerge from these discussions using social network theory to analyse the relational and structural components of social capital (Adler and Kwon 2002; Nahapiet and Ghoshal 1998; Portes 1998).

5.3 The Nascent and Start-up Phase

There was often an overlap between what could be defined as the nascent and start-up phases: for example, clients deciding to follow participants to their new practice stretched across both the nascent and start-up period. There was also a tendency for owners to focus on more recent events, as has been found in other critical incident studies (Curran *et al.* 1993; Chell 2004; Chell and Pittaway 1998; Cope 2003; Tjosvold and Weicker 1993). Therefore analysis was more usefully undertaken by combining nascent and start-up incidents, and comparing these pre-inception and early business incidents with those experiences after the business has been operating for three years, defined as the development phase. Participants were presented with a range of incidents relating to the nascent and start-up phases, including professional development, operations, personal, marketing and client circumstances but only incidents relating to client circumstances and marketing were chosen as most critical. All bar one of the incidents discussed at start-up were positive and were all based on gaining clients with the exception of one nascent incident centered on the decision to go into practice. These critical incidents will now be discussed in relation to the structural and relational dimensions of the network ties, and the resources that were obtained from these relationships that affected the performance of the business.

5.3.1 Resource Needs at the Nascent and Start-up Phase

The range of critical incidents at nascent and start-up phases confirmed that the resources required by participants were finance, a client base, moral and emotional support, and technical advice and information. A client base and moral and emotional support were the primary resources needed in the incidents discussed.

Gaining initial clients was significantly easier for those participants who were previously in practice. For Richard and Joyce, a small client base already existed upon which they could build their new practice. For Janette and Irene, clients followed them from the previous practice. Simon and Melanie both purchased a client base which gave them a critical mass of clients to start from. Phil had not worked for himself before but had come from practice which helped in gaining initial clients and subcontracting work. Gaining an initial client base was most problematic for Jim and Jeff who had come from industry positions rather than accounting practices. This finding confirms that previous professional experience, particularly in owning or managing a practice, is a key factor in performance at start-up (Pennings *et al.* 1998; Wright *et al.* 1995; Wright and Wright 2001). Overall, the findings confirm that the professional service context influences resource requirements, which have been shown to be reputation, client contacts and professional expertise (Bryson *et al.* 1993; Davidsson and Honig 2003; Hitt *et al.* 2001).

As was expected, gaining finance for start-up was not a major concern for most businesses. Although two participants were refused a bank loan (Richard and Melanie), this was not seen as critical for these start-up as they were both able to access finance through their social networks. Richard secured finance from his sister, confirming the findings of other entrepreneurship research which identifies that small businesses rely on strong social network ties to gain access to finance at start-up (Anderson and Jack 2002, 2010; Brüderl and Preisendörfer 1998; Foss 1994; Greve and Salaff 2003; Hansen 1991; Hite 2003; Johannisson 1986, 1987; Johannisson and Peterson 1984; Ostgaard and Birley 1994). Melanie was able to secure a bank loan by being referred to a different organisation by her previous employer, who knew the bank manager personally. This finding suggests the importance of personal endorsement and the reputational signaling impact of certain ties, which has been explored in other studies of small businesses (Lechner *et al.* 2006; MacMillan *et al.* 2005; Morrison and Wilhelm Jnr 2004; McFadyen *et al.* 2009; Silverside 2001; Stuart *et al.* 1999). Findings regarding finance may also be explained by the fact that, compared with technology-intensive industries, financial set-up costs are relatively low for professional service business owners who rely on their certified and credentialed knowledge to create value.

Participants did not regard the need for information and technical advice at start-up as particularly critical. The professional service context can be used to explain this finding, as compared with small ventures in, for example, technology intensive industries, there is less need for non-redundant information (Larson 1992; Maurer and Ebers 2006; Powell *et al.* 1996; Walker *et al.* 1997). The nature of resources required is therefore related to the differing requirements of businesses in different sectors, and the relative usefulness of strong and weak ties will vary accordingly. Within an industry, resource needs will also vary according to the particular resource configurations the owner manager already has. For those participants who established their businesses with a significant number of client contacts, requirements were centered on support, advice and referrals from strong ties. For businesses established without sufficient clients, the use of weak ties to bridge into new clusters of clients was more prevalent (as in the network ties of Jeff, Simon and Jim)

The key resources required were referrals and support, and the network ties used to access these resources will now be discussed. The emergent themes from the analysis were framed within key areas of debate: structural sources of social capital were explored through notions of range, density and reachability (Granovetter 1985; Mitchell 1969); relational sources of social capital were explored through content, reciprocity and trust (Adler and Kwon 2002; Mitchell 1969; Nahapiet and Ghoshal 1998; Portes 1998). The section concludes with a discussion of relative value of strong and weak ties.

5.4 Structural Dimensions of Social Capital at Nascent and Start-up Phase

An overview of the structural dimensions of the critical episodes is presented in Table 5.3 below.

Table 5.3 Structural Features of Social Capital at the Nascent/Start-up Phase

The contact indicated in **bold** is the individual identified as most important in the incident discussed.

Key:

Knows others:

A= Knows all

S= Knows some

N= Doesn't know anyone

W= Knows well

SL= Knows slightly

Network description:

L= Large

S= Small

LO= Loose

T= Tight

U= Useful

NU= Not useful

Participant and age at time of incident	Size and composition of important contacts	Length known (years)	Knows others	Network description and usefulness	Outcome
Jeff **Male** **38 years old**	50 year old male consultant 35 year old male business advisor 40 year old male business owner (client) **45 year old female business manager**	1 >1 >1 **>1**	N S, SL N **S, SL**	L, T, NU L, T, U S, LO, NU **L, T, NU**	**Positive: Referral for business start-up contract circa £12,000 p.a.**
Richard **Male** **41 years old**	45 year old female events manager **59 year old male solicitor** 42 year old male insolvency practitioner 57 year old male insolvency practitioner	20 **20** 15 20	A, SL **A, SL** A, SL A, SL	L, T, U **S, L, U** L, LO, NU L, LO, NU	**Positive: Referrals for approx. 9 good quality clients**
Simon **Male** **35 years old**	70 year old male business owner (client) 45 year old male business owner (client) **40 year old male solicitor** 34 year old male accountant (partner)	20 20 **3** 10	S, W S, W **N** S, W	L, T, NU L, T, NU **L, T, U** L, T, U	**Negative/ Positive: Referrals for key new sector following loss of major client**
Phil **Male** **32 years old**	55 year old male accountant (previous employer) 35 year old male bank manager 45 year old male sole trader (client) **25 year old male mechanic (brother)** 40 year old male risk manager (friend)	5 >1 >1 **32** 15	N N N **N** N	L, T, U L, LO, U S, T, U **S, T, U** L, LO, U	**Positive: Referrals to approx. 15 good quality clients**
Joyce **Female** **49 years old**	**50 year old male accountant (spouse)** 30 year old male tradesperson (client) 38 year old female	**40** >1 >1	**A, W** S, SL S, SL	**L, T, U** S, T, U S, T, NU	**Positive: Referrals to approx. 10 good quality clients**

	personal assistant (client) 45 year old male managing director (client)	2	S, SL	L, LOandT, NU	
Irene Female 45 years old	33 year old female tradesperson (client) **48 year old female accountant (partner)** 48 year old female accountant (ex-partner)	2 **8** 11	A, SL **A, W** A, SL	L, LO, U **L, T, U** L, L, NU	**Positive: Retained approx. twenty clients from previous practice**
Janette Female 43 years old	**48 year old male accountant (partner)** 52 year old male accountant (previous employer) 38 year old male managing director (client)	**18** >1 4	**A, W** S, SL S, SL	**L, T, U** L, LO, NU S, T, U	**Positive: Retained *circa* 100 clients from previous practice**
Jim Male 43 years old	**55 year old male accountant (previous employer)** 40 year old female personal assistant (ex-colleague) 58 year old male managing director (client) 50 year old male estate agent (client) 37 year old male insurance broker (client)	**5** 2 >1 3 20	**S, W** S, W N N N	**L, T, U** S, T, NU L, LO, U L, LO, U L, LO, U	**Positive: Referrals to approx. twenty clients**
Melanie Female 42 years old	**53 year old male tradesperson (spouse)** 53 year old male accountant 56 year old male accountant (previous employer) 60 year old female personal assistant (ex-colleague)	**16** 6 8 5	**S, SL** S, SL A, W A, SL	**L, LO, NU** L, LO, NU L, LO, U S, T, NU	**Positive: Decision to buy client base and start practice**

Network structure needs to be understood to ascertain the opportunities individuals have for accessing resources which are embedded in a social structure (Adler and Kwon 2002; Davidsson and Honig 2000; Lin 1999; Nahapiet and Ghoshal 1998; Seibert *et al.* 2001). Neergaard *et al.* (2005) view an individual's social capital as determined by the size of their network, the sum of its resources and how quickly these can be set in motion or how quickly these can be accessed. The number of network ties important in the incidents at the nascent and start-up phase were all between three and five, which has been found in previous studies examining the number of important network ties at founding (Bühler 1999). Within this result, women named three to four ties, and men named four to five. Although a somewhat crude measure of network structure, results therefore indicate women turn to a smaller network of ties during critical periods, which has been found in other studies (Ibarra 1992, 1997; Ibarra *et al.* 2005; Lin 1999). A discussion of resource needs at start-up will be followed by a detailed analysis of the structural and relational sources of social capital involved in critical incidents.

5.4.1 Range

The concept of range is referred to by as the number of people in direct contact with the ego, combined with the social heterogeneity of the individual's concerned (Mitchell 1969: 19). Social heterogeneity was explored using the principle of *homophily* (McPherson *et al.* 2001). Two basic types of *homophily* have been distinguished:

> *Status homophily*, in which similarity is based on informal, formal, or ascribed status. This includes all the major sociodemographic dimensions such as religion, occupation, education and behavior.

Value homophily, in which similarity is based on values, attitudes and beliefs. This includes a wide variety of internal states presumed to shape our orientation towards future behaviour (Lazarsfeld and Merton 1954).

These features of range will now be discussed in relation to partnership, clients and other important relationships at start-up.

Range of partnership ties

When going into partnership, the prevailing trend was for partners to be 'trusted alters': individuals who were in various ways similar to participants. This has been found on other studies (Neergaard and Madsen 2004; Ruef *et al.* 2003). Similarities in education and previous experience are customary due to the nature of the role, which relies on professional qualifications, and experience in practice. This may be tempered by experience working or training in a large business or the membership of different professional associations. Overall, education and training was similar across the partnerships. Five out of seven partnerships had formed from previous work relations, a common pattern of association in the formation of entrepreneurial teams (Neergaard and Madsen 2004; Ruef *et al.* 2003).

The participants in partnerships often discussed that the motivation and final decision to start the business was significantly affected by their partner. Talking about her business partner, Janette commented:

I would never have even gone into business if it hadn't been for him. I mean we worked together, as employee and employer, we worked very well together. […] he was going to break away and set up and go out on his own, he didn't want to do it as a sole trader. He felt he couldn't. I mean a problem shared is a problem halved. Although he could have done it by himself, I think if you have someone there sharing the responsibility, I think that's a *big thing. He felt confident I would be someone he could be confident sharing this business practice with, and it was reciprocated. That was brilliant. So he had a very big part in the start-up, in the development for me, and gave me the chance to do so.*

This comment indicates the importance of the tie to partners for support, and the importance of trusting the other partner's ability to share responsibilities. Having had previous experience of working with someone, it is more likely that business owners will share similar belief structures and frames of references, or 'dominant logics' (Downing 2005). Cognitive processes affect *homophily* and it is not only structural factors such as education and age that impact on the formation of ties. The constructuralist approach developed in sociology proposes that people who share knowledge are more likely to interact (Carley 1991). Similar others can therefore be based on shared cultural tastes and background which eases communication and makes co-ordination easier (Mark 1998, 2003). Given the uncertainty and risk involved with starting a new venture, and especially because of the joint and several liability in partnerships, confidence in the other partner sharing similar attitudes and values was of clear importance. This trust is most likely to develop over time, in durable and strong relationships such as previous work associates. *Value homophily* can be viewed as an important feature of cognitive social capital (Nahapiet and Ghoshal 1998) and sharing this capital with business partners at start-up, in shared norms, values, attitudes and beliefs was of critical importance to the participants.

Although not discussed as a critical episode, James discussed a decision he had made to go into practice with another accountant. He was introduced to the partner through a staffing agency, and he reflected on the decision as a major error of judgment. Having worked with the new partner for a few months, James started to realise that his idea of meeting standards fell way below what James considered adequate. The problem according to James was that:

... when you're in partnership you have joint and several liability. So if you've an idiot of a partner that rubs off on you. And if you're someone who takes chances, well, you're taking the same chances too, even though you don't feel comfortable about that. So you have to really know the people you are in business with, you have to trust them, and you have to find a way of getting your standards and morals and everything else in line, and that was not the case with him [...] That was a really traumatic period in my life because the one thing you don't want as a professional is to have your moral standards or ethical standards questioned or compromised.

Richard had also formed a partnership with an accountant he met at a social event. He reflected negatively on this decision, commenting that he was 'young and foolish' at the time. Similar outlooks and standards, or *value homophily*, is essential due to the nature of shared responsibility and reputation in partnerships. Richard commented:

... although we never really got on, in most small businesses it tends to be very much a case of you do your work and the other partner does their work, and most of the time it works fine. But when audit regulation came in, and then instead of operating as two individuals we had to kind of operate as an organisation *and it was just never, because of personalities, it was just never going to work. So that's why I ended up on my own.*

Both these partnership lacked *value homophily*, and resulted in the end of the partnership. Ties between non-similar individuals have been shown to dissolve at a faster rate (McPherson *et al.* 2001), which adds further benefits having a homogeneous ties with partners.

There was also a significant degree of *status homophily* in the partnerships examined. Business partners were all within a seven year age range to the participant. Although there are advantages in making partnerships with trusted alters, *homophily* means that similarities and overlaps in networks will arise, which has been shown to reduce the sum of the individual network (Neergaard and Madsen 2004). Findings did not support this notion. At start-up, partners were seen as generally have large, tight and useful networks. This was due to the fact that partners, although similar in *status* and *value homophily*, did not share personal social networks and tended to have different areas of specialism. This meant the business benefited from wider social network, as partners bridged the business to other niches and clusters of ties otherwise not accessible by the participant. .

The most salient dimensions of *status homophily* were age, education and occupation. The only instance in which gender *homophily* existed in the partnership was in Irene and Simon's cases. The rest of the participants were all either sole traders or in mixed gender partnerships. The data does not then support the notion that both men and women business owners will have similar networks consisting mainly of men (Aldrich 1989; Hampton *et al.* 2009). The reason may be that in the professions women do not actively seek out men for information and support as status and education is not affected by gender. Irene commented on whether she had experienced any sexism in the accounting industry:

> *Probably not in the professional field actually. Outside the professional field, yes there is a bit. On the other hand, when I was younger, being a female helped. There's no doubt about it. You got away with an awful lot more and you were… clients didn't feel threatened by you.*

It is also common in studies of workplaces that the pool of men is larger which might lead to women having more men in their networks, whereas the ACCA has more women than men. The impact of *homophily*, and the relative benefits of durability and range change as the partners age and start to consider succession, which will be discussed as part of the analysis of social capital at development stage.

Range of client relationships

The clients mentioned as important relationships in the start-up incidents did not show strong evidence of *status homophily*. Clients were generally spread quite widely in terms of gender and occupation. This could be due to the fact that gender *homophily* is lower in highly educated groups, which would include professionals (Marsden 1987). Research has examined the phenomenon of gender *homophily* in entrepreneurial businesses and found sex homophilious networks to be prevalent, especially where they are the strong majority (Ibarra 1992, 1997). Client bases were, on the whole, male dominated which is due to the larger number of male business owners and professionals who require the services of an accountant. There did not appear to be a strong tendency towards gender *homophily*, and Irene and Melanie even commented that they believed some men preferred a female accountant (as noted in Irene's comment above). It was also found that men had a higher proportion of female clients. Gavin, Andrew, Patrick and Henry all stated that 40% or more of their clients were women. The reason for some accountants having a higher proportion of female clients was, according to Irene, because in small, owner managed businesses "*it's often women who keep the books"*.

There was a tendency for clients to be younger or around the same age as the participant at the start-up stage. The tendency towards age *homophily* has been noted in research (Marsden 1985; McPherson *et al.* 2001) and was commented on by a number of the participants. Simon suggested the reason for this was:

> *There is probably a lot of generational thing there, in that people feel more comfortable with people of their own vintage. I think a lot of it is being able to have a conversation, if you like, whereas with a different generation it can be slightly different. You might be a bit more reserved and they might not really understand what they're looking for. In terms of their financial position, they might be similar in terms of wife and kids et cetera, you know? Maybe they'll understand the financial stress they're under whereas an older person might be past that and maybe not have that.*

Jeff also thought this might be the reason that his firm did not attract a lot of entrepreneurial new starts, because they "*looked old and were not able to field thirty year old practicing accounts like PriceWaterhouseCooper's could".* Simon's comment above suggests that dialogue and trust may be easier to develop with clients of a similar age, suggesting the importance of cognitive social capital in these relations (Larson 1992; Larson and Starrr 1993; Lee and Jones 2008; Nahapiet and Ghoshal 1998).

For Simon, the client base he had purchased off his retiring father had proven disastrous in the first year of trading. Clients were commonly around the age of his father, which meant that 40% of the firm's fee income was lost after the first year as clients retired. This was something Phil noted too, although he said it was something accountants were generally told to look out for when buying fees from a practice. Simon lost 15% of the fee income lost from one particular client and this formed one of the critical episodes discussed at start-up. Simon reflected on the reasons for this event:

> *You know, it probably was the case that in the past my father would have been able to talk this person around but because they were dealing with somebody they perceived as much younger, you know, basically I didn't know anything and I was talking a lot of rubbish and your father wouldn't have done that, and so we did have a major fall out and we lost that client.*

This comment again underlines the relationship that *homophily* has with cognitive social capital. The analysis suggests that being around the same age and sharing other status qualities with clients is important in building symbolic capital, so that the accountant is perceived as legitimate.

The importance of 'good quality clients' often came up over the course of both interviews. Participants would complain that *"ten percent of clients cause ninety per cent of the hassle"* (Phil). Suggested characteristics of good quality clients would be:

established businesses that know what they were doing (Irene); businesses that are responsive and appreciative of customer care rather than being price sensitive (Gavin); and clients that are trustworthy and not simply trying to pay too little tax (Phil). Although sometimes used for emotional and moral support, clients were not primary sources of these resources.

Although *status homophily* may occur because of the natural tendency to gravitate towards similar others, *value homophily* is of more significance for the performance of professional service business. Simon commented on the advantage he felt from the fact that his clients, being typically professionals themselves, shared his conservative outlook. The loss of the major client he described above was due to a difference in ethical opinion, which may have been structurally influenced but was essentially value-based. In professional services, value is co-created with clients, and successful client relationships are characterised by interdependency and trust.

Range of other network ties

Relationships that were established through voluntary and trade associations showed a greater degree of *homophily*, as has been found with other studies (McPherson and Smith-Lovin 1986, 1987). Contacts made through organisations such as the Junior Chamber of Commerce or the Community Council were similar in terms of age and occupation. The structure of the organisation may also play a part in this, for instance, the Junior Chamber specifies an age limit and entry is only permitted to professionals and those working in business. Similarly membership of female-only networking groups will control for gender. These ties were commonly used for moral support and advice as well as information and referrals but they did not tend to be the most important network member in the incidents.

5.4.2 Density

Network density at in the present study was assessed by finding out the extent to which ties knew each other as well as the ego. The pattern which emerged was that at start-up, the important network ties in changing performance tended to be loose or disparate, with important ties often not knowing other members of the network, or only knowing them slightly. Finding low density amongst a large proportion of strong ties may suggest that at the start-up stage, resources such as introductions and support are likely to come from strong network ties that connect the business owner to dense pockets of potential social capital.

According to Mitchell's (1969) framework, reachability is the number of intermediaries who must be passed through in order to contact the ego. Although the participants' networks with clients were not dense, they could be reached easily. This was the principle reason for a number of participants setting up their businesses, as in a larger practices, it was difficult for clients to reach them and to be able to offer the personalized service they wanted to. For instance, Irene commented that:

> *… a lot of clients were attracted to the fact that they have direct contact with us whereas in a four partner firm and you've got staff beneath it, it's the staff that does the work. The contact for a client is very often to a staff member, not to a partner, or the partner doesn't know enough detail and quite a lot of our clients actually like the confidentiality and being able to pick up the phone and speak to us directly.*

Performance, in terms of client loyalty, is therefore based on a relatively compact network, where the number of intermediaries who must be passed through in order to contact the practitioner is low.

The main exception to the low density of network ties at start-up was in participants' ties with business partners. Homogeny in the entrepreneurial team has been shown to result in a denser web of third party connections (Reagans *et al.* 2004). Increasing demographic diversity, on the other hand, would restrict density as socially dissimilar individuals are likely to have different contacts (Jack 2005; Reagans *et al.* 2004). Within partner relationships, density was very high, with partners almost always knowing all of the other network ties very well. This could be explained by the fact that partners in small practices are likely to know the key contacts of their business partner, particularly important ones that were involved in critical episodes for the business. The same finding was apparent in the development phase. However, the indication of network density the study used does not give a full and accurate description of the situation out-with the context of the critical episode (Marsden 1990). Network density involves measuring the proportion of theoretically possible direct links that are actually in existence (Barnes 1969: 63). Outside of the incidents outlined, business partners may have numerous network ties that are not known to the other partner, but this data was not obtained in the present study.

5.5 Relational Dimensions of Social Capital at Nascent and Start-up Phase

The results for the relational dimensions of social capital at the nascent and start-up phase are detailed in a Table 5.4:

Table 5.4: Relational Features of Social Capital at the Nascent and Start-up Phase

The most important tie is indicated in **bold**. Ties types were clients, interorganisational networks, family, friends, partners, previous employers and external organisations.

Questions with numerical responses were derived from a Likert scale (5= Very high; 4= High; 3= Average; 2= Low; 1= Very low; -= Not rated). The Key for terms used in the table is featured below, which were derived as common categories following the coding and recoding of the data.

Key:

What is discussed:	C= Client business	**What is offered:**	ADV= Business advice
	F= Finance		DISC= Discretion
	G= General social chat		FIN= Finance
	M= Marketing		INTRO= Introductions and referrals
	O= Operations		NONE= No resources
	P= Personal matter		SUPT= Emotional and moral support
	S= Staffing		TECH= Technical advice
	T= Technical information		TRUST= Trust
	TRG= Training		

PARTICIPANT	NATURE OF TIE	WHAT IS DISCUSSED	RESOURCE OFFERED	RECIPROCATED	TRUST				OUTCOME
					Reliability	Openess	Competence	Good intent	
Jeff	EXT ORG	M	INFO, TECH	NONE	4	3	5	2	**Positive: Referral for business start-up contract circa £12,000 p.a.**
	EXT ORG	G, M, P	INTRO, INFO, SPT	NONE	5	4	5	4	
	CLIENT	C	NONE	NONE	2	2	2	1	
	EXT ORG	**C**	**INFO, INTRO**	**NONE**	**3**	**3**	**3**	**4**	
Richard	INT-ORG NETWORK	C, G, P	INTRO, SUPT	INFO, SUPT	5	4	5	5	**Positive: Referrals for approx. 9 good quality clients**
	INT-ORG NETWORK	**C, G, P**	**INTRO, INFO, TRG, SPT**	**INTRO, INFO, TRG, SUPT**	**5**	**4**	**4**	**5**	
	INT-ORG NETWORK	T, P	TECH	INTRO	4	3	4	4	
	INT-ORG NETWORK	T, G, P	TECH, SUPT	INTRO, TECH, SUPT	5	4	4	5	
Simon	CLIENT	C	NONE	NONE	5	1	5	1	**Negative/Positive: Referrals for key new sector following loss of major client**
	CLIENT	C	TRUST	ADV	5	2	5	3	
	EXT ORG	**C, L, P, G**	**INTRO, INFO, ADV, SUPT**	**INFO, INTRO**	**5**	**4**	**5**	**5**	
	PARTNER	F, L, S, M, P	INFO, TECH, SUPT	INFO, TECH, SUPT	5	4	5	4	
Phil	PREV EMPLOYER	F, C	FIN, INFO, ADV, SUPT	NONE	5	3	4	4	**Positive: Referrals to approx. 15 good quality clients**
	EXT ORG	F, M	INTRO, INFO, ADV, FIN	NONE	4	3	4	4	
	CLIENT	C, G	INTRO	ADV	2	4	-	3	

	FAMILY	**C, P**	**INTRO, SUPT**	**SUPT, ADV**	**5**	**5**	**5**	**5**	
	FRIEND	C, M, G, P	INTRO, INFO, SUPT	SUPT, ADV	3	4	5	5	
Joyce	**FAMILY**	**F, L, S, M, P**	**INTRO, INFO, FIN, SUPT**	**INTRO, INFO, FIN, SUPT**	**5**	**5**	**5**	**4**	**Positive: Referrals to approx. 10 good quality clients**
	CLIENT	F, L, C, M, P	INTRO	INTRO, ADV, SUPT	1	5	4	5	
	CLIENT	F, C	NONE	INTRO, ADV, SUPT	5	4	5	3	
	CLIENT	F, C	INTRO, INFO, SUPT	INTRO, ADV, SUPT	4	4	5	5	
Irene	CLIENT	C	INTRO	INFO, ADV	4	5	4	5	**Positive: Retained approx. twenty clients from previous practice**
	PARTNER	**F, L, M, P, G**	**INFO, TECH, SUPT**	**INFO, TECH, SUPT**	**5**	**4**	**4**	**4**	
	PARTNER (PREVIOUS)	F, L, S, M, P	NONE	NONE	2	4	5	1	
Janette	**PARTNER**	**F, L, S, M, G, P**	**INTRO, INFO, TECH, SUPT**	**INTRO, INFO, TECH, SUPT**	**5**	**3**	**5**	**5**	**Positive: Retained *circa* 100 clients from previous practice**
	PARTNER (PREVIOUS)	C, F, L, S	ADV, TRG, SUPT	NONE	3	2	5	3	
	CLIENT	C	INTRO	ADV, TRG	5	3	5	5	
Jim	**PREVIOUS EMPLOYER**	**C, G**	**INTRO, INFO, SUPT**	**SUPT**	**4**	**3**	**5**	**5**	**Positive: Referrals to approx. twenty clients**
	PREVIOUS COLLEAGUE	G	INTRO	SUPT	3	4	4	5	
	CLIENT	C, G	INTRO, SUPT	INTRO, ADV, SUPT	5	3	4	4	
	CLIENT	C, G	INTRO, SUPT	INTRO, ADV, SUPT	3	4	4	4	
	CLIENT	C, G, P	INTRO, SUPT	INTRO, ADV, SUPT	4	4	5	4	
Melanie	**FAMILY**	**F, P, G**	**SUPT**	**SUPT**	**4**	**4**	**4**	**4**	**Positive: Decision to buy client base and start practice**
	EXT ORG	T	NONE	NONE	2	1	4	1	
	PREVIOUS EMPLOYER	F, L, M, P, L, T, C	INTRO, INFO, ADV, TRG, FIN	INFO, TECH	4	3	4	4	
	PREVIOUS COLLEAGUE	G, C, P	SUPT	SUPT	4	4	4	4	

The analysis of the raw data, led to the categorisation of the interactional features of social networks (frequency, content, durability, direction and intensity) proposed by Mitchell (1969) into a framework exploring content, reciprocity and trust involved. The identification of these themes enabled the network data to be analysed in relation to extant research on relational features of social capital (Adler and Kwon 2002; Han 2006; Jack 2005; Kim and Aldrich 2005; Nahapiet and Ghoshal 1998; Neergaard *et al.* 2005; Shalley and Perry-Smith 2008; Shaw 2006).

5.5.1 Content

There was some evidence supporting the role of multiplexity in ties with previous work colleagues and partners at the start-up phase. Apart from Jeff and Richard, all network ties involved previous work colleagues. When asked what type of subjects participants would speak about with these actors, there were typically numerous contents, often including financial, legal, technical, marketing, personal, and social matters. Strong ties to relationships holding a broker position were useful in gaining needed resources such as information and referrals, and as these ties contained multiple contents. This data therefore supported previous findings regarding the importance of multiplexity (Shaw 1999, 2006).

By contrast, client ties which were often useful for introductions and referrals at start-up, tended to hold few contents. Some client relationships were seen as having a social element, but this rarely extended to friendship or discussing personal matters with them. Simon commented that:

> *… there are still people, some people that you wouldn't necessarily choose to socialise with as well. I still socialise with clients or go for lunch or take them to dinner. I think there's a professional kind of socialising side of it.*

> *There are these kind of things that are quasi-business but I wouldn't necessarily call them friends if you like.*

The degree to which accountants would socialise with clients would vary according to the different ethical standpoints adopted. Broadly speaking there were two categories of outlook. Irene took a similar, if somewhat more radical, standpoint to that of Simon by stating that:

> *Your friends are not your clients. You have to remember that. You can be very friendly with them but you've gone over that line if you're friends with them. Because you can be put in a very difficult situation, you know, if that person's not declared income that you know about, you know, you have to report it and if you're friends with them, you might think twice. So you can't put yourself into that position. So you don't really have, it's not, I mean, I don't go out with any of my clients. I don't have dinner with any of my clients unless it was to do with a job of work or something like that. I don't see my clients socially; I think that's what I'm saying.*

This viewpoint highlights that multiplexity, particularly involving friendship, is not appropriate to the nature of relationships between professionals and their clients. Client ties must be strictly unbiased and independent. Ties with other professionals and external organisations also tended to exclude personal content other than generalized social exchange. This may also be indicative of what is perceived to be appropriate behaviour for a professional accountant. These findings contrast with those found in other less regulated professional industries, such as advertising, where normative relationships between business owners and clients have been found to be important for performance (Neergaard *et al.* 2005; Shaw 2006; Silversides 2001).

The second, less commonly held view, was that building solid client relationships make socialising and a degree of friendship necessary, a view which was typified by Jim. Even for those accountants with this standpoint, there was a strong aversion to the situation being reversed, i.e. having friends become clients. Jim explained:

> *Sometimes because you're friendly with people though the community council and through the church, they may not want you to know their business, so there's not been many new clients and I've never really tried... because I think people don't mind that you become a client then you become a friend. It's a bit more difficult for friends to become a client. That's what I've found anyway. I don't really want to do it for friends I'll tend to put them onto someone else.*

In contrast with other studies, these in-depth analyses have identified a different lens from which to view multiplexity in the professional services context. The data positively rejects the notion that sharing social contents, such as friendship, with clients is preferable for accounting practitioners. Relationships with clients are generally weak ties at the outset, and for some practitioners, professional ethics mean that such ties must remain, by and large, uniplex. For other practitioners, client relationships could develop multiplex contents, although not to the level that personal information is discussed. For relationships that are already established, that may have multiplex contents, accountants will not add a business related content to this tie. Knowing the financial state of affairs of friends and associates is not a content that is reciprocated and it was widely seen as something which might damage the tie.

Strong ties with professional partners were not necessarily on a close, friendly basis either. Irene's comment was fairly typical in this respect:

> *Actually the relationship I have with [my partner], we're not social friends. We'll maybe go to something if we've been asked to by a client but we're not, our interests outside of the office are completely different and we don't socialise.*

A similar view was expressed by Simon:

> *I think in any partnership you have your moments. John and I are very much just business partners. We don't socialise together or anything of that nature, so it's very much just a business arrangement. We sometimes go out for lunch together but no one would ever say we were bosom buddies or whatever but we've got trust and respect and we just get on with it basically.*

Other than socialising and friendship, partner ties were multiplex and contained numerous contents such as information, support, technical advice and sometimes referrals. Ties with partners, due to the shared risk were characterised by being trusting and reciprocal, as is characterised by Irene's comment:

> *We're completely open and we'll discuss anything. We trust each other completely. We kind of know each other very well. We know each other's weaknesses and strengths […] We've got a completely relaxed, I mean we've never had a cross word. We might disagree about something, no disagree is too strong a word, a slight difference of opinion in how to approach a problem, a tax client case or an accounts client case but it's very quickly resolved because you hear each other's side and you think no, okay you're right.*

5.5.2 Reciprocity

The analysis underlined the importance of reciprocity in ties which affected the performance of small firms at start-up. The most common resource received by participants during the start-up incidents were referrals, whether from clients, other professionals or family and friends. With the exception of Jeff, most ties at start-up involved a degree of reciprocity in exchange. Reciprocation patterns varied according to the resource exchanged and the professional status of the actor donating a resource. When moral support was offered, it was almost always reciprocated with moral support. For other types of exchange, resources were only sometimes traded on a like-for-like basis. When other professionals were involved, it was quite rare for the exchange to be reciprocal in terms of introductions. Phil commented on the reasons for this

> *One of the things I was trying to do, maybe not at start-up, but I was trying to get a relationship going with a lawyer, an accountant, a banker and a financial advisor. They're the people who most people will go and see first when they're ready to start up a business but it's very hard to get something like that going and keep it going. […] The thing is lawyers sell financial services and the financial advisor obviously sells financial services and some tax advice and the bank manager, they'll sell financial products as well. So those three, they're all kind of competing with each other. […] it would be a nice little network I think to get going if you all passed each other clients around then it would be ideal.*

It was interesting to note that all those ties which were completely non-reciprocal resulted in tie dissolution, with the participant seeing them less often or not at all, and often being less comfortable with that individual. This lends weight to the importance of reciprocity in building and maintaining the sources of social capital for small firms (Hansen 1992, 2005; Hu and Korneliussen 1997; Larson 1992; Powell 1991; Van Wijk *et al.* 2003).

In the instances in which referrals were received from other professionals, it tended to be from strong ties which existed with previous businesses, or business associations. Simon still had links with his previous business and they would refer him work that was too small for them and he would refer clients that were too big for his business. Richard reciprocated introductions to his solicitor, as did Phil with his bank manager, but generally referrals were reciprocated with other resources such as information, technical advice and moral support. Richard confirmed that solicitors and bank managers can sometimes engage in reciprocal referrals, but this was the exception nowadays:

> *Strangely enough with introductions and referrals it tends to be a one way street, more often than not. It used to be, if you knew bank managers you could introduce new clients to the bank manager if they were looking for business and bank managers could similarly reciprocate. It was a similar thing with solicitors. With solicitors and bank managers it can be more of a two way street but with other people it tends to be more often than not a one way street.*

The only instances when the participants were motivated to refer clients to other professionals, it was because the nature of professional work dictated it. For example, Richard referred clients to insolvency practitioners but the nature of their job means they will not have clients to refer back. Similarly Jeff referred clients requiring an audit to a referral partner as he could not perform audit, but commented that they never reciprocate as they are accountants as well. Patterns of reciprocity therefore varied according to the professional status of the tie and other market factors.

Those participants with a more traditional professional outlook would generally only reciprocate information and business advice to their clients, as necessitated by their professional duty. Reciprocating by brokering a potential exchange with other clients was generally avoided because of the risk the relationship between two clients might turn sour and reflect back to the broker:

> *It's like whenever I introduce two clients to each other I always say to them, that's my client and they do such and such and I don't know if they do that well and I don't know how good a payer they are. If the two of you fall out over anything, do not phone me about it. It's got nothing to do with me.[...]*

> *I don't know day to day what my clients are doing. It's made me a little bit guarded and the other thing is, talking about networking and all that* (Phil).

Sometimes reciprocating advice was avoided due to the perception of increasing regulation and a desire to protect themselves from possible lawsuits. Most participants were also reluctant to offer financial incentives to clients as reciprocation for referrals. Both Janette and Simon shared the view that financially rewarding referrals from clients was inappropriate:

> *No, we don't reward referrals. [...] We wouldn't necessarily look to reducing someone's fee for giving you an introduction but you're probably conscious when you're feeing that you'll keep their fee at the low end of the band* (Simon).

> *If we get referrals we might restrict a fee to a certain extent but not really knock money off. I can think of one instance where we've gone and helped this client sort out a computer problem. I think its unspoken* (Janette).

This finding showed that exchange in professional services aligns more closely with the notion of generalised rather than instrumental reciprocity (Portes 1998; Putnam 1993). Clients may extend a favour to the recipient accountant motivated by normative commitments such as approval, continued good service, and the symbolic value of referring their friends to a trustworthy professional. Exchange is based on social rather than market or hierarchical relations (Adler and Kwon 2002), reflecting that the building of obligations will increase the likelihood that someone will help you further down the line.

A strong contrast was evident with Jim, who actively expanded his client base during start-up through offering clients significant inducements for referrals:

> *For every referral I get off a clients I say, I'll knock fifty or twenty five pound off your bill next year and I say thanks very much. And they're quite happy. If I get a small joiner, I've got one joiner who has given me five referrals and at fifty quid, he won't pay me this year. I'll do his work but he won't pay me because he's given me… it's maybe not the right way or the official way to do things but I'm not doing anything wrong.*

Client referrals were therefore gained through rational calculations according to the notion of instrumental reciprocity (Portes 1998). Instrumental reciprocity has been noted in previous studies, for instance, in the way that actors cultivate and exploit social capital to advance their careers (de Janasz and Forret 2008; Marsden and Hurlbert 1988; Seibert *et al.* 2001) or to compete in a competitive environment (Burt 1992). Stimulating referrals in this way is not the traditional way that small professional service businesses developed their client bases. Until 1983, there were strict laws governing the marketing practices of accounting businesses. Most of the participants joined or started their practices after this time, but for those who were not in practice in this period or who were in industry, the altered market context and competitive environment may have been easier to adapt to.

5.5.3 Trust

Interpersonal trust was measured by collecting information on the reliability, openness, competence and belief in the good intentions of another party (Misztal 1996). Prior research has found that trust facilitates resource exchange, increases communication and enhances cooperation between individuals (Granovetter 1985; Misztal 1996; Rowley *et al.* 2000; Tsai and Ghoshal 1998; Uzzi 1996). Trust is therefore an important motivational source of social capital (Adler and Kwon 2002). The analysis below focuses on the trust evident in the ties mentioned in the critical episodes at start-up.

The key individuals involved in the various critical episodes were, with the exception of Jeff, characterised by a high degree of trust across all variables. The explanation for Jeff's result is that he had not known his network partners for any length of time, and trust is something which is based on continual reciprocity (Lesser 2000) which was absent from all his relationships. When asked to rate the most instrumental network ties on reliability, competence and good intent and concern, these elements were given high scores by participants. The variable for openness was rated lower, notably in the incidents where the key individual was not a family tie. These findings support the principle that relational trust, based on confidence that a trustee will act in the trustor's welfare (Rousseau *et al.* 1998), is important for small start-up firms. These ties were durable and long term (average length of tie excluding Jeff was 19 years, with the lowest 3 years and largest 40 years), suggesting that relational social capital formed from trust developed over repeated interactions. This helps to build confidence in the reliability and competence of network partners. The data and subsequent analysis confirmed that at start-up, when business owners feel more vulnerable, bonding social capital based on durable trustworthy ties are of paramount importance to performance.

In two incidents, the strong positive outcome of acquiring a significant client base at start-up was aligned to a break-down in relationships with a previous partnership. In fact this had happened in four case businesses but only two regarded the incident as critical to performance. Analysis suggests the ability to withdraw from relationships that are no longer advantageous in a previous firm was an important motivator to deciding to start a practice and affected the performance of the practice after start-up. This has been found in previous studies (cf. Grabher 1993; Miles and Snow 1992).

Over the course of time, Irene had expended considerable effort developing her network of clients. At the same time, Irene has entered into a tightly-coupled, closed network structure in her previous partnership, based on particular commitments and the requirement to observe certain norms and practices. She explained:

Internal politics kind of took over. ... I just didn't like the way the business was going. I think I just got fed up as well. I got fed up with all sorts of things. […] You're trying to do your work, you're trying to support the employees, you're trying to represent the business because, of course, you're expected to go out and get new clients and things like this, and do the work. And I would end up doing the work at night and the day was wasted in what I would consider to be non-productive work.

In all of the instances where partnership breakdown had occurred, participants stated that they felt their goals became misaligned with that of the partnership. The ties with partners from previous partnerships, based on trust, mutual dependence and reciprocity thus became 'dysfunctional effects' of social capital (Fried *et al.* 2006). At start-up, shifting conditions and perceptions which had developed in the nascent period therefore created the pressures that impelled the participants to break trust. Having gained reputation, and needed cultural and social capital from the embedded ties of a previous practice, there is still institutional freedom to dissolve these ties and enter new ones (Gargiulo and Benassi 2000). The break down of this relational social capital was traded for the network of contacts needed to start the new business. Whilst it was reported in Chapter Three that one form of capital can be converted into another form, the notion that the break down of trust and tie dissolution can be traded for other forms of social capital is an interesting finding which has yet to be explored adequately in the social capital literature.

Irene discussed the events surrounding her leaving her previous partnership:

It became messy after I'd left. I wouldn't do anything when I was an employee but there was nothing in my contract to say that I couldn't contact clients after and yes, that caused a bit of an upset but you know, they don't own the clients. The clients are free […] So when I left they followed me and then it was just word of mouth really and it got bigger.

The findings regarding the breakdown of cohesive ties, as seen when partners defect from previous partnerships and retain their clients, has been related in previous research (Gargiulo and Benassi 2000; Pennings and Wezel 2007). It is evidence that the social capital of organisations, particularly in professional service businesses, is individually anchored. Aderhold *et al.* (2001) surmised that networks are structures without clear contours with respect to the membership status and the establishment of boundaries. Given that client's build a relationship with an accountant, not the business, having a legal framework tying clients to the business is of little use. If a partner decides to leave, clients will follow them, irrespective of legal ownership. Broken trust is a liability for practicing accountants and is an inherent risk of the social capital found in partnerships. The partnership framework is therefore one which is fundamentally organised around this unstable form of social capital. Most research tends to explore the benefits of social capital (Adler and Kwon 2002; Leenders and Gabbay 1999; Nooteboom 2007). The analysis of tie dissolution and broken trust at start-up supports the view that "*trust matters, in particular in view of the negative sides of social capital"* (Nooteboom 2007: 28).

From the participants' perspective, trust in clients' involved in the incidents at start-up, was lower than for other ties to professionals, friends and family but was generally evident. When clients scored low on trust variables, it tended to be on reliability, and was lower in clients who were new to the business (had known the participant less than six months). The process of developing trust has been likened to a stage process (Lewecki and Bunker 1996; McAllister 1995) which suggests that durability is linked to trust, and therefore at start-up, lack of trust poses problems for the relationship of accountants with their clients.

When starting a new practice, a cohesive core of contacts may be the best form of social capital for entry level accounting practitioners, who need legitimacy (Burt 1992) and identity (Podolny and Baron 1997). Indeed, when looking at overall performance later in the chapter, those participants who started their firms without this critical mass of clients were at a major disadvantage. Melanie purchased her client base off her previous employer, so there was no animosity or tie dissolution, but she commented that she would never have started up without an assured client base:

> *…although I would have liked to have started up my own business, I knew the possibility of ever doing it was quite slim really because with an accountant, you're no gonnae really set up and have hundreds of people knock on your door, I mean it all takes time.*

A further benefit of bringing an established client base at start-up is that small businesses can avoid the inherent risk of starting new relationships with clients they have no prior knowledge of. At start-up, when accountants do not have prior experience of dealing with a client, trust is more difficult to form around assurance of the other's party's reliability. Whilst the client may be assured to some degree of the accountant's reputation in advance of their transaction, the accountant must build and develop trust through repeated interactions, perhaps then continuing towards further embeddedness in empathy and identification.

The only instance in which trust was low for a client was when the scenario had involved the break-down of a relationship with a client. Even in this circumstance, the client was trusted in terms of reliability and competence, but was highly distrusted in terms of good intent and openness. This particular client had broken the trust in their relationship by insisting that Simon alter his professional opinion on an audit:

> *He tried to interfere with our audit independence, which is something enshrined, it's something that's not on and that was very much a family split. We knew where the line was. […] I'm sure there was some conversation but at the end of the day the argument was with us and the way that we saw*

things. I think to some extent it was you're two boys and you're not telling me what to do and I think a lot of it was down to that (Simon).

The importance of co-creation and interdependence in the professional services makes trust of paramount importance.

5.5.4 Strength of Ties

As discussed in Chapter Three, tie strength has been an important concept in network research (Aldrich *et al.* 1987; Hills *et al.* 1997; Jack 2005; Marsden and Campbell 1984). This section will discuss the relative influence of weak and strong ties for gathering needed resources at the nascent and start-up phases. Granovetter (1973: 1361) pointed out that the strength of a tie is "*a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services that characterize the tie"*. Weak ties, those typified by distance and infrequent interaction, have been shown to be important in gaining access to non-redundant information which may be important for identifying opportunities when starting a business (Granovetter 1985; Hansen 1999; Uzzi and Lancaster 2003). However, the analysis found a preponderance of strong ties, which is less commonly acknowledged in the entrepreneurship literature but has been shown to be important for young ventures (Jack 2005). Encouragement from friends and family, for instance, has been strongly associated with probability of entry and successful exploitation in the gestation period (Davidsson and Honig 2003).

Weak ties

When examining incidents at the start-up phase, there were only three instances in which weak ties were seen as the most instrumental in the incident discussed. These ties were important for 'bridging' the business to referrals from a broader range of clients that would have been otherwise accessible. For Simon, meeting a solicitor was instrumental in helping his business to recover from a forty per cent loss of fee income in the first year of business. He commented:

> *In that respect [the solicitor] was quite key because I picked up quite a lot of work in quite a short amount of time that I needed at that time […] That area was also significant for more proliferation because that led to me getting more work that I wouldn't have got access to had I not originally got in through [the solicitor] on the very first one. I got the first one which then led to getting about four or five in the same area and then that also led me to getting more that were outside of that particular area being referred to me. That led to a much wider spread of new clients than I would have otherwise got.*

This finding provides some support for research which has shown one of the benefits of bridging social capital (Burt 1997; Burt *et al.* 2000; Woolcock 1998). However, although such ties can be classified as weak, in that they are based on distance and infrequent interaction, results question the extent to which these ties were in fact 'bridging'. Bridging typically refers to ties that are socially diverse (Woolcock 1998), heterogeneous and may have diverse interests and moral perspectives (Wellman *et al.* 2001). Two of the three crucial weak ties were to other professionals: a solicitor and an accountant. It may be the case that links between professionals are more likely to be based on homogeny in terms of overlapping boundaries and moral values (Svendsen 2006). This suggests that the positive resource benefits of 'bonding' weak ties that connect the business owner to information, advice and client referrals. This finding supports recent research by Reagans and McEvily (2008) proposing that brokerage and closure can be compatible and complementary in resource exchange.

An important question which social capital studies have rarely tried to answer is what motivates weak ties to donate required resources to the emergent business (Portes 1998; Shaw 2006). Some participants indicated that they had reciprocated, signaling a rational explanation of exchange (Portes 1998). For others, weak ties with individuals in external organisations could assist in gaining resources due to the existence of consummatory sources of social capital: a sense of bounded solidarity with the individual (Coleman 1990; Portes 1998). Phil summed this up this situation by commenting:

> *At start-up I remember getting a great amount of goodwill from other people in business. They get you clients. I think it's because they remember what it was like when they first went self-employed and how hard it was, you know, to get new business and all that and people will actually go out of their way to help you. It's like a honeymoon period. Not so much other accountants although saying that my old boss subcontracted me some work.*

Relationships with external organisations such as banks were also sources of new clients. For instance, Irene was invited to several functions by her bank where she acquired clients. The general feeling though was that ties with banks had become weaker and less useful since start-up as banks tend to rotate their staff and take less interest in proactively managing their small clients these days.

Strong ties

Data collected during phase two interviews served to underline the importance of strong ties. In general terms, most participants stated that they had found the networks of their family and friends useful in gaining referrals for their business, as Phil remarked:

> *Over the years I've had a lot of friends refer me work. [...] My younger brother, he got me quite a few good clients actually, at the start and he continues to do so actually.*

Some entrepreneurship studies have also identified that initial opportunities and resources are found within the relationally embedded ties of social networks, such as family and friends (Hite 2005; Hite and Hesterly 2001; Larson and Starr 1993). Kinship ties have, on the other hand, been shown in some studies to provide lower levels of new information and may therefore be less helpful to new businesses (Marsden 1990; Renzulli *et al.* 2000). Kinship ties were not useful for gaining information and technical advice, with the exception of Joyce, whose partner was also a Chartered Accountant. The general view was that partners and children were useful as a sounding board for advice and encouragement, confirming that kinship ties have a motivating influence on the decision to start up (Jenssen and Koenig 2002). Kinship ties did not, however, contain information or advice to help deal with problems and issues surrounding business ownership and professional practice.

Analysis of the start-up incidents revealed in multi-partner practices, the most influential individual identified in the episode was commonly the business partner. Partnerships tended to be formed with strong durable ties, particularly from previous organisations. The partnership structure, it has been suggested, offers accountants the benefits of expanded expertise, shared vision, and contribution to the practices running costs (Cohen 2006). The shared vision and shared economic risk mean that owning partners are bound together and gain the benefits of solidarity. In terms of expertise, having two partners enables the practitioners to specialize in certain areas that create competitive advantages for the business. In Janette's business, she specialized in audit whereas her partner specialized in tax. In Irene's case a similar scenario occurred although she specialized in accounting and her partner specialized in tax. She commented that at the start-up phase:

> *… the combination of having me and Teresa together was very attractive for a lot of people because often people need both: they need the accounts aspect and they need the tax aspect. So to have Teresa and me as well was very much an added bonus so we got a lot of clients that way.*

In Simon's business, the two partners focused on different sectors and gained benefits from tacit knowledge and a specialized understanding of these separate sectors and groups of businesses. Being in a multi-partner practices was therefore beneficial to small businesses, adding important resources such as clients, expertise and support and helping to create competitive advantages in the range and the quality of the services they could offer. The partnership structure offers capital benefits for small practitioners in the form of shared expertise (cultural capital), support and solidarity (social capital) and contributions towards running costs (economic capital). Attention will now turn to social capital at the development phase.

5.6 The Development Phase

To set the context, the literature has for some time called for an understanding of the dynamics of entrepreneurial networks (Aldrich *et al.* 1990; Elfring and Hulsink 2007; Hite 2005; Hite and Hesterly 2001; Larson and Starr 1993; Human and Provan 2000). Research has suggested that the characteristics of network ties may change as the resource needs of the organisation change (Larson and Starr 1993; Maurer and Ebers 2006; Uzzi and Gillespie 2002) or as ties evolve to becoming more relationally embedded (Granovetter 1985; Uzzi 1996, 1997, 1999). The section below will discuss the analysis of the resource needs, and the structural and relational dimensions of the ties important in incidents at the development phase, concluding with a discussion of the relative importance of strong and weak ties.

5.6.1 Resources Needs at the Development Phase

Overall, the data demonstrated that resource needs were different at development from start-up and that the ties used to access needed resources were also distinct. At start up, the most needed and valuable resources in the incidents discussed were introductions to build a client base and advice and support, which were mainly from client referrals and strong ties. At development, resource needs were more varied and included ideas, advice, technical help and moral and emotional support, and specific types of ties were used for accessing these resources. For instance, at the development phase it was predominantly strong ties that were used for support, whereas weak ties were also used for this purpose at start-up. At development, participants appeared to be more strategic about which ties they use to access certain resources.

Research examining performance tends to look at the resources required for positive changes to performance and therefore there is a paucity of research on the resources which are required to cope with negative incidents. A far greater number of negative incidents were mentioned during the development phase, and it is apparent from the data that the resources required to deal with negative situations are different to those of positive ones. The closure of a regional office, divorce and the end of a partnership, and losing numerous members of staff in quick concession were traumatic events for the participants that require information and moral support. The quality of information has been shown to be more finely grained in strong ties, with better access to moral and emotional support. The data confirmed that when such resources are sought, participants' tended to use their social network. James discussed the critical impact of divorce on his business and highlighted the importance of strong ties for this support:

> *Certainly within the business I didn't get any or much support at all and certainly I didn't feel like sharing my feeling. When you're going through a divorce there are all sorts of problems, there are financial ones, which you*

maybe don't want to voice in the office, obviously massive emotional ones… I mean I had a son as well who was only nine months old at the time, so that really came at me from so many different angles that I was really struggling just to keep it all together. My family were the biggest support […] plus some really good friends.

At the development phase, most of the resources which were exchanged in the positive scenarios included introductions to others, although it was not always the key outcome off the critical episode. Two of the positive episodes involved the participant joining an external organisation which changed their thinking about the business, and therefore had a long-term unquantifiable impact on performance. Entering into these external organisations was a way gaining access to resources on the basis of structural embeddedness and solidarity with the organisation.

5.7 Structural Dimensions of Social Capital at Development Phase

The range of critical episodes identified after the first year of trading were more varied, covering the themes of staffing, marketing, operations, and personal and client circumstances. There were also more instances of episodes that were negative to performance (7) than in the start-up phase (1), and outnumbered the episodes which covered positive changes in performance (5). Sometimes the implications to the change in performance were less tangible, for example covering episodes which changed the practitioner's outlook for the business, or resulted in the end of a partnership. The details of the incidents are summarised in a Table 5.5:

Table 5.5: Structural Features of Social Capital at Development Phase

The contact indicated in **bold** is the individual identified as most important in the incident discussed.

Key

Knows others:
A= Knows all
S= Knows some
N= Doesn't know anyone
W= Knows well
SL= Knows slightly

Network description:
L= Large
S= Small
LO= Loose
T= Tight
U= Useful
NU= Not useful

Participant and age at time of incident	Size and composition of important contacts (most important contact in bold)	Length known (years)	Knows others	Network description and usefulness	Outcome
Patrick 1	50 year old female managing director (client) 47 year old male financial director (client) **38 year old male managing director (client)**	3 20 **1**	A, W A, W **A, S**	L, T, U L, T, U **L, T, NU**	**Positive: Referral for client which doubled turnover.**
Patrick 2	**42 year old male financial director (client)** 60 year old male managing director (client)	**1** 1	**A, W** A, W	**L, T, NU** L, LOandT, NU	**Negative: Loss of major client (50% turnover)**
Henry	40 year old female accountant (partner) **44 year old male accountant (partner)** 44 year old male accountant (new partner) 35 year old male recruitment consultant	8 **8** > 1 > 1	S, W **A, S** S, W S, W	S, LO, NU **S, LO, NU** - L, LO, U	**Negative: Restructuring and increased workload due to female partner leaving**
Gavin	45 year old male accountant	2	S, SL	L, T, NU	**Positive: Core of**

	42 year old male managing director (client) 45 year old male accountant **40 year old female accountant (employee)**	7 5 **8**	S, SL S, SL **A, S**	S, T, NU L, LO, U **S, T, U**	**business changed**
Andrew 1	27 year old female accountant (employee) 27 year old female accountant (employee) **45 year old male accountant (partner)** 40 year old male accountant (partner) 28 year old female housewife (spouse)	5 0 **14** 14 13	S, W S, W **A, W** A, W A, SL	L, T, U S, LO, NU **L, T, U** L, LO, NU S, T, NU	**Negative: Closure of office and loss of five members of staff**
Andrew 2	**35 year old male accountant (partner)** 40 year old male accountant (employee) 28 year old male accountant (employee)	**12** 3 8	**A, W** A, W A, W	**L, T, NU** L, T, NU S, T, NU	**Negative: Closure of office which was a large drain on resources**
Janette	**22 year old male managing director (client)** 60 year old male managing director (client)	**1** 4	**A, W** A, W	**L, L, U** S, T, NU	**Positive: Gained new key client**
Samuel 1	**50 year old male financial advisor (brother)** 35 year old male bank manager	**50** 2	**N** N	**S, L, U** L, L, NU	**Negative: Lost 4 members of staff**
Samuel 2	**25 year old female mentor** 50 year old female carer (spouse)	**>1** 20	**N** N	**S, T, U** S, T, NU	**Positive: Joined organisation which changed thinking**
James	46 year old financial advisor (brother) **44 year old female housewife (sister in law)** 45 year old male engineer (friend)	46 **10** 30	A, W **A, W** A, W	L, LO, U **L, T, NU** L, LO, U	**Negative: divorce and break-up of partnership**

	40 year old male accountant (partner)	10	A, SL	L, T, NU	
Jim	58 year old male managing director (client) 50 year old male estate agent (client) **35 year old male manager (client)** 25 year old male tradesperson (client) 45 year old male mortgage consultant (client)	>1 3 **>1** 1 2	N S, SL **N** N S, SL	L, LO, U L, LO, U **S, LO, U** S, LO, U L, T, U	**Positive: Gained referrals for circa 15 new clients**

5.7.1 Range

Overall, patterns of *homophily* in the ties were less strong than at the start-up phase. The age range of contacts was more varied than at start-up, particularly in the incidents which had a positive outcome on the performance of the business, with younger ties being mentioned more often. These ties were useful for a range of resources such as referrals, information, advice and moral support, although not for discussing important personal matters. Age *homophily* has been shown to be important for this particular function (Marsden 1988). With regards to occupation and education, there were a large number of other accountants in the networks mentioned (14 out of 36). These ties were prominent in most of the negative incidents due to the incidents relating to changes to the partnership and operations, the details of which are discussed below. The remainder of ties were mostly clients, so were either small business owners or managers in a variety of industries. Only three contacts out of the thirty six mentioned by the participants at the development stage were non-client contacts from out-with the business: a bank manager, a recruitment consultant and a mentor from an external agency. This indicated that accountants did not make use of external agencies, organisations, or other professionals during periods of critical change in performance when their firms were established. Instead resources were gathered from clients, family, and other individuals working within their organisation.

At the development stage there were four critical incidents that revolved around partner differences, or the break-up of a partnership. Given the findings at the start-up phase, tie formation with partners were generally based on *homophily*, so it would suggest that *homophily* is also linked to tie dissolution. James experienced two partnerships ending. One had failed because they did not share similar values and he felt his partner threatened his professional position. He had trained with his other partner and both *value* and *status homophily* were strong. However, he found that when he was going through adverse personal circumstances, his partner did not support him. The personal crisis caused a change in the supportive structures and communications processes of the relationship which led to its breakdown. Although evidence is limited on tie dissolution, *homophilous* ties which have formed in organisational structures have been shown in other research to decay under such conditions (McPherson *et al.* 2001; Burt 2000). This represents a risk of social capital: that the considerable time and effort spent building relationships is based on unwritten obligations which may not be honoured by the other party (Adler and Kwon 2002)

The role of personal circumstances was also evident in two of the other partnership incidents. For Henry, changes in the personal circumstances of a partner led to her decision to leave the practice and go into industry. The partner had been with the practice for twenty years, but since having children found the time demands of the role too much of a strain. The fact that the participant also had two young children seemed to further compound his confusion at her unexpected departure, as he commented:

> *I just can't get my head around it myself. To me I mean I've got two children and I just think that when they go to school they'll get childcare, after school childcare, because I can't get them at three O'clock. I wouldn't try to get there for three o'clock because I know I would never make it. Things are only going to get better… you're through the worst of it. I'm sure that she had her reasons, I just can't get my head around it all.*

This represents the reverse of James' situation. In this incident, it was the participant being interviewed who had not provided the support and empathy required by his partner. If a woman decides to have children after starting a business, this will potentially misalign their interests with that of the partnership. It may also be due to the fact that women have traditionally assumed primary childcare responsibilities (Biernet and Wortman 1991; Brush 1992; McPherson and Smith-Lovin 1986; Salaff and Greve 2004; Sayer 2005). All of the women in the sample had chosen to start their businesses *because* their children had grown up and required less attention. This is in contrast with previous studies that have shown women often decide to start their own business to have more flexibility to work around their children (Bradley and Boles 2003; Cromie and Hayes 1991; Marlow 1997). This pattern was not found amongst males, many of whom, (Richard, Phil, Henry, James, Samuel and Gavin) had run their practice with young children at home.

The underlying issue in the break down of these close ties based on *homophily* is that they may carry risks if changes to individual circumstances contradict the underlying interests of the other partner(s). The social capital risks associated with bounded solidarity and the possible reversal of support mechanisms has been suggested in other research (Adler and Kwon 2002; Brass *et al.* 1998; Portes 1998). Reciprocation, honouring obligations and other social capital benefits are usually based on norms and unspoken expectations from the other party. The strong tendency towards *homophily* in partnerships, and the common occurrence of the dissolution of these ties, supports the notion that the patterns of tie dissolution mimic those of tie formation (McPherson *et al.* 2001). Therefore it may be important for *value* and *status homophily* to exist when the partnerships form, but this might not protect the relationship from tie decay in the development stage, when these values may change.

Another threat posed by the range of partnership ties at the development phase was that if a number of the partners were all nearing retirement, this could pose significant issues in terms of succession. In James' four partner practice, for example, two partners were considering retirement in the next couple of years. James commented that:

> *I think we would all take a reduction in profits to ensure continuity. I think the danger is, and again this is something that has happened over the last few years and again this is because of all the changes in legislation, there are less and less people prepared to come in to the profession, less and less people prepared to take on the responsibilities of partnership and as a result of that, to get continuity of the practice is much more difficult.*

Succession emerged as an important problem for accounting practices and one which *homophily* in partnership ties could aggravate.

In the start-up section it was mentioned that clients seem to prefer accountants who shared *status homophily* to some degree, but the range of clients mentioned at the development phase incidents tended to be fairly varied in terms of age and occupation. One reason for this was that the significantly younger clients were referred to the accountant by a family member who was an existing client. This is one manner in which professionals may be able to overcome some of the problems that *homophily* can pose during the development phase, when an ageing client base can pose a threat to the longevity of the business.

5.7.2 Density

At the development stage the density of important ties was much higher than at start up. Most network ties knew most of the other network ties well or slightly (with the exception of Samuel and Jim's network), and this was evident in the social and inter-organisational network ties that were mentioned in both positive and negative incidents. The data supports previous research that suggests as networks develop over time, they become ‘closed’, allowing embedded institutional actors access to social capital from the development of norms and the constraint of opportunism which enables co-operation (Bourdieu 1980; Coleman 1990; Granovetter 1985; Walker *et al.* 1997). The emphasis on dense networks as a resource has been reported in other studies (Lin *et al.* 1981) but has only limited evidence in entrepreneurship studies, such as those examining ethnic business (Light and Bonacich 1988; Portes 1987; Nee *et al.* 1994; Zhou 1992). There were a slightly higher proportion of the contact ties having a tight network (19) than at start-up, many of which were not useful (11) although this is explained by the fact that these network ties were often complicit in negative incidents for the business.

Some of the dense network ties were with other accounting businesses, in formalised stable networks. Networks, such as Business Networking International (BNI), have explicit closure: there is only one representative from each sector who is permitted to join the network, on the principle that work of that nature will then be passed to the representative from that profession. Other networks, such as Probiz and RanOne were specifically for accountants, and closed off to those who had not paid their membership and officially joined the network. Information, training and support were the principal resources made available to the members of these networks. These co-operative networks were of more value to the performance of participants’ firms than bridging structural holes. This finding supports Coleman’s (1988, 1990) view that where relations are dense, members trust others to provide reliable information, and actors are bound together in mutually beneficial ways. This also supports recent research which found that whilst structural holes may be useful for opportunity recognition, they have a negative impact on resource acquisition, for which closure is most important (Bhagavatula *et al.* 2009). Given that the participants’ reputation, accreditation and clients were exposed in these exchanges, it is imperative that the quality of information and support they receive is assured. Contrasting this situation with that of research and development scientists (Gabbay and Zuckerman 1998) or biotechnology businesses (Maurer and Ebers 2006), it is likely then that the nature of information and level of trust required determines the relative benefits of dense as opposed to sparse networks.

Resource dependency approaches posit that member's of an organisational network benefit when uncertainty is reduced for other members and rewards are central to the organisations tasks (Blau 1964; Borgatti and Foster 2003). Gavin's discussion of Probiz underlined the importance of the resources offered by this network, and the reduced risk he perceived in using a formal network channel:

> *The strengths that Probiz gives to us are the tax strategies and the ability for us to offer the services that the big businesses offer, by virtue of having this back office, as it were.[…] And its non-competitive, whereas with the smaller businesses, there's a perceived threat there. If you go in through a network channel, that threat is reduced and I find the network quite useful from that point of view.*

The density evident in network relations at development in these inter-business alliances suggests that, for small professional practices, pursuing a collective strategy focusing on mutual benefits and embeddedness is a useful means for deepening partner-specific knowledge and expanding the scope of their services (Jones *et al.* 1998; Khanna 1998; Uzzi 1997). Exploitation of profitable opportunities within an industry network, seen as entrepreneurial behaviour by Burt (1992), may be construed as opportunism or self-interest, which had recently occurred with members of Probiz wanting to branch out into selling real estate to clients. Boundary-spanning bridge positions, it has also been postured, are powerful in gaining leverage and resources, as actors in these positions hold resources on which others depend and absorb the uncertainties faced by others (Burt 1992; Fleming and Waguespack 2007). If risk reduction is a key motivation for the owners of small professional practices, bridging sparse networks is unlikely to offer the same benefits as nestling within dense interconnected ones. The importance of density has also been found in other studies where individuals invest in low-risk relationships for highly technical informational resources (Walker *et al.* 1997).

Other dense network ties mentioned at the development stage were mostly business employees or partners, and family. The high density of these ties was due to contextual factors and it was interesting to note that these ties were generally involved in incidents which were negative for the business. At such a crisis point, it might be expected the actor would look to a less dense network ties to garner resources required to deal with the negative incident. The findings demonstrate that in the search for moral and emotional support, participants tend to turn to the immediate close social network ties.

5.8 Relational Dimensions of Social Capital at the Development Phase

Findings to emerge from the analyses of data regarding factors at the development phase have been organised around the same concepts as start-up: content, reciprocity and trust. A summary table of the findings are included in Table 5.6:

Table 5.6: Relational Components of Network Ties at Development

The most important tie is indicated in **bold**. Ties types were clients, interorganisational networks, family, friends, partners, employees and external organisations. Questions with numerical responses were derived from a Likert scale (5= Very high; 4= High; 3= Average; 2= Low; 1= Very low; -= Not rated).

Key: What is discussed:		What is offered:	
	C= Client business		ADV= Business advice
	F= Finance		DISC= Discretion
	G= General social chat		FIN= Finance
	M= Marketing		INTRO= Introductions and referrals
	O= Operations		NONE= No resources
	P= Personal matter		SUPT= Emotional and moral support
	S= Staffing		TECH= Technical advice
	T= Technical information		TRUST= Trust

PARTICIPANT	NATURE OF TIE	WHAT IS DISCUSSED	RESOURCE OFFERED	RECIPRO-CATED	TRUST				OUTCOME
					Reliability	Openess	Competence	Good intent and concern	
Patrick 1	CLIENT	C	INTRO	ADV	5	5	5	4	**Positive: Referral for client which doubled turnover.**
	CLIENT	**F, L, S, E, G**	**INTRO, ADV**	**ADV**	**5**	**4**	**5**	**5**	
	CLIENT	C	NONE	ADV	5	**-**	5	5	
Patrick 2	**CLIENT**	**F, L, S, M, P**	**NONE**	**ADV, DISC**	**4**	**3**	**5**	**4**	**Negative: Loss of major client (50% turnover)**
	CLIENT	C, G	NONE	ADV, DISC	4	5	5	5	
Henry	PARTNER	F, L, S, M, P	NONE	NONE	2	1	5	3	**Negative: Restructuring and increased workload due to female partner leaving**
	PARTNER	**F, L, S, M, P**	**INFO, SUPT**	**INFO, SUPT**	**4**	**4**	**5**	**5**	
	PARTNER (NEW)	F, L, S, M	FIN	INFO, INTRO	-	-	-	-	
	EXT ORG	S, G	INTRO	FIN	4	4	5	4	
Gavin	INT-ORG NETWORK	T	INFO, TECH	INTRO	4	4	5	5	**Positive: Core of business changed**
	CLIENT	C, G	INTRO, TRUST	ADV, SUPT	5	4	5	5	
	INT-ORG NETWORK TIE	O	INFO, TRG, SUPT	NONE	4	3	4	4	
	EMPLOYEE	**F, L, S, M, P**	**INTRO, INFO, TECH, SUPT**	**INTRO, INFO, TECH, SUPT**	**5**	**5**	**5**	**5**	
Andrew 1	EMPLOYEE	F, L, S, M, G	INTRO, ADV	TECH, TRG	5	3	4	5	**Negative: Closure of office and loss of five members of staff**
	EMPLOYEE	F, L, S, M, G	TECH	TECH, TRG	4	2	4	3	
	PARTNER	**F, L, S, M, G, O, P**	**IDEAS, SUPT**	**IDEAS, SPT**	**4**	**4**	**4**	**5**	
	PARTNER	F, L, S,	IDEAS	IDEAS	4	4	5	4	

	FAMILY	M, O P	SUPT	SUPT	5	5	4	4	
Andrew 2	**PARTNER**	**F, G, P**	**TECH, FIN**	**TECH, ADV**	**4**	**4**	**4**	**3**	**Negative: Closure of office which was a large drain on resources**
	EMPLOYEE	F, G	TECH, ADV	TECH, ADV	4	3	4	3	
	EMPLOYEE	F, G	TECH, ADV	TECH, ADV	4	3	4	3	
Janette	**CLIENT**	**C, G**	**INTRO**	**ADV, SPT**	**4**	**4**	**4**	**4**	**Positive: Gained new key client**
	CLIENT	C	INTRO	ADV	3	4	2	3	
Samuel 1	**FAMILY**	**F, L, S, M, C, P**	**INTRO, ADV, SPT**	**INTRO, ADV, TECH, SUPT**	**5**	**3**	**5**	**5**	**Negative: Lost 4 members of staff**
	EXT. ORG	F	FIN	INTRO, FIN	3	3	3	3	
Samuel 2	**EXT ORG**	**F, L, S, M**	**INFO, TRG, SUPT**	**NONE**	**4**	**4**	**3**	**4**	**Positive: Joined organisation which changed thinking**
	FAMILY	P	SUPT	SUPT	4	3	3	5	
James	FAMILY	G, P	SUPT, INFO	ADV, SUPT	4	5	4	5	**Negative: divorce and break-up of partnership**
	FAMILY	**P**	**SUPT**	**SUPT**	**5**	**5**	**5**	**5**	
	FRIEND	G, P	INTRO, SUPT	SUPT	5	5	5	5	
	PARTNER	F, L, M, S	NONE	NONE	5	3	4	1	
Jim	CLIENT	C, G	INTRO, SUPT	INTRO, SUPT	5	3	4	4	**Positive: Gained referrals for circa 15 new clients**
	CLIENT	C, G	INTRO, SUPT	INTRO, SUPT	3	4	4	4	
	CLIENT	**C, G**	**INTRO, SUPT**	**INTRO, SUPT**	**5**	**4**	**4**	**4**	
	CLIENT	C, G	INTRO, SUPT	INTRO, SUPT	5	4	4	4	
	CLIENT	C, G	INTRO, SUPT	INTRO, SUPT	3	4	4	4	

5.8.1 Content

Studies in entrepreneurship have identified that business owners will often become friendly with clients and share numerous contents as the relationship develops over time, to build a stronger relationship (Jack 2005; Shaw 2006). The content of ties with clients in the development stage was generally only client business, meaning that information and advice would be exchanged for economic compensation. A number of ties contained some normative expressions of friendship such as social 'chit chat' (Patrick, Gavin, Jim). Normative contents were found more with male participants than female, and were often based around sport, which helped to form stronger ties with external individuals in these incidents as well as clients. Henry, for example, reported the recruitment of a new partner came from the relationship he formed with a recruitment consultant:

> *We got chatting away and talking about formula one. We chatted about sport for about an hour and a half and he said have you got anything coming up in the medium term and I said we're actually looking for a partner. He's was seeing someone that day and the chap he saw that day then came and saw us.*

The motivation of ties to donate resources may be stronger when there is more than purely business content present within the relationship. The increased propensity of males to form ties with social as well as work-based contents has been noted by Ibarra (1997) to explain why females may be less able to draw resources from their network ties.

Overall, apart from some normative content, the content of ties with clients was fairly limited at the development phase which, as already discussed, could be attributable to the characteristics of professional services and particularly the accounting sector. Results suggest that even when audit is not undertaken, as was the case with many of the small firms in this study, accountants were careful to maintain their independence from clients. Janette's comment about one of their most valued clients underlines the need for uniplexity, which is useful for both the client and the accountant:

> *There's nothing more, it really is a very strict business client relationship. They've had big marketing functions we've never been invited to, and I mean big publicity functions, and we've never been invited to them. At the time I think 'Humph' but I can completely see why. It's black and white, and from that point of view it makes it easy.*

Professional relationships necessitate separation, as Irene commented: "*friendships can compromise that relationship so it's not a good place to be in, and you shouldn't be there. I think professions are pretty similar in that way".* Relationships with clients still display features of strength and durability, but do not acquire multiplex contents in the professional context as they might in other sectors.

Another key pattern in content was the absence of bartering-exchanges in tie content with clients. Previous small business research, such as a study by Shaw (2006) found that owner-managers often received in-kind rewards from clients such as complimentary hospitality and reduced price goods and services, which served to widen the resource base of the business through its development. As with friendship contents, it was the underlying principles of professionalism that prevented accountants from receiving such resources, as Irene explained:

> *The client who I resigned from, the big client, he offered me two tickets around the world after he sold his company and I refused because at that time we were still acting for him and it would have been, I would have put myself in a situation where I would have owed him something and it wasn't worth it. I would* never*, I really would* never *allow myself to owe a client anything because you just don't know what they might ask you for later on. You cannot get yourself into that situation.*

Unlike previous findings in the creative (Shaw 2006) or hospitality (Lowe 1988) sectors, professionals stress the importance of not owing your clients anything, even though it may provide the business with access to additional resources. Gift exchange is viewed by Bourdieu (1980) as symbolic capital, which disguises the setting up durable relations of reciprocity, domination and institutionalised obligation. As professionals are required to be objective and independent, the obligations formed through bartering exchanges could be seen as unacceptable to the owners of small accounting practices.

For ties amongst partners and employees, multiple contents were found: information, normative, business support, technical help, and moral/emotional contents. Multiplexity was only strongly evident in these internal business ties, which is at odds with other entrepreneurship studies which have found multiple contents important in allowing resource exchange in ties to competitors and customers (Brown and Butler 1995; Human and Provan 1996; Johannisson *et al.* 1994). It does, however, provide support for the limited body of small firm research examining the professional service context (Lazega and Pattison 1999). Kinship ties, prevalent in many of the negative incidents, tended to contain only personal content, and were used for support rather than advice. When examining the ties which were cited as most instrumental in the incidents at development, almost all contained content which was moral and emotional support. As was found at start-up, the importance of this support was an important factor for dealing with development issues, supporting previous small business research which has found that network relations are important for emotional support (Bruderl and Preisendorfer 1998) and enhance persistence to stay in business (Gimeno *et al.* 1997).

5.8.2 Reciprocity

Reciprocity was again evident in the relationships at development. As sources of social capital, clients were often motivated to donate introductions and referrals to other clients. Participants generally said that this was reciprocated through their discretion, hard work and good advice. The findings suggest the social capital resources which are exchanged in client relationships are subtle and intangible. A referral will be donated in the expectation that they will be treated fairly and be given good advice from the accountant in the future, rather than reciprocated with any direct or economic form of resource. Clients of small accounting practitioners may also depend on their relationship with the accountant for reputational or signalling content (Deeds *et al.*1997; Higgins and Gulati 2000; Shane and Cable 2002). It was also commonly reported by participants that the choice of accountant can serve as an important signalling factor to other organisations that clients may have involvement with, such as banks.

In some instances, more resources were donated by the participant than were gained. The nature of the accountant's position means that they are often primary sources of advice and information for small business owners. Even in ties which were family-based, it was often the participant who was donating information, advice and moral and emotional support in exchange for less diverse resources such as advice or moral support during these periods of change. It was noteworthy, however, that the most critical ties had fairly equal reciprocity. This may imply that the extra effort required to sustain non-reciprocal ties reduces their value. It could also be due to the fact that key ties tended to partners and family members and that these types of strong relationships tended to be more reciprocal than weaker ties.

5.8.3 Trust

Despite its recognised importance, limited research exists examining how trust evolves during and interacts with the business owner's network development. In response to this, recent research by Smith and Lohrke (2008) has proposed a model that suggests an entrepreneur's exchange relationships vary between affective and cognitive trust as the business owner moves through the network development process. At start-up the business owner relies on ties containing affective trust, which was confirmed by the findings. This was principally because of the large number of strong ties, particularly kinship ties which were used by business owner's during the early stages of the venture.

These findings were replicated at development, with almost all most important network ties showing high levels of this form of interpersonal trust. For weaker ties, the findings aligned more closely with the stage models of network development but with some important modifications.

From the participants' perspectives, building trust was seen as critical to their client relationships. Participants seemed to understand the implications of trust from the clients' perspectives, given the accountant takes responsibility for their economic and legal welfare, as Samuel's comment illustrates:

> *A lot of what we do is about trust. I mean, people don't want to be going over the fine detail: they want to just say that he'll do this and it goes back to that. It's about comfort and peace of mind.*

In terms of clients, the findings indicated that participant's trust of their clients was generally stronger at the development phase, supporting the notion that cognitive trust had developed. Cognitive trust forms when a person makes a conscious decision to trust based on the knowledge that he or she has (McAllister 1995; Smith and Lohrke 2008). From the participants' perspective, they must trust their clients are giving them honest information from which to do their accounts. For this reason, completely new clients and new businesses could be a greater risk. The notion that trust develops over repeated interactions and takes work to develop was found in Hite's (2005) study and Irene's comment demonstrated this view of client relations:

> *I don't like new clients in the sense, completely new clients, you have to put quite a lot of work in to prove yourself or to make them happy, and to make them trust you.*

This comment also demonstrates the manner in which the participants would take an active role in developing trust, as opposed to the traditional view that trust is something which develops as a more passive outcome of repeated interactions (Williams 2007). If trust had diminished with clients because they were unreliable, incompetent or not open, many participants reported that they would resign from the clients or act in such a way that the client would leave voluntarily.

One way to explain the development of trust between clients and practitioner's when not based on social interaction is that in a business to business context, it accrues from mechanisms such as service quality (Gounaris 2005). Janette, for instance, discussed gaining an important client whose commitment to the business increased incrementally as a result of the work ethic they had demonstrated:

> *Our work and our service was such over the next one or two years, we met with him and brought up the subject, well he actually brought up the subject of us doing his payroll. So since then he's really committed and since then, he's expanded and we've taken on another three companies.*

Also, although the relationships did not contain social or friendship contents, they appeared to develop an affective component. Smith and Lohrke (2008) see affective trust as stemming from an entrepreneur having genuine care and concern for an exchange partner's welfare. In many of the client relationships the participants discussed, the real concern for the clients business was evident. Gaining clients' trust was sometimes seen as a 'watershed' for the participant (Gavin), or helping clients and seeing their business succeed was a major source of personal satisfaction (Janette).

Cognitive trust was also evident in interactions between the participants and other organisations, such as network organisations (Gavin, Samuel) and banks. Phil's comment summed up this process. He needed to build trust with his bank manager in order to reduce any perceived risk and uncertainty the bank manager might have in referring his clients:

The bank manager, you're trying to get rapport with the bank manager to get you clients so you have to try to get him to kind of trust you and let him see that you know what you're talking about because if he hands someone over to you and we make a mess of their affairs, it backfires.

In common with a study by Levin and Cross (2004), it was found that the use of trusted weak ties, where trust may be based on competence rather than benevolence, is important for tacit knowledge exchange, such as the exchange of highly technical information. A formal professional organisation, such as Probiz, can provide access to technical tax information but importantly provided safeguards against malfeasance for the business owner. At the development phase, there was some evidence then to support the use of weak ties to access needed information resources, but no indication that these exchanges led to the development of an affective component, as was found in studies by McAllister (1995) and Hite (2005). The findings therefore confirm and add to a more nuanced understanding of how knowledge based resources may be accessed from social capital in professional services organisations. Using Adler and Kwon's (2002) three category description, technical information may be accessed effectively through weak ties (opportunity) which are trusted due to their high perceived competence (ability) and because they are stirred to act from norms of reciprocity and bounded solidarity (motivation)

The incidents which involved the breakdown of a partnership at development had by far the lowest ratings for trust out of all network ties, particularly on openness and good intent and concern. Trust in these relationships had effectively been broken and, for James and Henry, this trust had both affective and cognitive aspects: affective, in that it was based on identification and belief in the partner's good intent and concern (Lewicki and Bunker 1996); and cognitive, in that it was based on prior knowledge of the person and familiarity (Hite 2005). Current partners, on the other hand, scored very highly on all the variables of trust, particularly in good intent and concern.

5.8.4 Tie Strength

In relation to the relative value of strong and weak ties at the development phase, there have been mixed findings to date (Evald *et al.* 2006; Fleming and Waguespack 2007). If relationally embedded ties evolve, some research has found that relational and cognitive lock-in may occur (Maurer and Ebers 2006) showing strong ties to impede performance. Research has confirmed that in the search for opportunity and additional resources to support growth, weaker ties based on market exchange tend to be of more value (Hite and Hesterly 2001; Larson and Starr 1993). However, such research has tended to focus on hi-technology businesses and the findings for small professional businesses which rely on the development of trust and relational embeddedness for referrals may be different.

Weak Ties

Nearly half of the most instrumental ties in the development phase were weak ties which showed a strong contrast with the findings at start-up where weak ties were rarely instrumental. Other research, for instance studies looking at the career development of managers, have confirmed that strong ties and participation in cohesive networks are important for establishing legitimacy and identity (Burt 1992; Elfring and Hulsink 2007; Podolny and Baron 1997). At the development phase, as the participants' had established their reputations, they searched for other resources such as information and referrals, which were accessed through weak ties.

In four episodes at the development stage, the most important network tie was a client. These ties were used for gaining referrals or providing economic capital in the form of increased work from their own businesses. For one accountant, two episodes involving clients resulted in the doubling, and halving of turnover for his business. In the positive scenario, Patrick explained the circumstance through which weak ties resulted in the referral of a major large client:

> *I got that through the managing director and the financial director of my other client basically. He's good to know because he looks you out when things come his way that may not interest him but might interest you. [...] Completely out of the blue, wasn't something I'd been working on, it just came very suddenly. Just by virtue of people know you're looking for stuff and it just happens.*

This comment sheds light on the value of instrumental bridging ties. In common with Burt's (1992, 1997) findings it suggests advantages to be found in maintaining a network with structural holes to be visible to a larger potential client base. Opportunities are not necessarily something which are fostered from network connections, but being embedded in a larger extended network increases the potential for positive outcomes such as referrals. It is perhaps because these instances were unexpected or particularly large clients that they were thought of as critical. In general, at the development stage most participants gained referrals from cohesive weak ties with current clients and this was the more usual way that small accounting practices expanded their business. Jim, for example, had received over fifteen client referrals from the five network ties he mentioned that were involved in his critical period of expansion in the development phase.

Data concerning client relationships at the development stage were similar to those at start-up. If strong ties are characterised as having a social element and the communication of personal matters, with frequency of contact, then these circumstances are rare. On the other hand, if strength is characterised by durability and trust, such ties are often present with clients. Clients were central to all the positive incidents for performance at the development stage, but the relationship is most commonly defined as 'somewhat friendly'. Relationships with clients in a professional service environment therefore demonstrate a special kind of strength, which has bonding characteristics of mutual trust and interdependence.

When looking at weak ties that were not with clients, two episodes which involved joining an external organisation were particularly noteworthy. The ties mentioned in these scenarios included business advisors and other accountants, and resulted in changes to operational performance which were not quantifiable but seen by participants as critical to performance. Gavin had joined the Probiz network, which was a closed network focused on business and tax strategies, which enabled smaller practices to get technical support from others in the network. The advantage this offered was in size, solidarity and security. Gavin pointed out that it made his business *"... part of a bigger* organisation*, you know, if you've got an issue then we've got a whole* organisation *we can go out there and talk to"*. In terms of security, joining an organisation like this was seen as being an effective deterrent to opportunistic behavior that might often be expected from larger businesses in direct competition, as Gavin explained:

> *But the strengths that Probiz gives to us are the tax strategies and the ability for us to offer the services that the big businesses offer by virtue of having this back office, as it were. They don't threaten our relationship with clients because you're not likely to want to pay their fees whereas with the smaller businesses, there's a perceived threat there. If you go in through a network channel, that threat is reduced and I find the network quite useful from the point of view. Generally it's the feedback, the social aspect of that in terms of just knowing where you are in the playing field.*

This provided evidence of the benefits of network cohesion, with common third parties "*securing cooperative behavior through a concern for local reputation that enforces the honoring of obligations between partners*" (Gargiulo and Benassi 2000). Actors linked through ties embedded in third party relationships are more likely to conform to the norm of reciprocity in order to secure future benefits from social capital (Gulati 1995). As with the weak ties in the start-up phase, it also suggests support for the strength of bonding weak ties as opposed to bridging structural holes in order to gain access to information and enjoy comparative advantages in the opportunities they want to pursue. Podolny and Baron (1997: 676) also found that

> *... a cohesive network conveys a clear normative order within which the individual can optimize performance, whereas a diverse, disconnected network exposes the individual to conflicting preferences and allegiances within which is much harder to optimize.*

Going back to the resource question, their study found that in high-technology businesses, networks rich in structural holes may provide a manager with timely information about new opportunities but cohesive ties were required for the cooperation to successfully exploit these opportunities. In accounting practices, the required information resources are not so much 'timely' as 'time-consuming', technically complex and therefore difficult to acquire. Yet it is these resources that will give the small practice competitive advantage, particularly in competition for larger clients. Accessing such resources requires social capital which has cohesive, solidarity benefits.

This raises the question: to what extent might membership in these organisations become a risk for the business? Closure theory emphasizes the benefits of trust and a secure environment that fosters cooperation (Coleman 1990). However, structural hole theory views this scenario as 'structural arthritis' (Burt 1999). Gavin discussed such a scenario occurring with a previous network he had been a member of called AVN:

> *The weakness is you can't get out. The key thing for our team was to get access to accounts preparation programmes, checklist, simple stuff, business tax stuff, a link into companies house, whereas what AVN were doing was all kinds of stuff which you would use once in a proverbial blue moon and so there needed to be a distinction between the day to day operations, if you want to call it that, and the stuff that was there and nice to have thank you*

> *but we haven't used it in five years. That was the problem that we had ultimately with the AVN stuff.*

In other words, the weakness of such organisations is that individuals can become tied in, relationally and financially, and have little control over the type of resources that it will generate for them.

Accountants, particularly in small practices, need to access specialist advice and information to keep on top of regulatory changes and add value for their clients. (Cohen 2006; Greenwood *et al.* 2005; Stumpf *et al.* 2002). In periods of change, Gargiulo and Benassi (2000) note the importance of a diverse network, and that actors in a cohesive network will be less able to adapt to change. The findings for the owners of small accounting firms contradicts this, and emphasizes the importance of a network of weak but cohesive ties for dealing with environmental changes. For those participants who did not come from practice, gaining access to such information and advice was difficult and costly. For example, Jim commented:

> *Yes, there's four or five other accountants that I could quite happily phone for advice and they get it right and send you a bill for a hundred pound. I've got two and if they come out here and spend half an hour and they would diary it and if he spent quarter of an hour in the toilet he would charge me for three quarters of an hour.*

Accountants with experience in practice, on the other hand, could call up other accounting practitioners for advice based on a reciprocal, normative arrangement.

Apart from those accountants who had fallen out with their previous businesses due to the client issues at start-up, most participants would mention other accountants who they would turn to for advice and technical help and most of these came from previous employment, the company they had trained with, or their professional association. This contrasted strongly with Jeff, Patrick and Jim who had all come from industry. Jim's comment was typical of the response from these practitioners:

> *I don't interact with other accountants, maybe one or two at the ACCA things but in terms of having business relationships with other accountants, no. The only time I maybe have dealings with other accountants is when I'm writing to them to tell them their client wants to join me. No it's strange. I don't really interact at all.*

Cooperative relationships with other accountants represent embedded ties that have developed from weak tie associations from experience in practice. Other research, for example in law firms, has identified that other professionals are motivated to donate needed resources such as advice because of reciprocal goodwill (Lazega and Pattison 1999). Those accountants who had worked in industry did not have this cohesive core of supportive contacts that could be called upon to assist them, which was detrimental to the performance of their practices.

Strong Ties

The inclusion of kinship ties at the development phase were almost exclusively involved in incidents with negative outcomes. The mention of kinship ties, in terms of total number and when cited as the most important contact, was similar to that at start-up. As with start-up, the benefits from such ties tended to be moral and emotional support which has been found in other small business research (Evald *et al.* 2006; Jack 2005). For example, Samuel made the following comment about his family contacts:

> *My brother, mostly listening, and moral and emotional support. I would say it's just support, I can't remember there being any major advice, maybe a suggestion.*

Samuel had the smallest network size of any individual, and half his contacts were family. When explaining the charging rate he had for his brother, the reason for this emerged:

> *I charge him but not quite the full rate, the reason being is that I've got eight brothers and sisters and at this point in time I do tax returns for four of them, and then my sister's husband, I did his and my other sister, I did her stuff at one point and then there's cousins and at some point… I used to not charge for the tax return part of it but there's so many so a couple of years ago I had to say look guys, I'll need to charge you something for this.*

Samuel's comment also highlights another problem which can arise because of having large numbers of kinship ties. It was evident that for some participants, particularly Samuel and Patrick, that kinship ties were a drain on the firm's resources, as often these ties would expect professional work and advice for free. Patrick, for example, spent a significant amount of time helping family and friends for free, with little reciprocation, as he comments:

> *… there's the odd wee bubble and rumble and again that's back to the give a bit and you'll get something back. I generally just think, if it's a pal or whatever, I'll help this guy out, just because I can and if he can bring something along that's terrific but equally if they don't they don't. But I've got loads of people like that. I do stuff for my brother's pals, I do stuff for my uncle, whose dead now, but I'm still doing stuff, my brother's pals mother…*

Strong ties typically require more time to maintain than weak ones (Granovetter 1982) and small businesses frequently suffer from a lack of time and other resources. The benefits of strong kinship ties, in the speed of information flow, credibility and influence seem to be negligible for the owners of small accounting firms, unless family members happen to be in a similar occupational field or are able to bridge the accountant to new clients. Problems also arise because the value of these strong ties, in offering moral and emotional support, is not enough to support the resource needs of the business. Relying on a few strongly protective individuals means the business owner does not explore alternative options (Pool 1980) and this is the advantage of having weak ties (Granovetter 1973). Samuel confirmed this feeling of isolation when discussing who he could turn to when his business was experiencing the unexpected loss of four members of staff:

> *I don't know if you're finding this with other people you talk to but it's one of those points where you know you're on your own. For people that don't have partners, business partners I mean, you're on your own and you've got to sort it.*

At the development phase, analysis of the data confirmed again that in multi-partner practices, all but one of the most important individuals in the incident was identified as the business partner. Two of the incidents involved the breakdown of a partnership, and it is not surprising, given the human asset intensive nature of partnerships, that such incidents are considered as critical to the performance of the business. In one instance in which a partner left, the outcome was that the workload increased for the remaining partners and extra financial strain was put on the business due to having to buy the partner out and recruit a new partner. The incident resulted in the participant falling out with the partner, but had a positive impact on his relationship with the remaining partners. Henry described the incident as follows:

> *I think since that day, I mean up until that Christmas we spoke to each other and saw each other but we weren't in each other's rooms every day whereas now, I can't think of day where I haven't been in his room and he hasn't been in mine. I suppose we're closer, we're in this together.*

In response to what Henry regarded as a betrayal, the sense of camaraderie with the remaining partners, of being 'in this together', became stronger.

Inter-business mobility in partnerships is rare, and the camaraderie between partners has been shown to be a strong glue that holds the business together (Pennings and Wezel 2007). Partnership tie dissolution is therefore a significant negative episode for the owners of small accounting practices which impacts negatively on performance and potentially diminishes the organisations social capital. As Pennings and Wezel (2007: 57) point out, partners may leave, join a rival or start their own business, and thus inflict considerable harm on the business from which they defect. By deconstructing this incident in depth using social network theory, data suggests there are also positive outcomes. In two of the negative critical episodes at the development phase, going through the partnership crisis strengthened bonds with the remaining partners: ties became more multiplex; frequency of contact increased; more resources were exchanged; and solidarity increased.

5.9 Patterns of Networking

Having presented an in-depth analysis of the structural and relational dimensions of social capital at the nascent/start-up and development phases, the following section will briefly outline patterns identified in the networking data collected during phase two. This section integrates insights from the critical episode data and reflects on the development of participants' firms and suggests possible reasons for variations found in these patterns across case firms.

5.9.1 Networking Activity

To date, some research has been conducted into general patterns of networking, for instance, across national boundaries (Drakopoulou Dodd and Patra 2002) and how networking may be related to growth (Donckels and Lambrecht 1997; Lee and Tsang 2001). It has also been suggested in a recent overview of networking literature that social behaviour and attitudes towards networking may be overlooked yet important features that link networking with performance (Baron and Tang 2009; Jack 2010; Shane and Ventaraman 2001).

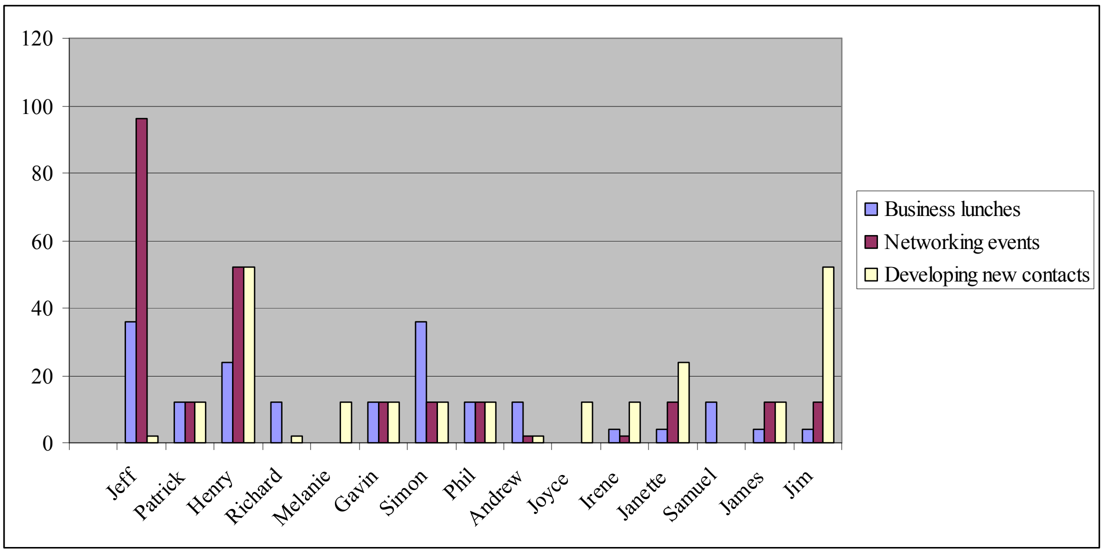
Frequency of networking

In the present study, ‘not having the time’ was often cited as a reason for not networking, most commonly by those participants who cited that they had problems meeting people outside of their personal contact network. Janette, for instance, stated she experienced problem meetings people, and provided a typical explanation of this perception:

> *I mean if you’re talking about networking, I really don’t. I mean I’m just so busy with work here and work at home on the farm, not that I’m out there actively now, but my daughters, family, you know everything just takes over.*

For some participants, choosing not to network was their own choice, either because they did not desire growth (Janette, Joyce), or saw growth as coming from client referrals rather than networking opportunities (Irene, Melanie, Richard, Samuel). Childcare responsibilities may also be inhibitive of networking opportunities, as networking meetings can often require early morning appointments which may clash with childcare arrangements. This has been reported in previous research on gender, yet was found to only concern male participants in the present study; in contrast women participants reported that their children had already left home and that childcare was not a problem for them in this respect (this included Janette although she still cited children, the farm and other responsibilities as inhibitive of networking activities). The results for overall frequency of networking activity (in total hours) amongst participants per annum are illustrated in Figure 5.3 below.

Figure 5.3: Frequency of networking activity (hours) per annum



Particularly when referring to business lunches and informal networking, participants often said these were common in the past, but "*these days nobody's got time*" (Richard). Figure 6.3 shows that some accountants do have time, or make time to accommodate these events. It was notable that two of the most recent business owners (Jim and Henry), who had started up within the last four years, spent far more time developing new contacts than other participants. This confirms previous findings that business owners spend significant amounts of time developing new contacts in the early stages of the businesses development (Aldrich and Reese 1993). However, with regards to performance, figure 6.3 indicates that some of the firms performing well (such as Janette, Irene and Richard) were not frequently 'networking'. Looking beyond frequency of networking alone and discussing their attitudes towards networking, it emerged that those participants with better performing firms were generally aware of the importance of networking and network management to the success of their business.

Those participants such as Jim and Henry who cited that they were satisfied with the performance of their firms and that they also actively engaged in networking, suggested that in today's competitive business environment, accountants have to be proactive in order to gain new clients. Henry, for example, saw this as a sign of the times:

> *Historically things have changed as well. In the seventies if you got a client they would probably be a client for life but nowadays you get a client and you only expect them to stay with you for five or six years. You always have to keep trying to get new clients because the ones' you've got will drop off, not because they fell out with you but that's just life now.*

The accounting literature confirms this outlook on declining client loyalty and increasing switching behaviors (Cohen 2006; Stumpf *et al.* 2002) yet this is typically within larger practices. Interviews suggested that for smaller businesses, this was not often the case. Many participants spent considerable time building and developing client relationships. Phil, for example, did not want rapid growth *"because you have to take time to get to know the client and bed them in before you move on to the next one".* Most accountants were found to speak with their clients on a regular basis and to encourage clients to have more frequent contact with them than just at the times of year when they required their services. This contributed towards one of the themes (strong and durable professional relationships with clients) that emerged from the first stage of interviews. Clients were not often lost and if they were, this was due to the client going out of business or moving away and was therefore seen as a natural part of day to day operations rather than a critical episode for the performance of the firm.

5.9.2 Attitudes toward Networking

Attitudes, such as an individual's attitude towards entrepreneurial activity, have been considered as relevant to small firm studies (c.f. Davidsson and Honig 2003). Shane and Ventakaraman (2000) suggest that understanding entrepreneur's attitudes towards networking may help to explain "*why, when and how some people and not others discover and exploit opportunities*". Some studies in entrepreneurship have noted that an entrepreneur's attitude to and perception of networking will also influence the success with which they can meet appropriate contacts and gather resources from their network ties (Neergaard and Madsen 2004). Variations in the willingness or ability to network is however not an issue that has been dealt with in the literature.

A marked difference in attitudes towards networking which related to participants' aims, attitudes and capabilities was found. Looking first at participants' general attitude towards networking: some actively seek out networking opportunities and see the relevance of networking to the development of their business. At start-up, the need to go out and actively seek new clients was widely reported. It was more common for start-up businesses to join external networking agencies such as the Chamber of Commerce, and to develop ties with banks and other organisations. Also at the development phase, those participants who wanted to grow their firms commented that they needed to start networking to support this objective. Joyce was no longer trying to grow her client base but her comment effectively summarises this outlook on the importance of being proactive in networking for business growth:

> *Being seen networking… If you're wanting new business you have to get out there, and people like to talk to people either by recommendation or because they want to talk to you, because they relate to you. I think you do have to go along to things, you have to attend things and be seen to be proactive.*

Other participants were more negative about networking, but still saw its necessity for gaining new clients, as Gavin commented:

> *It's all about networking. I'm not keen on networking but it is a necessary evil. I'm not uncomfortable doing it but it doesn't switch me on. Some people would take people out for coffee or for lunch or whatever every day of the week. You have to be seen, it's all about being seen on a regular basis so that if something crops up, you're in the frame. Whether you get the job or not is a different matter, it's not really the issue. It's being in the frame and if you're in the frame often enough, some of it will come your way and that's what networking is about.*

Simply spending time networking is no guarantee that the owners and their business will gain social capital benefits, however, being proactive suggests that their business will be well positioned as and when opportunities arise. Many of those participants' in well performing firms (such as Irene, Janette and Richard) did not want to grow their businesses, but continued to engage in significant networking behaviours including memberships of sports clubs and other associations for social or leisure purposes. Networking is often associated with growth but findings reveal that small business owners may network for multiple reasons including: access to resources; to make contacts; to share/try out ideas etc.

Some interesting patterns emerged from the analysis with regards to the geographic impact of participants attitudes towards networking. Businesses located in small towns, suburbs and rural areas expressed lower levels of networking frequency, as indicated in figure 5.3. This was generally due to their perceived lack of networking opportunities outside of large cities. It was interesting to note the perceptions these participants had of networking activities undertaken by accountants in larger cities, where they perceived networking as more strategic, or *quid pro quo*, as Andrew's comment encapsulates:

> *No, I don't think (accountants) are that subtle about it, particularly the guys down in Glasgow. You obviously haven't interviewed many of them. They've got a different mentality; they're much more in your face about it when it comes to getting work and that sort of thing. They'll just say to you, I gave you that bit of work and I'm waiting for something back sort of thing, whereas we're probably a bit more reserved on the east coast.*

In contrast, Glasgow-based participants often mentioned the differences in networking activities between Edinburgh and Glasgow indicating that they perceived networking to be more common and more effective in Edinburgh than Glasgow, and also to be influenced by social background.

This perception was confirmed by both the participants located in Edinburgh and is highlighted by Joyce's comment about how and why her business was able to become successful so easily:

> *Because of all the networking he [her husband] did he was asked to become High Constable and also because we're both from middle class Edinburgh families with the right kind of connections, through our schools. More Fraser than me, he went to Melville so it was, you know, the right kind of schools. We fitted the mould and the area we lived in, it was a very affluent area in Edinburgh, so it was relatively easy.*

Irene's partner also confirmed that there was a different bias in the interaction in Edinburgh, which she termed the "*stock Edinburgh chat"* which consisted of: *"where did you go to school? Where do your children go to school? Where do you live?".* This highlights the higher value placed on symbolic, cultural and economic capital in Edinburgh and how this might affect a business owner's ability to capitalize on potential sources of social capital. The ability to draw benefits from network ties is based on how others perceive an individual's background and lifestyle. These motivating factors for successful exploitation of social capital are returned to in the following Chapter. This also implies that whilst networks in Edinburgh may assist those businesses that fit the 'correct mould', such network ties are likely to be dense and closed off to outsiders. Interview data highlights interesting differences in geographical and cultural attitudes, which have not been extensively explored in the small business literature. A recent study by Klyver *et al.* (2008) did find that there were cultural similarities in networking behaviour across the twenty countries included in their study. This research identifies that networking behaviour may be more nuanced than this, and that differences exist across geographic proximities in the same regional area of a country.

In common with Neergaard and Madsen's (2004) study, analysis suggested that founding members in small businesses may have quite different attitudes towards networking. This was the case both within and across different practices. In one case (Irene), the participant asked her partner to comment on networking, as she was seen as the primary networker for the business. This suggests a further dimension to the contribution that a partner may have for the performance of the business: different partners may have different networking skills and as long as one partner is able to network effectively, this may compensate for the lack of networking skills in another. Andrew also confirmed that networking was not really his role:

> *That's probably less my area than the other two partners, that's more their thing. My side of things, I tend to get involved in the technical side of things and they're probably more proactive on the networking and business development side of things although I do do some of that sort of stuff.*

5.9.3 The Extent of Networking Activity

Networking activity was considered by establishing which external organisations and associations participants were members of and asking them to consider whether these were useful to the performance of their firms. The findings to emerge from analysis of this data together with data collected on satisfaction with profile and the extent to which participants had problems meeting people outside of their personal contact network, is detailed in Table 5.7:

The pattern in terms of the extent of membership of external associations in relation to perceptions about the performance of participants' businesses was not clear. Phil, Samuel and James were all quite dissatisfied with the profiles of their businesses, believed that that had problems meeting people outside of their personal contact network and experienced problems attracting clients. Yet these participants were members of numerous associations, which they found useful to their business, and were well known in. In the incidents that were discussed these participants drew on fairly small networks with a majority of strong ties. This suggests that despite having possible access to a wider network of contacts, some business owners choose not to use them, or that members of this wider network are not motivated to donate needed resources to the participant. The overlapping forms of capital explored in the next Chapter of analysis, may also help to explain why Jeff, Patrick and Gavin stated that they had no problem meeting people outside of their personal contact network and yet had problems attracting clients. An interesting research question arises regarding their symbolic capital, for instance, do clients identify them as legitimate accountants?

Table 5.7 Membership of External Organisations and Associations

PARTICIPANT	SATISFIED WITH PROFILE OF FIRM	PROBLEM MEETING PEOPLE OUTSIDE OF PCN	MEMBERSHIP OF ORGANISATIONS	HOW USEFUL? 1=NOT AT ALL 5=VERY USEFUL	EXTENT TO WHICH WOULD BE KNOW
Jeff	Very dissatisfied	Not at all	ACCA	1	Everybody
			BNI	3	Everybody
Patrick	Fairly dissatisfied	Not at all	ICAS	4	A few
			Chamber of Commerce	1	Nobody
			Football	1	Everybody
			Church	1	A few
Gavin	Fairly dissatisfied	Not at all	ACCA	2	Nobody
			Rotary	2	Everybody
			Golf	1	A few
			AVN	4	Nobody
			Probiz	4	Most
Phil	Fairly dissatisfied	Average	ACCA	4	Everybody
			BNI	4	A few
Samuel	Fairly dissatisfied	Quite a problem	ACCA	3	A few
			Rotary	1	Everybody
			RanOne	4	Most
			2020	3	A few
			Football	2	Everybody
			Chamber of Commerce	2	Nobody
James	Fairly dissatisfied	Quite a problem	ACCA	2	A few
			Profit Club	1	Everybody
			Board- Clydebank	1	Everybody
			Rotary	3	Everybody
			Golf	2	A few
Richard	Average	Not very much	ICAS	3	Nobody
			Tai Chi	2	Everybody
			Karate	2	Everybody
Henry	Fairly satisfied	Not al all	ACCA	2	A few
			BNI	4	Everybody
Melanie	Fairly satisfied	Average	ICAS	3	A few
Simon	Fairly satisfied	Not very much	ICAS	1	A few
			Private Members Club	1	Most
			Golf	1	Most
Jim	Fairly satisfied	Not at all	ACCA	4	A few
			Community Council	1	Everybody
			Church	1	Everybody
Andrew	Fairly satisfied	Quite a problem	ACCA	1	Nobody
			Chamber of Commerce	3	Most
			Golf	2	Most
			ICAS	2	Few
Joyce	Very satisfied	Not very much	ICAS	3	Nobody
			Womens Group	2	Most

			Alpaca Society **Tennis Club**	**3** **2**	**Everybody** **Everybody**
Irene	**Very satisfied**	**Not at all**	**ACCA** **Chamber of Commerce** **FSB**	**3** **3** **3**	**A few** **A few** **Nobody**
Janette	**Very satisfied**	**A lot of problem**	**ACCA** **Golf** **Curling** **ICAS**	**3** **3** **3** **4**	**Nobody** **A few** **A few** **Nobody**

Generally the usefulness of membership was increased through possession of symbolic social capital: being recognised and known within these external organisations, particularly the Chamber of Commerce. Membership of sports clubs and societies tended to be more useful to those participants who were satisfied with the profile of their businesses. Again, this suggests that symbolic social capital accrues to individuals within these organisations for different purposes. Some participants did not use social and community networks to gain business, whereas others actively pursued this as a way of embedding themselves within the local community. Those business owners who were more keen on embedding themselves, particularly in a wider range of activities including non-business networks were in better performing businesses. Participants such as Richard and Joyce, for example, drew on wide networks and seemed very capable of using their networks in order to access resources as and when required.

Recent network literature has emphasized the importance of co-opetition and marketing networks to the development of small businesses (Lechner and Dowling 2006). Initially, the analysis of small accounting practices suggests a very different scenario, as almost all practitioners stated that they did not feel networking with other accountants was of any benefit to their business. Accountants were, according to participants' estimations, 'bad at networking'. Participants claimed they often only saw other accountants at events organised by professional associations and maintained few contacts from the practices with which they had trained. Simon's comment about going to networking events with other accountants summed up the sentiment of such businesses:

> *I hate them. The thing is you tend to meet other accountants who are touting for business. You don't tend to meet other people so I don't find them really particularly useful.*

Participants tended to view other accounting practices as competitors and found other practitioners to be guarded about sharing ideas, advice and information with them. Critical incident data also confirmed that accountants from other small firms were rarely in the important relationships involved in changes in performance.

When the data was examined for instances of positive outcomes from networking with other accountants, it emerged that there were in fact benefits to be found in such ties. Taking a fine grained approach to understanding the network phenomena in a single industry context therefore shows that, unlike the population of small wineries in the Butler *et al.* (1990) study, information seeking relationships can have a positive impact on venture performance. The intensive knowledge-based and technical requirements of the professions, in addition to the fast pace of regulatory change, may help explain this finding. When co-opetition networks were formalised, as in the case of Gavin and Samuel, a range of resources including technical advice, information and support were made available to their firm, which gave them a degree of competitive advantage. This suggests that other accounting firms can be useful for communication purposes and occasionally for business related exchanges. Outside accounting firms, particularly larger practices, could be useful in providing client referrals: if a job is too small for a large business they might refer it to a trusted smaller practice; small business owners might reciprocate with larger clients whose work they cannot handle.

For those participants without an audit qualification, knowing and trusting another firm of accountants to undertake their clients audit was also important. Some participants had encountered problems in finding an audit referral partner that they could trust to undertake work for them. Formal networks of accountants, such as BNI and RanOne, were useful for this purpose, as their behaviour was moderated by consummatory motivations i.e. their actions have implications for their reputation within the network (Portes 1998). For other practitioners this problem was avoided by relying on stronger ties, such as previous work associates, so they could trust the competency and reliability of the accountant concerned, as in Irene's case:

> *We asked someone else who has his own practice in Edinburgh, and who had been an employee in the practice where we had been partners. So we knew him personally and it's to do with personal integrity. We knew him and we could trust him. I think to appoint someone you didn't know would be very difficult.*

As far as relationships with other accounting businesses were concerned, the ability to extract social capital was most evident in structurally embedded ties with other similar practitioners or strong ties with previous work associates. This confirms the findings of other research which has found the trust benefits of dense network ties to be a better facilitator of exchange than bridging structural holes to more sparsely interconnected groups (Jones *et al.*1997; Walker *et al.* 1997).

It was surprising to find that networks of contacts formed through professional associations were not seen as particularly useful to participants. In terms of opportunity, the closure of the networks of professional associations would, according to Coleman's (1988) arguments, strengthen social capital through the emergence of affective norms and trust. The size of the potential network is considerable, for instance, the membership of ACCA Scotland currently stands at around 7,200 (ACCA 2009). Professional associations tend to bring their members together quite infrequently, so there is less opportunity for them to share information and other resources. The principal resource taken from professional association was its reputational signalling to clients and other accountants. The symbolic value of professional association was clearly important to most of practitioners, a further finding which will be discussed in more detail in the next Chapter. Empirical findings question the usefulness of contacts made through professional associations for the performance of small professional accounting practices. Out of all the relationships mentioned in critical incidents discussed, no ties were involved in either professional associations or professional training organisations. Within professional associations, participants felt other accountants purposely limited their discussion of business related problems and feared they would potentially take clients from each other.

5.9.4 Client Relationships

Client relationships are seen as a major source of competitive advantage for professional service businesses, due to the bonds and specialised knowledge that develop from the intense, reciprocal and repeated interactions between clients and providers during the creation and delivery of a professional service (Jones *et al.* 1998). All participants reported offering a customised, personal service to clients that decreased the likelihood of customer switching and generated new business from clients' referrals. Relationships with clients were maintained on an individual rather than a firm level basis, which provides advantages to the individual but potential risks to the business, as client loyalty to the business is weak. James's comment underlines this:

> *I think in the accountancy profession it's the relationship normally with just one person which is the bridge that keeps that client there and if that person is removed, or if you replace them with a whole variety of people, all you need is somebody somewhere along the line to mess up and the ties to that client are fairly weak.*

Client relationships underline the tension between individual and collective advantage in partnerships. On the one hand, the business benefits from collective access to the broader network of clients but on the other hand, there is always the possibility that an individual will decide to leave the partnership, taking their valuable bank of clients with them.

One of the most prevalent themes in client relationships was *homophily*. *Homophily* has been shown in other studies to be an influential factor in tie formation (Ibarra 1992, 1995; Marsden 1988; McPherson *et al.* 2001). The extent of status *homophily* in the client relationships at start-up and development were not particularly strong but in the more general discussion, many participants commented that their clients tended to be around their age or older, which presented problems for their development. Irene summarised the problem as follows:

> *I'll tell you what is the problem, a lot of our clients are getting older too. I mean you get that anyway it's just natural. I think there will come a point, because we're older, I don't think we'll attract younger businesses, as maybe we did ten years ago. We're not proactive enough and we rely on referrals, and the referrals will dry up as the older clients who we've worked with for a long time, they retire. They're all coming up to our age and the new young ones, I don't know if there will be enough of them to replace the ones that go out, so I think gradually it will just die. That's what I expect.*

This demonstrates the dual problem experienced by a number of businesses run by older participants: their client base was reducing as their clients retired; and, they were not able to attract new, younger clients to replace them. The characteristics of the participants' client portfolios are featured in Appendices 11 and 12.

In terms of competition, in the second interview participants commonly stated that they did not feel they were in competition with other businesses, or found competing quite easy. Clients were rarely lost to other accounting firms, and if clients left because of fees, participants tended to reflect that it was for the best anyway, as it was not worth holding on to clients who were simply after low fees. For the owners of small practices, competitive advantage and retaining customers relied on investing time in and interacting frequently with clients rather than spending time constantly recruiting new ones. Irene's statement sums up this sentiment:

> *We invest in our regular clients. We invest in them and we do an awful lot of extra work for them but we'll not necessarily charge what that was but it's kind of integrated into the annual fee.*

The participants' firms retained some of the advantages of traditional accounting practices, which are strong client trust and mutual independence (Cohen 2006; Pennings and Wezel 2007).

5.9.5 Partnerships

In terms of overall performance, it was notable that many of the businesses which were performing well were partnerships, a finding which has emerged in other studies (Lee and Tsang 2001). Partnership ties generated resources at the start-up phase, which has also been found in studies examining the role that founding member's network ties have on business performance (Neergaard and Madsen 2004; Ruef *et al.* 2003). In terms of access to resources, analysis confirmed that having a partner was a useful resource in the critical incidents at start up for offering information, advice, technical help, and moral support. As well as being a sounding board, partners were viewed as sharing the burden of responsibility, which might involve the day to day running of the business or keeping up with regulatory change, which was seen as a great burden for sole practitioners. In a similar vein, most also emphasized the usefulness of partnership for sharing specific skill sets, for example tax specialism (Janette, Irene) or an interest with a particular sector such as charities (Simon, James).

The success of partnerships was based on them sharing *value* and *status homophily*, as most were a similar age, with a shared vision for the business, and a common ethical outlook. The bond between partners has been shown to produce "*a strong glue that holds the business together"* (Pennings and Wezel 2007: 65). The social capital benefits come from the fact that partners have a common interest in aligning their interests with that of the business. This bounded solidarity motivates the partners to donate needed resources that will assist in the development of the business, and reduces external agency costs compared with businesses run by non-owning managers. It was also noteworthy how commonly, at both start-up and development phases, that those accountants in multi-partner practices not only included them as key individuals but identified them as the most useful contact during the episode discussed.

Inter-business mobility tends to be low in partnerships (Pennings and Wezel 2007), and one participant regarded them as akin to marriage terms of commitment. However, it was also common for relationships to remain professional rather than being based on friendship. In instances where partnership was based on social bonding, there was the potential that trust could be broken, and such differences may be more difficult to resolve if the partnership is based on friendship (Neergaard and Madsen 2004). Friendship contents were seen in incidents when participants were breaking away from a previous partnership to start their businesses, and in the ending of partnerships in the development phase. The evidence therefore paints a multifaceted view of what constitutes an ideal partnership. These ties are strong, durable and trusting, and are multiplex but with the notable exception of friendship and social contents. This was the case in all partnerships except Janette who stated her partner was a very good friend and someone with whom she would discuss important personal matters. This exception to the norm could be explained by the fact that Janette's partner had acted as a mentor and support for going into practice, and friendship contents had already evolved by the time the practice had started.

In light of the fact that five of the participants (Samuel, Janette, Irene, Jim, James) had left another practice and taken clients with them, causing animosity with previous partners, the benefits of partnership are also balanced with the risk of defection. Much of the business's social capital is tied in with the partners, as clients are more loyal to individuals than the business. In terms of performance, a partner defecting also has a detrimental impact on the vital human capital of professional service businesses.

5.9.6 Small Firm Development, Network Evolution and Renewal

Analysis of incidents occurring at the nascent/start-up and development stages often shows a pattern of network development Elfring and Hulsink (2007) term *'network evolution'*. This involves the "*development of a network dominated by strong ties towards a network with a growing share of weak ties*" (Elfring and Hulsink 2007: 1861). In common with Elfring and Hulsink's (2007) findings, the patterns of ties used in incidents over the development of participant's firms were not generalisable but rather dependent on the initial founding conditions and the post-founding processes. For instance, if the participant was previously in practice and severed their ties with their previous partnership to start their new firm, this affected the resources available to them at start-up and orientated the types of ties available to owners and the variety and amount of resources available from these ties. There is also less need for the business owner to achieve legitimacy as they have already established themselves as Partner and have an established client base. Coming from practice also gives owners access to a wider network of other professionals from whom they can gain information and advice at minimal cost. It was therefore notable that participants in this position, such as Richard, Melanie, Joyce, Irene and Janette all tended to turn to strong ties at emergence, in common with the 'insiders' reported on in Elfring and Hulsink's (2007) study. An interesting difference was that successful emergence and network evolution in a professional partnership context can involve severing strong ties from a previous partnership. The pattern over the development of the participant's firms shares similarities with Hite and Hesterly (2001) and Jack (2005) in that more weak ties are added as the business develops.

By contrast, participants who had entered business ownership from an industry position or who had no previous experience of working as a Partner (Jim, Jeff and Phil) had greater resource needs, requiring a client base, advice, and legitimacy for their new practice. There is more evidence of weak ties in the networks mentioned by these participants, and greater similarity to the findings of Steier and Greenwood (2000) and the entrepreneurs seeking radical innovations in the Elfring and Hulsink (2007) study. Elfring and Hulsink (2007) term this pattern of development as '*network renewal'*, in which strong ties are used for legitimacy and to offer moral support and advice but weak ties are important for information resources, in these cases usually referrals for clients. In the present study the network evolution pattern was more common than network renewal, as fewer participants had started their firms without previous experience. The patterns for '*network revolution'* (Elfring and Hulsink 2007) were not apparent in this study. Being certified professionals meant that no-one participating in this study was an industry outsider and thus they did not need access to a large number of weak ties in the emergence phase. There was some evidence that participants such as Jim, Jeff and Phil pursued unfocused searches at start-up, such as cold-calling, to try to gain a client base but the most instrumental ties still tended to be a mixture of both strong and weak ties in the incidents discussed, aligning more with the patterns associated with network renewal.

5.9.7 Social Capital and the Professional Context

A strong theme in the collection of data pertaining to resource needs and the development of relationships was the impact of industry factors. The professional context impacts significantly on the development of structural and relational sources of social capital and the types of resources required by professional service firms. Finance, for example, is often an important start-up resource for smaller enterprises, but accessing finance was not seen as instrumental in the early stages of the participants' business with referrals and support primary. *Homophily* was very prevalent in important network ties, and value *homophily* was found to be of particular importance, underlining the interplay between cognitive processes and the range of ties. Having similar backgrounds, ethics, shared values and trust seemed of particular importance to professional business owners and their instrumental network ties. Due to professional standards and ethics, reciprocity was generalised rather than instrumental: referrals for instance would not be financially rewarded and there was generally a lack of bartering exchanges. Overall content tended to be more limited than in studies of small firms in other sectors. Ties with clients were often uniplex, even at development, and close ties with business partners often lacked a personal, social dimension.

Partnerships were useful for discussing both the benefits and risks that social capital brings to bear on small professional service firms: information, risk sharing, support and other resources are balanced against the risk of defection, ethical disagreements and loss of resources that are caused when a partnership breaks down. The breakdown of close bonding ties with previous partners is associated with success at start-up, as the nascent business owner drops ties with previous organisations in order to remove their individually anchored social capital resources and take them to their new business. Resource needs at development are more diverse for the professional business owner and it was much more common for those business owners with previous experience and professional contacts to have to join formalised networks to access resources such as technical information and advice. At all stages of development, most professionals tend to be highly focused on the quality of their ties, their reputation and maintaining professional legitimacy, which will be returned to in the next Chapter. The key findings from the analysis of the configurations of social capital and their impact on the development incidents of participant's firms is summarised in Table 5.7 below.

Table 5.8: Summary of Social Capital Sources and Outcomes at the Nascent, Start-up and Development Phases

SOURCE OF SOCIAL CAPITAL	NASCENT AND START UP PHASE	DEVELOPMENT PHASE	RESOURCE BENEFITS AND RISKS
Partners	• Strong embedded ties • Value and status *homophily* • High density • Multiplex contents including personal • Highly reciprocal • Cognitive and affective trust	• Strength of tie remains strong, unless relational aspects have changed • Maintaining value *homophily* is especially important • Density remains high • Contents remain multiplex with high reciprocity and trust, except where problems have surfaced in the partnership	• Many of the best performing businesses were in partnerships. • The principal resources they provided at start-up were advice, support and information. • At development partners continue to offer information and support but attitudes and values could change, posing risk to the social, economic and cultural capital of the business.
Kin and friends	• Strong ties • Value *homophily* • Medium density • Multiplex contents including personal • Usually reciprocal • High cognitive and affective trust	• Structural features remain the same but number of ties is smaller • Contents tend to be more limited to personal and family matters • High reciprocity and trust	• These ties are prevalent at start-up for support, and are relied on more by women. • At development, strong ties tend to feature in negative episodes where they are also used for support. • This questions the impact that these strong ties have on performance and development.
Clients	• Weak ties • Status *homophily* • Low density • Content is advice, client business, and some social chat • Often resources are reciprocated but not in finance or referrals (except AP's) • Low in cognitive trust, e.g. in reliability and openness	• Weak but bonding properties • Lower status *homophily* • More evidence of density • Content and reciprocity remain the same as at start-up • Cognitive trust has developed, potentially affective trust	• Almost all referrals to new clients at start-up came from clients, which continued at development, making them a key factor in performance. • Clients were used for advice and support at start-up but not at development. • Increased trust at development compensates for lack of other relational features. • Losing clients was rare but was more prevalent in client ties with lower *homophily*
External organisations	• Weak bridging ties with limited durability • Low density and *homophily*	• Structural features the same as start up • Content relates to business and social chat	• Ties with external organisations were very rare at start-up and development. • These ties were bridging

	• Content uniplex, relating to business matters • Limited reciprocity and low trust, particularly in openness	• Lack of durability indicated by low cognitive trust	and provided some access to client referrals. • Ties were very low in relational social capital, often dissolved and of limited use for resources
Previous work associates	• Mixture of strong and weak ties • Status *homophily* • Low density • Content limited to business matters with some social chat • Limited or sometimes no reciprocity • Trust with ties that were not destroyed at start-up	• No previous work associates mentioned in development incidents	• Previous work associates were often mentioned at start-up in the context of retaining clients, often in the context of a dispute with a previous partnership. • The social capital benefits of selective tie dissolution were very significant. • Previous work ties were often ended and therefore not relevant in the development phase.
Other professionals	• Mostly weak ties with bonding attributes • Status *homophily* • Content was often multiplex, containing business matters as well as personal and social chat • Reciprocal but not in like resources • Cognitive trust	• The only other professionals at start-up were in closed networking organisations	• Ties to other professionals were of some use at start-up for introductions, support and technical help. • Some resources, particularly referrals were seen as non-reciprocal and therefore these relationships tended not to last or be particularly useful for the businesses.
Closed networking organisations	• Bonding weak ties with quite high density. • Status *homophily* • Content restricted to technical matters and social chat • Reciprocal but not in like resources • Cognitive and affective trust in most ties	• Weak ties with bonding properties and status *homophily* • Low density • Trust is cognitive and could be affective • Relationship depends on reciprocity • Uniplex contents	• Not common at start-up and used mainly for referrals. • Key sources for business development, in terms of technical advice and information to change strategic direction • Problems of closure, bounded solidarity and an inability to influence
Employees	• No employees mentioned at the start-up phase	• Mixture of weak and strong ties with employees • Status *homophily* but not on age • High density • Content is multiplex • High cognitive but low affective trust • Reciprocal	• Employees were only mentioned in negative incidents, although were of use in providing information and technical advice. • Across the course of development, employees were often the cause of massive critical episodes and downturns in performance.

5.10 Summary of Chapter Findings

The findings from this chapter shed some light on the sources of social capital that affect performance overtime, and their associated benefits and risks. Taken with the findings about general networking patterns, differences in development can be explained by factors such as the presence of partners, previous professional work ties, client relationships and membership of certain networking organisations. It is also apparent that different ties require different relational attributes in order to provide needed resources. These findings have contributed to a more nuanced understanding of how social capital is built, and used over the course of business. In relation to overall performance across the participants' firms, social capital analysis leaves some important questions unanswered.

The literature review underlined the importance of understanding the overlapping and convertible forms of capital. Due to the requirements of professional accreditation and training, it has been reasoned that cultural capital will have relatively less impact on performance in the professions than in other sectors. The conceptual framework also denoted that economic capital would be less influential as qualified accountants rely on credentialed knowledge rather than economic resources to create value. This, it was proposed, would allow for variations in performance to be explained by looking at social capital.

Social network analysis does not answer the questions as to why some participants were more able to draw resources from their network ties to help the performance of their firms than others. In order to understand the underlying issues of performance and successful social capital outcomes, it was necessary to deepen the analysis by reflecting on capital in all its forms (Bourdieu 1986). This will allow a richer explanation of varying business performance by conceptualising not only how social capital is configured and converted over time, but how the configurations and convertability of all forms of capital have impacted on the performance of the participants' firms.

CHAPTER SIX

Forms of Capital and Convertibility in Small Professional Service Firms

6.0 Introduction

The findings to emerge from the previous chapter confirm the difficulty in studying social capital. Although social capital is, by definition, the sum of resources that can potentially be accessed through a network of contacts (Bourdieu 1986; Portes 1998; Adler and Kwon 2002), the relationship between sources and outcomes is unclear. Across many of the network constructs examined, patterns which emerged in terms of the structural and relational mix for positive or negative performance were not clear. This is because the structural and relational resource potential of a network is hard to comprehend unless one understands their symbolic value. Bourdieu (1986: 242) writes that it is "*impossible to account for the structure and functioning of the social world unless one reintroduces capital in all its forms".* Data collected during interviews was broad, historical and context rich, and provided the opportunity to examine performance and social capital in relation to other components of the capital mix. By examining the overlapping forms of social capital, the objective was to better understand the interplay between social and other forms of capitals for the development of small firms.

6.1 Capital Configurations

The analysis will proceed by addressing the overall capital configurations of participants and assessing the varying amount of capital they have accumulated, particularly the symbolic value of these capitals.

6.2 Economic Capital

Economic capital refers to monetary income as well as other financial resources and assets such as property (Anheier *et al.* 1995; Bourdieu 1990; Savage *et al.* 2005). Table 6.1 features participant's responses to questions relating to: how finance was accessed to start the business; the percentage owned by the participant; the legal status of the business; and whether the business currently had a loan or overdraft with the bank. The cases in *italic* identify those participants who cited that they were dissatisfied with the profile of their firm.

Table 6.1: **Finance and Ownership**

PARTIC-IPANT	SEX	REFUSED FINANCE	MAIN SOURCE OF FINANCE AT START-UP	CURRENT LOAN	% OWNED	LEGAL STATUS
Jeff	*Male*	*No*	*Bank loan*	*Yes*	*100*	*Limited Co.*
Patrick	*Male*	*No*	*Credit Card*	*Yes*	*100*	*Limited Co.*
Gavin	*Male*	*N/A*	*Loan from family*	*Yes*	*100*	*Sole trader*
Phil	*Male*	*N/A*	*Personal savings*	*Yes*	*100*	*Limited Co.*
Samuel	*Male*	*N/A*	*Loan from family*	*Yes*	*100*	*Limited Co.*
James	*Male*	*No*	*Bank loan*	*Yes*	*25*	*Partnership*
Richard	Male	Yes	Loan from family	No	100	Sole trader
Henry	Male	No	Bank loan	Yes	26	Partnership
Melanie	Female	Yes	Bank loan	Yes	100	Sole trader
Simon	Male	N/A	Loan from family	No	50	Partnership
Jim	Male	N/A	Personal savings	No	100	Sole trader
Andrew	Male	N/A	Not needed	No	33	Partnership
Joyce	Female	N/A	Personal savings	No	100	Sole trader
Irene	Female	N/A	Personal savings	No	50	Partnership
Janette	Female	N/A	Loan from family	No	50	Partnership

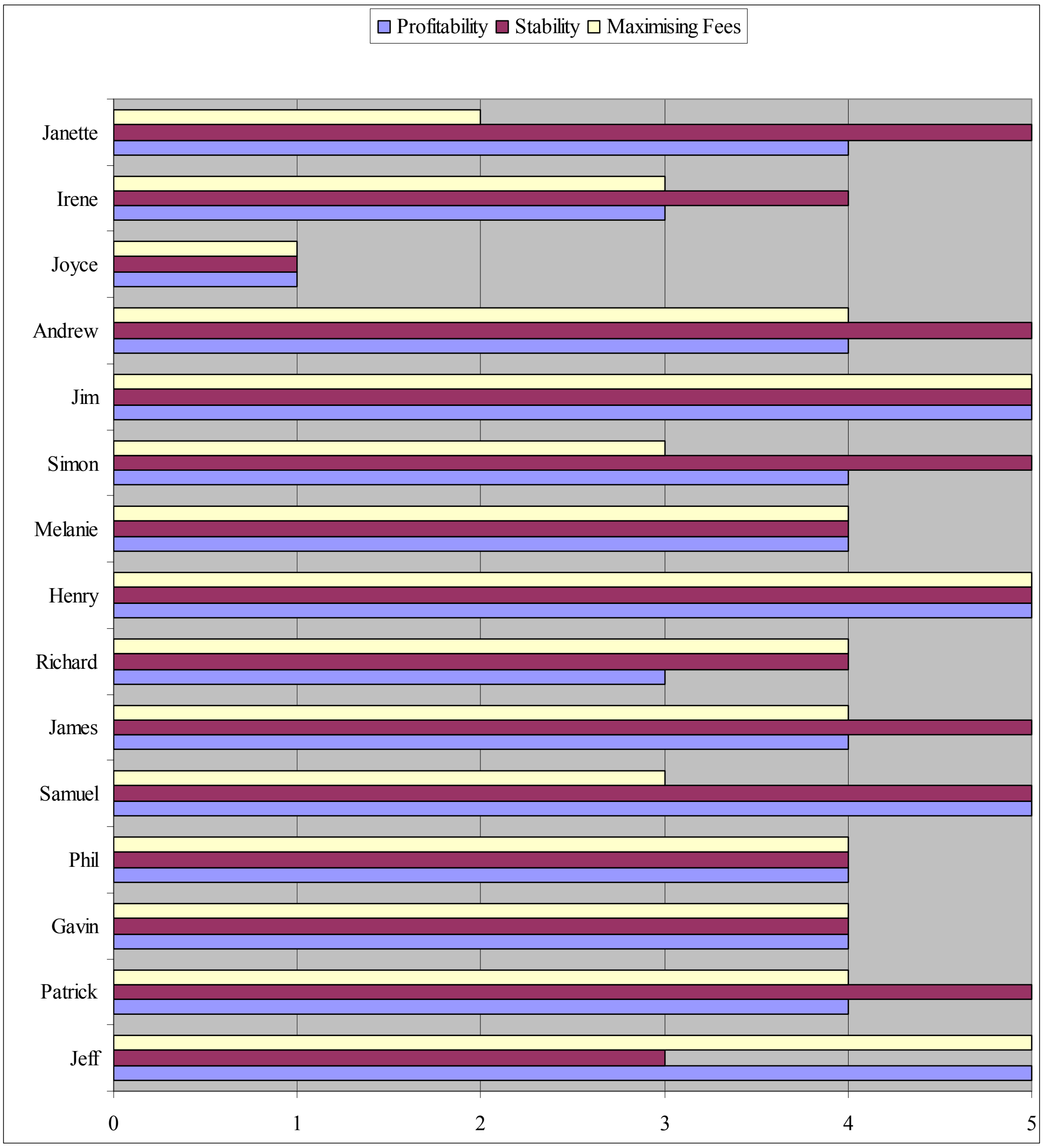
In terms of the main source of funding used at start-up, table 6.1 shows that participants used a mix of sources. Participants who were less satisfied with the performance of their practices were mostly limited companies, completely owned by the participant. Lacking the support of a partner, for economic reasons, may have contributed to the poorer performance of these firms. Possessing sufficient personal savings to start the business was less common, suggesting this group tended to have lower personal wealth. All of these businesses also had current loans and or overdraft facilities. Henry and Melanie were the only exceptions: they were satisfied with the profile of their firms but were still repaying their loans from start-up. In terms of ownership and legal status, participants who were satisfied with the profiles of their firms were all in partnerships or were sole traders, with proportionate ownership rights.

Participant's responses to Likert scale questions regarding the relative importance of economic capitals are detailed in figure 6.1. Participants were asked to rate the importance of stability, and maximising profitability and fee income were to their businesses. These questions emerged from the first set of interviews as an interesting theme to pursue related to the participants' motivation and perception of performance. The use of such questions and the presentation of the data are illustrative, and serve to identify patterns in the data rather than to quantify or generalise results (Miles and Huberman 1994).

The six participants who were dissatisfied with the profiles of their firms are positioned at the bottom of the graph in figure 6.1 (Jeff, Patrick, Gavin, Phil, Samuel and James). These participants all viewed economic capital, in terms of profitability and maximising fee income, as very important. For other participants the relative importance of economic capitals was mixed. Maximising fee income was less important than profitability for a number of participants, and the importance of stability was generally higher. Joyce is an outlier in the group, who was completely unconcerned with economic capital due to personal reasons and the fact that she had income from other businesses outside of accounting.

Figure 6.1: **The Importance of Economic Capital**

Key:
1 = Not at all important
2 = Not very important
3 = Important
4 = Very Important
5 = Of utmost importance



Differences in the relative value of profitability, stability and maximising fees could be explained by a various factors: some accountants are driven by economic concerns; others are more motivated by professional performance and client care; some are happy with the size of their business and are relatively unconcerned with economic indicators; others are unhappy and are highly concerned about maximising their income and profitability. It is worthwhile to note that traditionally, professionals have not openly stated their commercial and economic motivations (Abbott 1988; Brint 1994). If an accountant is perceived as profit and fee orientated, rather than focused on client satisfaction, this may limit the convertibility of their social capital, as clients may be less motivated to donate resources such as referrals due to a lack of trust and dislike of instrumental motivations.. Zott and Huy (2007) uncovered similar findings when exploring how symbolic action improves resource acquisition in entrepreneurial firms, finding for instance that providing exceptionally fast customer service conveys professional organizing. Overall, there is a mixed pattern regarding perceptions of economic capital. Bourdieu wrote that economic and cultural forms of capital are primary, as people *"tend to draw disproportionately from either cultural or economic resources in their struggle to maintain and enhance their positions within the social order"* (Bourdieu cited in Schwartz 1997: 137). Differences suggest that within small accounting practices, owners have various orientations towards different forms of capital and that for some, economic capital is relatively more important than social, cultural of symbolic forms.

Related to the issue of fee income and profitability is pricing, which was a common theme to emerge from discussions with participants. The pricing of services, particularly professional services, is widely acknowledged to be a difficult and complex task due to a number of factors: information asymmetry in the market for professional services, which makes quality hard to assess before or even after consumption; and due to the highly customised nature of the service offering, which makes many providers unwilling to estimate prices (Bryson *et al.* 1993; Løwendahl 2005; Maister 1993). Simon made a comment which summed up the complexities of pricing accounting services effectively:

> *It's like someone asking how much would it cost to paint my house and expecting someone to answer without knowing how many rooms there are in your house or what size the house is. You do need a lot more information and sometimes there's a lot of work to actually get to that position. That's what an accountant has to face when you take someone new on, it's just like painting a house. You can drive past it and say two bed semi but you open the door and start working and that's when you find that all the plasterwork falls off.*

One way of overcoming such problems has been the use of cost-based pricing approaches by professional service firms, particularly generating income through the number of billable hours worked and the price charged per hour. Most research on the pricing of accounting services has been conducted with larger firms, particularly price setting for audit and non-audit services (DeFond *et al.* 2002; Ezzamel *et al.* 2002; Larker and Richardson 2004; Willett and Page 1996). This study therefore contributes to the relative paucity of research examining the setting of fees by small accounting practices. The way in which fees were set by participants emerged through analysis of interview data into four principle pricing techniques, which are defined and discussed in the following section: time recording systems, which were sometimes dynamic; value pricing and fixed price agreements; compassionate pricing; and discounting fees.

Time recording systems were used by James, Andrew, Simon, Henry, and Janette, who all owned firms that were Chartered partnerships and employed staff. Organising fee income through billable hours is commonly used in larger firms, and in the present study was also used mainly by these larger practices: James, Andrew and Henry all had three or more partners and Simon and Janette were in partnerships with staff. For smaller firms, the practicality of time-recording methods may be an unnecessary administrative burden, particularly for sole traders. Most participants found to use time-recording systems were flexible in the way in which they applied this technique. Simon's comment describes how the fee per hour would be dependent, to some degree, on the size and type of firm they were dealing with:

> *(Our business uses) a time recording system. It's a discipline and at the end of the day, it lets you know if you charge out your time and you know what earnings you want to make, so you decide that your time is worth x. So I've spent an hour with you, so you charge a rate which for one firm I'll charge £110 an hour and for another firm I'll charge £55, depending on the size of firm you're dealing with.*

The finding that professionals engage in price discrimination or 'dynamic pricing' whereby customers are charged different prices for identical services has been found elsewhere (Winer 2005). It was also found that clients were charged different rates according to which members of staff carried out the work, with partners charging a premium rate for their services. It was common for participants to devote extra unbillable time to ensure clients were satisfied and this usually involved extending their working hours or taking work home with them. James outlined a scenario which was mentioned by a number of firms using this system of pricing:

> *Giving a client what he wants is always good for your business but it's just that balance with how much time you have to give up. As I said, I come in early in the morning. so if it's something that isn't very profitable or maybe not profitable at all for the business but I know will make that a happy client, I do it at that time in the morning and it doesn't get charged. You just have to do these things. I mean I work twelve hours a day and I only charge seven so somewhere along the line a lot of hours get lost on various things.*

It has been noted that this flexibility in pricing is more synonymous with small practices or traditional professional practices which are more concerned with customer relationships than speed and performance (Empson 2007).

For those participants found to use various types of fixed (Irene, Phil) and value pricing (Jeff, Samuel, Gavin) strategies, the negative implications of a time-ledger system and its implications for customer relationships were found to have contributed to their desire to set up their own practice. Irene's comment is indicative of the sentiments of Richard, Samuel, Jim and Janette, all of whom had previously worked in larger practices:

> *The practice we were in before, I mean it was a very busy practice, but it was a conveyor belt. It had to be actually, to be commercially viable. You have systems in place and to make any money out of it, it has to be very regimented. Unfortunately, in that kind of situation, if a client comes up with an usual topic or wants more than what's sort of paid for or if they're wanting more connection than what's already been planned then the job become less profitable. So I think there's a certain size where it's difficult to give as much attention to the client as the client would like and still be commercially profitable. Or you can charge the client for the time of course and then they get very upset with the amount of fees.*

The fact that larger accounting ventures, with economic models and performance targets, have to be more rigid in their feeing structure has been confirmed by other studies (Anderson-Gough *et al.* 2001; Empson 2007). Participants in this study who had worked for large accounting firms stated that overtime would often not be charged. Accountants in these firms have targets which must be met and appraisal is often based on coming in under budget (Anderson-Gough *et al.* 2001). For those participants using fixed price agreements, clients received an estimate for work done in advance, (on the basis of previous experience), and any contact required to fulfil this contract was generally not charged for.

It has been suggested that businesses can price in transactional or relational ways (Morgan and Hunt 1994). Fixed pricing methods found in this study seem to fit with the latter mode. As well as being relationally orientated, there may have had other considerations, such as portfolio prestige, which influenced the final prices set for clients (Hultman and Shaw 2003; Shaw 2006). Portfolio prestige refers to '*the extent to which the work commissioned by clients enhances a firm's reputation*' (Shaw 2006: 15). By adopting a value pricing approach, businesses were pricing with transparency and emphasising value for the client. Such an approach could satisfy or attract certain prestigious clients. Alternatively, in order to reciprocate resources such as referrals from clients, fees might be kept artificially lower when using this approach to pricing.

Other participants (Gavin, Samuel, Jeff) stated that they used 'value' pricing, where '*the client gets everything*' (Gavin), which would include unlimited phone calls and other services in an all inclusive package. Again, the principle is value for the client: having unlimted access to the accountant and the security that this would not incur additional fees. Client value was again related to reassurance and security, as Samuel's comment implies:

> *We don't sell accountancy services, we sell peace of mind. That's why our clients phone us up, they need peace of mind and it might just be a case of saying we've got that, we've checked it or if you phone this broker, or this is the consequence of that… and that's all they need half the time is five minutes, ten minutes.*

Using this approach gave extra economic security to clients as they would not receive unexpected bills throughout the year for additional services. The notion of value pricing is, howevr, generally associated with non-professional business firms (Doyle 2008).

Three participants (Richard, Joyce, Melanie) set fees according to what the client could afford, which may be termed 'compassionate' or interpersonal orientation pricing (Cron *et al.* 2009; Graham *et al.* 2007; Rubin and Brown 1975). The behavioural effects of interpersonal pricing decisions are relatively under-researched (Cron *et al.* 2009; Graham *et al.* 2007), and where research does exist, it has often focused on gender differences that result from different interpersonal orientations. Women are seen as placing greater value on personal relationships, and are therefore more sensitive and reactive to the interpersonal aspects of their relationship. Winer (2005), for instance, refers to pricing as a form of communication, suggesting that those with a high interpersonal orientation will tend to take into account the personal characteristics of their customers and adjust their communication and pricing strategies and tactics accordingly. Also, in moral decision making it has been found that men tend to use the value of justice or rights whereas women "*more often value responsiveness and the preservation of relationships*" (Fowers *et al.* 1996: 162).

In the present study, those participants who emerged as having an interpersonal approach to pricing included Richard, Joyce and Melanie all of whom were sole traders and CAs. When service professionals are sole proprietors, they have been shown to have greater flexibility in their approach to pricing and to operate pricing discretion in individual transactions (Graham *et al.* 2007; Winer 2005). Joyce stood out in this group in that she explicitly stated that she would undersell her services compared to large firms, and tried to support struggling businesses and women in business. Helping these businesses, or 'lame ducks', was more important than gaining fee income, as she explained:

> *I think of a figure and think well can they afford it. No they can't, but then they know I'll say restricted and when they can afford it in the future. I do think I've probably helped a few people out of bother. That's what I want to do. I see if I can help, and I try and see if I can get their business going again.*

Joyce did add that there was an unspoken ‘sort of barter system’ and that in return there may be trade-offs, such as her clients sourcing items she might need for her other business. It was also apparent that, unlike other participants, Joyce did not rely on the income from her accounting practice as she had two other businesses running concurrently. Melanie had previously worked for Joyce and therefore continued a similar feeing strategy with the client base she had purchased from Joyce, and would sometimes not charge for work supplied to certain needy clients. Melanie did feel for newer clients, however, that her feeing structure was broadly in line with that of larger CA firms. Richard stated that he tended to charge people what they could afford, adding “*I mean you’ve got an idea of what the works worth, and what you can actually charge people”*.

Recent research has shown the link between performance and compassionate pricing to be complex: whilst lower prices means lower income, resulting customer loyalty may improve long term profitability (Cron *et al.* 2009). Bourdieu (1977) conceptualises acts such as aid to the needy as symbolic investments, which provide the possessor with claims on the labour and resources of others in the future. Although Richard, a male participant, priced in this manner, there was some support for the notion that gender impacts on pricing decisions and that women adjust prices because of relationship orientated behaviours (Cron *et al.* 2009; Graham *et al.* 2007). Irene did not generally use compassionate pricing, but did comment that she sometimes worked for greatly discounted fees and would not pursue fees from clients that were having financial difficulties. Female professionals charged needier clients less than better off ones, with the exception of Janette who stated she could not adopt this approach because she was in a practice which represented a larger number of associates. These participants were in firms that were performing well according to the owner’s expectations, lending support to the notion that women’s interpersonal approach may actually create an advantage in the long run (Babcock and Laschever 2003; Cron *et al.* 2009).

A number of participants did not feel that pricing was especially important, particularly Simon and Irene, who believed they were able to charge what they felt was a reasonable fee for the work required. Inflated fees would sometimes be quoted as a way of discouraging clients with whom they did not want to do business. Based on the quality of their personalised service, credibility and reputation, these participants felt their clients were not particularly price sensitive, as Simon comment illustrates:

> *I don't think pricing is that important, I think service is. I mean pricing can be important if you start whacking massive fees out there then you'll lose people but I don't think pricing is in the main an issue for us. People want your service and they're prepared to pay a reasonable fee. I do get asked to quote for work and depending on if I want the work, if I don't want the work I quote a high fee and if I do want the work I quote correctly.*

Some of the firms that used time-recording procedures also felt that service quality and reputation were important factors in attracting and retaining clients rather than lowering fees (Andrew, Janette, James). This supports the traditional view of accountants and how they create value for clients (Løwendahl 2005). Using this pricing method demonstrates high symbolic capital: clients are willing to pay a reasonable amount of economic capital for personalised and customised service which, based on either reputation or experience, is perceived as credible, trustworthy and fair value for money.

Some participants used discounting when setting their fees, for instance by rewarding referrals or quoting significantly less than their competitors. Løwendahl (2005: 153) explains why this pricing practice is rarely used in professional service firms:

> *… there is no automatic relationship between reduced costs and increased sales. Sales depend on credibility, reputation and expected service quality, and many cost reduction efforts of professional service firms have been perceived by clients as a reduced ability to deliver high quality.*

Those firms that used this practice did not necessarily find it difficult to attract customers but it is debatable whether they could retain customers as effectively in the longer term. Patrick and Jim were both in relatively young firms (just over three years) but Phil, in a more established firm had already found that he was losing clients who had been quoted lower fees by unqualified accountants. Professional service firms have traditionally not operated in open-price competition in a free market, and often "*do not compete on price or cost, and some do not even primarily maximise profits"* (Løwendahl 2005: 163). Two of the three participants who discounted their fees had come from industry jobs which may explain why they were not adopting the more traditional approach to setting fees in the accounting sector. In light of fees being safeguarded traditionally by credibility and reputation, the discounting of fees could imply lower symbolic capital amongst some participants.

There are also ethical issues underpinning the way accountants set fees and reward referrals. Phil had come from a mid-tier accounting practice, and although he reduced fees to retain clients, he commented that "*ethically you're not supposed to offer inducements to get other clients, but a lot of people do do it. We're not supposed to do it, so when it's done, it's done underhand.*" Detailed guidelines about professional conduct and codes of ethics are set out for accountants in public practice. The Institute of Chartered Accountants in England and Wales Handbook, for example, advises its members:

> *...professional accountants in public practice who obtain work having quoted levels of fees which they have reason to believe are significantly lower than existing fees or, for example, those quoted by other tendering firms, should be aware that their objectivity and the quality of their work may appear to be threatened by self-interest in securing the client.* (Section 240.2C ICEAW Members Handbook, Code of Ethics: 203)

These guidelines warn about the threats to objectivity, professional competence and due care that can arise from the processes of setting fees and giving or receiving inducements. Although not legally binding, the implication of these recommendations is that professional accountants using such practices are jeopardising their independence and may be threatened or accused of professional misconduct. Most participants stated that they might restrict fees to some extent, but not openly, which concurred with this view.

The only participants who openly rewarded referrals were Henry and Jim. Henry was in a traditional CA practice, but he discounted one client's bill from twelve hundred to four hundred pounds to show appreciation for referrals. As one of the youngest participants in the sample who was newer to practice, his outlook on the accounting sector was different to some of the older participants. Research has suggested that younger accountants have lower ethical standards and less professional identity than their senior peers (Elias 2004; Eynon *et al.* 1994). When questioned about the issue of discounting fees in the accountancy industry, Henry commented:

> *I think this comes historically and comes back again to CA's because years ago they weren't allowed to poach, they weren't allowed to do that whereas it's now changed slightly and I think it's just taking a different slant on it.*

Concurring with this, Jim, who also rewarded referrals, commented that "... *it's maybe not the right way or the official way to do things but I'm not doing anything wrong".* The giving of financial rewards and other gifts to clients constitutes the accumulation of symbolic capital on the part of the possessor. This distinctive type of power based on obligation or gift debt (Bourdieu 1977; Smart 1993) was viewed by most participants as inappropriate to the nature of the profession, particularly if gifts were being given to them, and this point will be referred to when exploring symbolic capital further on in the analysis.

Final measures of economic capital included: the size of the firm in terms of employees (which may also indicate cultural capital); and whether the firm had premises or was operated from home. These results are detailed alongside the satisfaction with profile findings in table 6.2:

Table 6.2: **Employee Numbers and Location of Participants' Firms**

RESPONDENT	SATISFIED WITH CURRENT PROFILE	TOTAL NO. OF EMPLOYEES	NO. OF QUALIFIED EMPLOYEES	LOCATION
Jeff	Not at all	5	2	Office
Patrick	Not very	0	0	Home
Gavin	Not very	5	1	Office
Phil	Not very	5	0	Office
Samuel	Not very	6	2	Office
James	Not very	14	6	Office
Richard	Neither	3	0	Office
Henry	Quite	30	17	Office
Melanie	Quite	0	0	Home
Simon	Quite	2	1	Office
Jim	Quite	0	0	Home
Andrew	Quite	23	16	Office
Joyce	Very	0	0	Home
Irene	Very	0	0	Office
Janette	Very	7	3	Office

The pattern in terms of satisfaction and number of employees was that many of those participants who were satisfied with the profile of their firms had no employees (although some participants were in partnerships and therefore did not work alone). There is relatively little literature on human resource management in small enterprises (Hayton 2004; Heneman *et al.* 2000) which is surprising as employees are a key source of human capital and therefore contribute to performance and competitive advantage from the resource-based view (Barney 1991; Westhead *et al.* 2001). Managing employees was seen as resource intensive and was the cause of a number of the critical incidents identified by participants. This was also found in a study by Rutherford *et al.*

(2003). Table 6.2 shows that those firms with a *small* number of employees were relatively more dissatisfied, especially when a significant proportion of these were not qualified accountants. In professional service firms, the importance of well trained and qualified staff has been shown to be important for reputation and performance in previous studies (Greenwood *et al.* 2005; Smets *et al.* 2008). The conclusions from these findings are that there may be performance benefits to having either no employees or a large number of employees. Having a low number of employees, particularly when a significant proportion of them are not qualified, was associated with low satisfaction of participants with the profiles of their firms (four of the six participants were in this situation).

Working from home as opposed to having office premises was less common amongst participants. Out of the four participants who worked from home, two were sole traders and two were limited liability companies and only Patrick was dissatisfied with the profile of his business. It emerged that these owners either did not want to take on the additional risk premises would entail (Jim, Melanie), or did not want to grow the business any bigger (Joyce, Patrick). Most participants who worked from home felt that they would need to significantly increase their clientele and take on staff to justify the additional costs they would incur, as Jim comment indicates:

> *It's a far cheaper in the initial stages, it's far cheaper to work like that. I don't have any costs. I don't have to pay rent and rates and staff, it's just all done in there.*

The impression of those participants with premises was that accountants working from home were less serious about their practice, as Henry's comment indicates:

> *I know some accountants who work from home and they sort of bob along through life and accountancy is almost like a hobby to them. Not being disrespectful, they make quite a bit of money out of it but they could make a*

> *lot more if they applied themselves but it's like they're really into this and I just do accounts because it lets me do this. So maybe maximising profits isn't their goal.*

It emerged from discussions with the participants that having premises for the business can be important for signalling both economic symbolic capital. That signaling effect of location and power embodied in 'places' has been explored in other studies but has focused predominantly on the impact of location on large corporations (Dovey 1992). For small firms, these findings suggest that working from home could send a negative signal to clients, other accountants and external organisations such as the Inland Revenue. For participants with premises, it emerged that the style and location of their offices also had an impact their ability to attract clients and meet other business people. For those participants with premises outside of the city centre, location was commonly cited as a reason for making it difficult to meet people. A number of participants also discussed how the particular location and style of the premises was important for signalling the quality of their practice to clients and other stakeholder. James, for instance, commented on moving his practice to a prestigious location in central Glasgow:

> *We moved up to Park Circus. We just felt that it was a nice area, a business area. Where we were in Paisley was okay but it wasn't very salubrious. If we were trying to attract better clients then some of them might not be attracted to the business area so we felt Park Circus would be a better place.*

It was interesting to note the symbolic implications of economic capital such as location and the interrelationship between location and gaining access to other forms of capital, for instance, by signaling status to clients and other accountants. This supports Zott and Huy's (2007) findings with respect to the importance of symbolic management.

6.3 Cultural Capital

Thompson (1999: 394) writes that "*knowledge, expertise, skill, respect and standing in the community all contribute towards the successful operation of a productive enterprise"*. Knowledge is increasingly viewed as a powerful engine of production, and successful companies are "*dominantly repositories and co-ordinators of intellect*' (Quinn 1992: 241). Despite this widely held assertion, there are currently mixed findings as to the impact of human capital (a principle component of cultural capital) on entrepreneurial performance (c.f. Unger *et al.* 2009). Davidsson and Honig (2003) found that human capital predicted entry into nascent entrepreneurship, but was only weakly related to carrying the start-up process towards successful completion. In industries with high entry barriers, industry specific experience and education have been shown to have positive effects on entrepreneurial performance (Cooper and Gimeno-Gascon 1992; Lerner and Haber 2001; Robinson and Sexton 1994). By contrast, in sectors such as hospitality and tourism, previous education has been shown to have little impact on performance, although other forms of human capital such as managerial skills do (Haber and Reichel 2007). It was discussed in the literature review and methodology that this study's focus on qualified accountants would lead to similarities in institutionalised cultural capital. It was therefore posited that cultural capital would have relatively little impact on performance and that variations in other forms of capital, particularly social capital, might emerge as explanations for differences in performance. In-depth evaluation of data related to cultural capital revealed a number of differences between participants which may have impacted on their firms' performance.

Bourdieu (1986) conceived that cultural capital is comprised of embodied, objectified and institutionalised forms. The research did not uncover differences in objectified cultural capital, which refers to the accumulation of valued cultural objects such as paintings. In its embodied state, cultural capital is manifested through cultivation and self-improvement, achieved through time or "*external wealth converted into an integral part of the person, into a habitus, that cannot be transmitted instantaneously*" (Bourdieu

1986). In its institutionalised form, cultural capital takes the form of academic or other qualifications: "*a certificate of cultural competence which confers on its holder a conventional, constant, legally guaranteed value with respect to culture"* (Bourdieu 1986). The discussion below will first examine explicit and tacit knowledge accumulated by individuals before turning to issues of embodied cultural capital.

6.3.1 Explicit Knowledge

Incorporated cultural capital can refer to both explicit and tacit knowledge. Articulable or explicit knowledge is gathered by professionals principally through formal education, which can be codified and is therefore easily transferred (Liebeskind 1996). Variances in education could be identified both through the perceived quality differences amongst different professional organisations (referred to below as symbolic cultural capital), different credentials attained, notably in terms of audit, and also in terms of the educational institute attended and qualification achieved. Participants' qualifications, previous professional experience and membership of external organisations are detailed in table 6.3:

Table 6.3: Indicators of Cultural Capital

PARTIC-IPANT	EDUCATION	PREVIOUS EMPLOYMENT (HIGHEST POSITION)	ACCOUNTING CREDENTIALS	MEMBERSHIP OF EXTERNAL CLUBS	SATISFIED WITH PROFILE
Jeff	HND (Glasgow College), MBA (Strathclyde)	Industry	Practicing Certificate (ACCA)		Not at all
Phil	BA (University of Glasgow)	CA (trainee to partner)	Practicing Certificate Audit (ACCA)		Quite unsatisfied
James	HND (Glasgow College)	CA (audit senior), Partner	Practicing Certificate Audit (ACCA)	Golf, Board of Directors	Quite unsatisfied
Samuel	HND (Glasgow College)	CA (trainee to partner)	Practicing Certificate (ACCA)	Chamber of Commerce, Rotary	Quite unsatisfied
Patrick	BA (University of Glasgow), MBA (Strathclyde)	CA (trainee), industry	Practicing Certificate (ICAS)	Church	Quite unsatisfied
Gavin	HND (Glasgow College)	CA (audit manager)	Practicing Certificate Audit (ACCA)	Golf, Rotary	Quite unsatisfied
Richard	BA (University of Glasgow)	CA (audit senior), Partner	Practicing Certificate Audit (ICAS)	Karate, Tai chi	Average
Melanie	HND (Napier College)	CA (accountant)	Practicing Certificate Audit (ICAS)		Quite satisfied
Henry	HND (Glasgow Caledonian)	CA (trainee)	Practicing Certificate Audit (ACCA)	Golf	Quite satisfied
Simon	HND (Glasgow College)	CA (audit senior)	Practicing Certificate, Audit (ICAS)	Golf, Chamber of Commerce, Private Members Club	Quite satisfied
Jim	HND (Glasgow College)	CA (trainee), Industry	Practicing Certificate (ACCA)	Church, Community Council	Quite satisfied
Andrew	HND (Perth College)	CA (trainee to partner)	Practicing Certificate Audit (ACCA)	Golf	Very satisfied
Irene	BA (University of Dundee)	CA (partner)	Practicing Certificate Audit (ACCA)	Chamber of Commerce, FSB	Very satisfied
Joyce	BSc (University of Edinburgh), HND (Napier College)	CA (partner)	Practicing Certificate Audit (ICAS)	Tennis (treasurer), Alpaca Society (treasurer), Ladies Association	Very satisfied
Janette	BA (University of Edinbugh)	CA (accountant), Industry	Practicing Certificate Audit (ACCA)	Curling, Golf	Very satisfied

Many participants had a HND (from a College) as opposed to a Bachelor degree (from a University). Some commented that they considered the HND as good, practical training, whilst the comments of others suggested that they felt the HND was less well respected. Simon for instance commented:

> *I try and hide my HND. I don't mention that because it's a bit poo-pooed upon although it was actually a very practical course as opposed to a BA et cetera.*

There was a pattern for those accountants who had a bachelor degree to have reached higher position in their professional careers prior to starting their own business, and to be more satisfied with the profiles of their firms. Gaining further non-accounting qualifications, such as an MBA did not appear to improve the performance of the firm, suggesting non-professional explicit knowledge was less useful. Education prior to HND or bachelors degree was only mentioned by one participant, Joyce, who commented that her partner had most likely been fast tracked in his career due to attending a prestigious private school in Edinburgh.

In terms of professional credentials, all participants had practicing certificates but a number did not have an audit qualification. This finding concurs with other recent research which found that the audit function no longer constituts the backbone of activity or fee income of small firms of accountants (Ramirez 2009). Eleven of the fifteen participants had maintained their audit qualification, even though many of them had only undertaken one or two audits following the raising of the minimum audit threshold to £5.6 million. Participants with a significant number of audits tended to have a large number of regulated clients who required an audit, for example Independent Financial Advisors or charities. The loss of audit work, in addition to the direct loss of fee income, was seen as having negative implications for small practices. One implication, referred to by James, was that audits tended to provided larger and more attractive jobs:

> *… the ones where you have a better chance of spin-offs for other things, although professional ethics are cutting in on how much of that you can do and it what circumstances you can do it… the ethical issues have caused real problems in being able to do audits in the way that they have been done.*

A second negative implication was that the raising of the minimum audit threshold meant that it was no longer essential for small limited companies to have their accounts prepared by a qualified accountant. This had increased the number of 'unqualifieds' who were in direct competition with certified professional practices for their clients. Unqualified accountants do not have to pay fees to a professional body or undertake continuing professional development which means it is easy for them to undercut the fees charged by professional accountants.

Increased regulation means that, for many participants, audits were no longer seen as cost-effective due to the time these required and the costs of having another firm review the file. Despite these costs, most participants stated they intended to maintain their audit qualification, as there was a sense of pride in this credential and the skills it signifies. Simon's comment indicates this:

> *I mean we'll still maintain our audit because if something comes in that you want to audit, and you don't have that competency, then if it's lost, it's lost forever. Plus I've got twenty five years experience of audit, so hopefully there's some value in that.*

The only participants who did not have their audit certificates were Samuel, Jim, Jeff and Patrick. These participants were in a position where they were able to benefit from the changes that had depleted the cultural capital stock of audit-registered accountants. The mass of larger limited companies not requiring an audit were in the marketplace for non-audit registered practices. In light of the fact that most small companies no longer require to be audited, professional bodies have encouraged small practitioners to become 'general business advisors' (Ramirez 2009). At least three of these four accountants saw their primary role as a business advisor or consultants rather than an accountant.

This shifting professional identity is related to the nature of the professions. The cultural capital of professions relies on an ability to limit the production and supply of their knowledge, and to secure its value through implied legitimacy and authority (Cooper *et al.* 1994; Hamilton and Ó hÓgartaigh 2009; Maister 1997; Thompson 1999). If accountants are not answerable to a professional body and do not require professional credentials, their status within the social order will lessen (Alvesson 1993). Within the business advisory and consultancy sectors, accountants also face heightened competition from a wide range of firms with reduced economic outlays including the costs of professional association. A number of incidents were reported in which a non-qualified accountant had secured a client from one of the participants by offering a lower price, although the better performing firms believed their strong client relationships protected them from this type of competition.

6.3.2 Tacit Knowledge

Differences in tacit knowledge mostly emerged from the different professional backgrounds of participants. Tacit knowledge is more embedded than articulable knowledge, partially in individual skills and social context (Hitt *et al.* 2001). It emerged that the different professional backgrounds of the participants resulted in them acquiring different skills that could be of value to performance, such as technical and industry knowledge, administrative and managerial skills, and inter-personal skills and communicative abilities. According to Maister (1997), tacit knowledge is integral to professional skills and is seen as having greater strategic value, as it often unique and difficult to imitate.

Most participants stated that they were generalists rather than specialists and this has been confirmed by other studies of small accounting firms (Ramirez 2009). This goes against the general trend for larger firms which are becoming increasingly specialised in the areas they offer (Brint 1994; Maister 2000). Resource constraints, such as time, limit the amount of specialist knowledge small practitioners can acquire, particularly as they must also keep up to date with rapid changes happening in the field. Gaining the needed knowledge and expertise in tax issues was mentioned by many participants as being particularly problematic. Whilst larger firms have personnel or entire departments dedicated to tax, for smaller firms, it just forms one part of the numerous services they offer to their clients. In this respect, having partners or other social capital sources of information and advice, could be useful.

Participants with qualified staff, previous experience at a larger accounting firm and or previous experience as partner benefited from access to higher levels of specialist knowledge. Clients often look to their accountants to save them tax, which places smaller firms at a disadvantage to larger firms with more specialised knowledge. Simon made an interesting comparison to these larger firms being the "*Mercedes taxi that you can hire. We're just your black hack*". The fact that smaller accounting practices were generalists could, however, offer clients, as James' comment indicates:

> *Owner-managed businesses need multi-faceted advice and they can get that from one individual largely within small firms. They can't get that from one individual in a large firm because they all specialise and get pigeon-holed, so whilst one person might know a great deal about tax, they won't have a clue about employment law or anything else…. In a small firm you tend to become, not quite an expert in everything but you have to know something about everything so you can at least have a competent conversation about it.*

Generalised knowledge of areas such as tax was gained tacitly, from experience over time of dealing with similar firms and scenarios, and having experience in dealing with relevant external organisations such as the Inland Revenue.

Every participant interviewed stated that, to some extent, they would offer their clients business advice. A number of participants explicitly offered services to clients that were additional to compliance and audit (Samuel, Gavin, Jeff, Jim, Phil and James). This group tended to have a positive outlook on marketing because they had come from industry positions, joined marketing-focused organisations or taken interest in business gurus. External factors were important in influencing the strategies and perspectives of these participants. This confirms other research which has noted communities of practice (Brown and Duguid 1991) and specific actors (Whittington *et al.* 2003) can have a strong micro-level role in the small firm strategy. Samuel and Gavin both took the view that they were first and foremost business advisors, and had both joined an external organisation which aimed to help its members market themselves to clients.

Looking at previous professional experience, it can be seen that a number of those participants satisfied with the profile of their firm had achieved partner status prior to starting their practice (Joyce, Andrew, Richard, Irene). Only James had previously been a partner in the group of participants who were dissatisfied with the profile of the business. Being made partner can be seen as indicating a high level of tacit knowledge, as it is normally those who are most effective in using and applying their knowledge that are awarded a stake in the firm (Galanter and Palay 1991). A specific outcome of previous partnership was the access this granted to an initial bank of clients at start-up, discussed in the last chapter as a social capital resouce. This confirmed findings in other research which has proposed that experience gained as a partner contributes to a competitive advantage (Harris and Helfat 1997). It has also been proposed that partners continue to acquire tacit knowledge which produces the highest quality service to clients and thereby also contributes to firm performance, through customer loyalty and referrals (Hitt *et al.* 2000).

Tacit technical and industry knowledge were mentioned by some participants as resulting from their previous professional experiences, and particularly from the types of organisation they had done their training with. Those participants who had done their training with large accounting firms tended to reflect back positively on the high standards their training experience had given them. Richard's comment is indicative of this sentiment:

> *I thought I could do this much better myself. Basically it was the quality of the work. What essentially I did at Price Waterhouse was auditing … and when I moved back down the profession I realised we weren't really auditing. We were preparing the accounts but the audit was just rubber stamping really*.

As this comment indicates, there was sometimes perceived to be a lower standard of work in some smaller accounting firms and this was one of the reasons Richard, Simon, Janette and Gavin had decided to start their practices. Coming from a larger firm also increased the likelihood that the accountant would have more specialised technical knowledge, such as audit or tax, as there are more routes for specialism in such firms (Cohen 2006).

There was evidence to suggest that external organisations, such as the Inland Revenue, and Audit Inspectors also had the view that small practitioners were 'bad practitioners' (Ramirez 2009). Simon, for instance, made the following comment following a recent audit inspection:

> *You always get picked up on things as a small firm because you're not necessarily doing these things as well as a large firm would. I carry a lot of information around in my head and I'm maybe not as good as bigger firms at putting it in the files.*

Due to resource constraints such as time, the participants in this sample found it difficult to keep their files in order, especially in light of the increasing burden of regulation.

Participants gained tacit knowledge of certain areas of accountancy over time, particularly if they had a number of clients who were in the same industry. A number of participants (Simon, Jim, Richard and Janette) found benefits from having a concentration of clients in one particular sector, as this meant they could offer them better advice through having experience of dealing with similar scenarios. There was some support for the propositions of Chia and Holt (2006) and Anderson *et al.* (2007) who develop a Heideggerian approach to strategy as practice, in which the actor is construed as a 'non-deliberate, relationally-constituted nexus of social activities'. This strategy was assisted through generating large numbers of referrals from existing clients, which was particularly successful if the industry was quite tightly knit or localised (such as Simon's experience with medical practitioners). More often this strategy was conscious and done intentionally to benefit from knowledge economies of scale and secure better performance through some degree of specialisation. It also related to macro-environmental factors: for instance, the decision to specialise in charities safeguarded a number of participants from the loss of audit fee income, as charities still need their accounts audited under the amendment to the Companies Act (1985).

Client knowledge was also a valuable asset, particularly for those participants who had succeeded their parents or were in more established firms. This in-depth tacit knowledge of clients accumulated over time makes the relationship between small practitioners and their customers highly valuable. Janette commented that most of her clients had been with the firms for years, meaning "*we know what their possibilities are, and their pitfalls"*. Being involved with clients, knowing their circumstances and being committed to offering them the best service possible has been shown to improve client commitment in professional services (Frow 2007). These traits were found in most participants' discussions about their client relationships, so it would be useful for further empirical work to investigate commitment from the client's perspective.

Professionals who work in non-professional firms have been shown to have lower commitment to professional norms, and higher commitment to their clients and organisation (Suddaby *et al.* 2009). Given the practitioners who considered themselves as business advisors, as opposed to accountants, were in the group of participants that were least satisfied with their profiles and found gaining new clients difficult, it may be concluded that adopting a managerial as opposed to a professional logic had a negative impact on performance. This supports Maister's (1997: 11) assertion that *"successful (professional) firms are clearly differentiated by a strict adherence to values, i.e. professionalism".*

6.3.3 Embodied Cultural Capital

Cultural capital in its embodied form includes having skills and knowledge in areas unrelated to accounting. It emerged that participants were often asked for information and advice outside of accounting. As a result of experiences gained over the course of their lives, participants were sometimes able to offer advice that helped their small business clients. Joyce, for example, commented that "*if I can, all areas I'll have a go at because we've run businesses, I think I'm probably more proactive."* Going beyond discussing accountancy in a relationship may indicate multiplexity (which was explored in the last chapter), and this may improve the relational quality of the tie.

Shane and Ventakaraman (2000) propose that an important question for entrepreneurship researchers is why, when and how some people and not others discover and exploit opportunities. To answer this question, Baron and Markman (2000) propose that entrepreneurial behaviour should be explored, particularly an individual's effectiveness dealing with others in face to face contexts. Communication effectiveness has also been shown to be an important component of satisfaction in the service literature (Neergaard *et al.* 2005; Patterson *et al.* 1997; Sharma and Patterson 1999). Baron and Markman (2000, 2003) posit that to understand success, social capital is only part of the story: social skills are important determining who will be able to exploit their social capital effectively. In other words, to understand the foundations of reputation and the breadth and depth of a person's social network, you need to understand how effectively they interact with others.

When exploring social competences, Baron and Markman (2003) found that across two different industries (cosmetics and high-tech), such competencies were positively related to financial success. In capital terms, social skills add symbolic value to other forms of capital. Social skills are embodied in the individual and tend to be broad and long lasting. Following a review of the extant research, Baron and Markman (2000, 2003) identified six social skills as important for entrepreneurs: social perception; impression management; persuasion and influence; social adaptability; expressiveness; and emotional intelligence. The present study extends Baron and Markman's (2003) findings to the professional services context, in which social perception and social adaptability emerged as particularly important to the participants and the performance of their firms.

Social perception

Participants in well performing firms made comments which revealed that their social perceptiveness allowed them to build strong and loyal relationships with their existing clients. Janette, for example, had a large important client who valued discretion and independence above all else from his accountant. She commented:

> *We're just lucky to have had the involvement we've had with him. I respect, I mean, I know him so well from that point of view. I mean I don't know him at all but I know him professionally well enough. I know what he would expect us to provide his business with and it works.*

Although this was frustrating in some respects, Janette was perceptive to her clients needs and behaved accordingly, so fostering strong relationships and client loyalty. Participants in this study discussed that they would, on occasions, have to give clients bad news, suggesting the need for subtlety in communication and the importance of functional quality: *how* the service is delivered (Sharma and Paterson 1999). If bad news is not carefully negotiated, the result may be that clients blame their accountants for their situation and sever the relationship: this had happened to a number of the participants. Overall, social perception and the ability of participants to engender trust by reducing the sense of uncertainty or vulnerability felt by clients emerged as important. This embodied social skill may help to produce relational social capital to assist the performance of small ventures (Coleman 1990; Gounaris 2005; Moorman *et al.* 1993).

Social perception is also important when choosing appropriate partners and employees. Baron and Markman (2000: 108) confirmed the importance of this skill through noting that:

> *Individuals often attempt to conceal their true motives and intentions, and usually strive to place themselves in a favourable light…. Being adept at perceiving others accurately can be of a considerable benefit in these contexts and provide entrepreneurs with an important competitive edge.*

Having a partner has been discussed as an important source of social capital (Nahapiet and Ghoshal 1998), economic capital and cultural capital for the participants' firms. Whilst many of the participants reported occasional problems with staff, those participants least satisfied with performance related numerous stories of staff and partnership difficulties. Jeff, for instance, had consistently lost key members of staff throughout the history of his business, as had Samuel. A similar scenario was found with Phil and Gavin. James had experienced the breakdown of two partnerships in addition to other staffing problems, such as finding out that an employee was a drug addict that had stolen money from the business.

Evidence from the analysis supports the findings from the Baron and Markman (2003) study, as it emerged that performance benefits accrued to those participants able to effectively perceive others. This was identified by the ability of participants to recruit and retain members of staff and choose appropriate partners. James, Jeff, Samuel and Phil all referred to the fact that they had misjudged people over the history of their firms and this had led to major critical incidents that had a negative impact on performance. As three of these participants had significant managerial experience in a professional context, analysis suggests that objective measures of human capital were enhanced by understanding differing levels of social perception and how these impact on managerial skills.

Social adaptability

In the Baron and Markman (2003) study, social adaptability was examined by assessing factors including: being sensitive and understanding; being comfortable with all kinds of people; and being able to talk to people about almost anything. In the interview, Melanie was one of the most open participants, and was very willing to share personal information and jokes with the interviewer. She also stated that, in her opinion: *"…if you're going to be someone's accountant, you've got to be able to speak to them or else you'd get nowhere."* Melanie also discussed a number of instances where, due to the client's particular circumstances such as ill health, she had gone out of her way to assist the client with their finances and had not asked for any fee. One client who had recently found out his son had cancer telephoned Melanie during the second interview, and upon returning from the phone call Melanie commented: "*He talks to me like I'm his mother… He worries about his business so he tells me every little thing. Some days he can be on the phone two or three times."* Showing emotional intelligence did not emerge as a factor which affected performance in the Baron and Markman (2003) study. However, in common with Goleman's (1995, 1998) model, social awareness and relationship management emerged as playing a role in the performance of the participants businesses in the present study. Whilst the present study did not collect data using the constructs development by Goleman, the specific role of emotional intelligence in building symbolic capital and performance in professional service firms is worthy of further research.

Many participants commented on similar scenarios and made general comments about their client relationships which implied that they were socially adaptable. Reflecting back to the importance of *homophily* which emerged from the network data, social adaptability was most likely limited by the fact that the participants did not have a wide range of contacts. Irene, Joyce and Simon all commented about the importance of gaining the right *type* of clients, who often tended to be of a similar socio-economic group or professional class. Joyce commented on the importance of this shared understanding:

> *… there's a lot of working class business out there, but you don't necessarily communicate the same way, in your own psyche. You've got to understand the business and understand the person and sometimes if they're a bit streetwise you're a bit scared.*

Although out-with the bounds of the present study, linguistics and communication skills would be an interesting avenue for further research. Patrick, for instance, commented that a lack of communication skills was widespread throughout the profession, and that accountants "*lacked the common touch, being able to speak to people and say look, we've got a problem here… and relating it back to the numbers".* Research has suggested that cognitive social capital impacts on entrepreneurial success (Lee and Jones 2008). Findings in the present study suggest that some degree of social adaptability is important for small practicing accountant to have successful client relationships.

In the professional services context, there is a need for the professional to negotiate a shared understanding with their clients, who may have little or no knowledge of accounting rules and practices. This is also juxtaposed with the symbolic and social capital benefits which may accrue for the very reason that accountants' clients *do not* share cognitive understanding. To understand the impact of social skills in the professional services context, the Baron and Markman (2000, 2003) framework may need to be extended to include dimensions of cognitive social capital, and the impact of communication skills and linguistic capital on shared understanding, norms, values, attitudes and beliefs.

6.3.4 The Performance Outcomes of Cultural Capital

With regards to performance, taking a holistic view of entrepreneurial capital and including social skills helps to explain some of the questions that were raised by the social capital findings. For example, Jeff was a member of a number of formal networks, held positions of high responsibility within his professional body and stated he had no problem meeting new people with whom he might do business. Despite this he found attracting new customers and competing with other firms problematic. Analysis suggests that solving this puzzle involves an understanding of a wide range of factors that ultimately determine success in the professional services. Viewing social competence in combination with other factors such as his industry-based professional background, allows a fine grained explanation of the performance of his firm to emerge. Supporting the view that many factors impact on entrepreneurial performance (Shane and Ventakaraman 2000) and that social competence is one such factor that will vary from industry to industry (Baron and Markman 2003), this analysis points towards social skills as being important for performance in professional service firms, and that successful long term client relationships are helped by a degree of social perception and adaptability.

Another component of client satisfaction, loyalty and referrals relates to the professionals' level of commitment. Professional services are generally intangible, complex and have credence attributes (Grönroos 1985), making it difficult for the client to assess the value or quality of the service even after consumption. The perceived commitment of the professional has been shown to impact on these value assessments (Frow 2007; Gounaris 2005). Participants in this study spent considerable time educating and advising their clients, delivering value in many different ways, such as helping them to systemise their businesses or computerise functions such as payroll. This adds value in two ways: from the customers perspective, commitment and trust are increased in the professional through engaging in co-creation (Frow 2007); from the accountants perspective, the investment in time and commitment strengthens the relationship with the client, increasing the likelihood of referrals, and enables them to sell further services which may be of higher value.

Findings regarding cultural capital and resource exchange could be used to extend the intellectual and social capital framework proposed by Nahapiet and Ghoshal (1998) in a number of ways. Their model focused only on social explicit and tacit knowledge in creating organisational advantage. The present study, through focusing on individual business owners, proposes that *individual* tacit and explicit knowledge also creates organisational advantage. In professional services such as accountancy, tacit knowledge ultimately resides in the individual but also benefits the organisation. Particularly in sole trader firms, the boundary between individual and organisational capital merges, which may make this delineation less meaningful in some entrepreneurial contexts. Secondly, the Nahapiet and Ghoshal (1998) framework focuses on the creation of new intellectual capital, as they argue that the benefits of intra-organisational exploitation of knowledge stems mainly from incomplete or missing knowledge. The findings in this study suggest that small accounting firms often exploit and disseminate the investments they have made in existing knowledge and skills.

Thirdly, the Nahapiet and Ghoshal (1998) framework focuses on the creation of intellectual capital within organisations, as they argue that this setting has particularly high levels of interdependence, interaction and closure. In the professional services, the exchange of knowledge with other agents and organisations (their clients) generates knowledge and other forms of capital which assist the performance of their firms. Finally, although they acknowledge that there is an inter-relationship between social and intellectual capital, the Nahapiet and Ghoshal (1998) model focuses on how social capital creates intellectual capital. The present analysis suggests that in the relationships between accountants and their clients, intellectual capital can be fundamental in creating social and other forms of capital. The findings suggest that the Nahapiet and Ghoshal (1998) framework would be a useful starting point to explore the exploitation of intellectual capital by small practitioners in accounting firms, as it outlines the preconditions for exchange but could be further utilised to explore the exact nature of value that is created.

6.4 Symbolic Capital

The very acts performed by accountants, such as signing off accounts, implies symbolic capital: a power to 'consecrate' financial materials and produce value which is profitable for the professional. This symbolic power has emerged from the dynamic struggle of the professions to define and legitimise themselves in society and societal groups (Albertsen 1996; Bourdieu 1983; Skaates *et al.* 1999). Symbolic power and capital, it has also been proposed, are consecrated in the language of accountants, to determine what is 'true and fair' value (Hamilton and Ó hÓgartaigh 2009), the use of audit to obtain legitimacy and accumulate capital (Everrett 2004) and the recruiting practices of accountants in Scotland (Cooper 2002). Identifying symbolic capital is particularly problematic for professionals, who live on the sale of cultural services to a clientele and for whom:

> *... the accumulation of economic capital merges with the accumulation of symbolic capital, that is, with the acquisition of a reputation for competence and an image of respectability and honourability* (Bourdieu 1984: 291).

Although related to social and cultural capital, symbolic capital can be viewed as a separate concept as it does not rely on specific relationships, but can be a '*generalised resource, so that breeding or social status may be generally impressive or influential within a society and open doors for those who possess it'* (Smart 1993: 393).

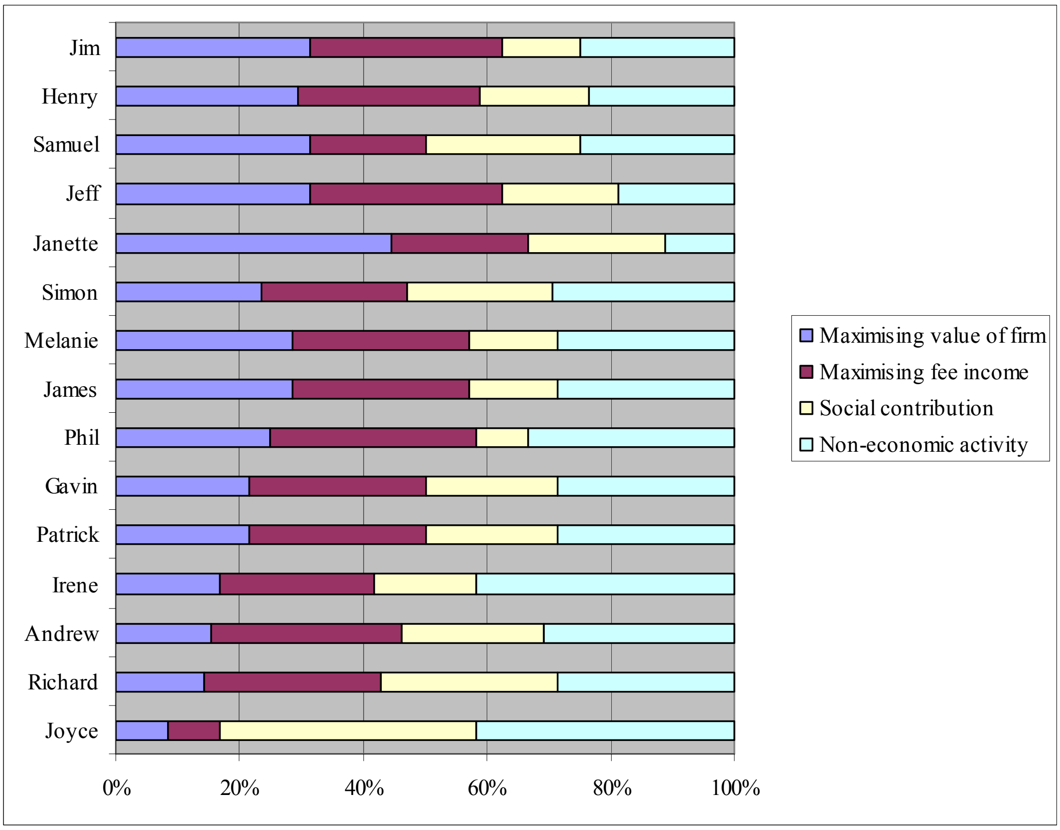
Skaates *et al.* (1999) use Bourdieu's capital framework to investigate marketing in professional service firms. However, they exclude making a distinction between social and symbolic or cultural and symbolic capital, as these distinctions are difficult to work with empirically. As they state, this omission loses some of the ability to explain changes in norms and actors perceptions of legitimate interests and therefore biases the empirical work towards stasis rather than dynamism (Skaates *et al.* 1999). They also exclude embodied capital (such as norms) as this is included in social capital. Interview data from phases one and two were examined for themes that could be relevant to the notion of symbolic capital. This section will focus on five dominant and sometimes overlapping categories that emerged from the analysis: the eschewal of economic gain; prestige; status; authority; and honour.

6.4.1 Non-economic Activity and the Eschewal of Economic Gain

Thompson (1999) writes that the accounting profession must be seen to principally organise itself around objectivity and clients' interests in order to maintain its legitimacy. It was therefore of relevance to explore themes related to the eschewal of economic gain, for instance how and why certain participants engaged in non-economic activity and whether the social contribution of the firm was seen as important. These factors, Bourdieu (1990) would suggest, build symbolic capital which is important for gaining economic capital, particularly in the professions. Symbolic capital and responsible entrepreneurship has been investigated by Fuller and Tian (2006), who found that small enterprises do engage in reputation-building, and it was orientated in different ways: towards themselves (the business); towards themselves and others; and towards others. A limitation of this analysis, as with the Fuller and Tian (2006) study, is that it did not explore the perceptions of stakeholders. The analysis therefore presents symbolic capital from the perspective of the business owner, addressing first the findings in relation to whether the participants engaged non-economic activity, for what purposes, and to what extent.

Based on interesting themes to emerge from the participants' life stories, in phase two participants were asked how important the following concerns were for the business: maximising the value of the business to prepare it for selling; maximising fee income; the social contribution of the business; and engaging in non-economic activity to enhance the reputation of the business. Each response was recorded on a Likert scale with 1 indicating not at all important and 5 indicating very important. A 100% stacked bar chart comparing the percentage each value contributes to a total across categories was created. This method was employed so that the relative importance of economic and non-economic concerns could be visually presented across the participants. The results are detailed in Figure 6.2:

Figure 6.2: **Stacked Bar Chart Comparing Relative Importance of Economic and Symbolic Capital**



This stacked chart is useful for visually gauging which participants found symbolic rather than economic capital most important for their business. Those participants who found symbolic capital more important are Joyce, Richard, Andrew, Irene, and Simon. All of these firms were satisfied with the profiles of their firms, suggesting there may be a link between the accumulation of symbolic capital and performance. As has been found with previous studies (Grzyb 2006), it is difficult for participants to quantify the economic returns on increasing symbolic capital, but generally there was a sense that such activities increased positive perceptions amongst their client base and may generate new business.

Gavin, Patrick and Samuel produced equal relative contributions for economic and symbolic capital and the remaining participants (James, Phil, Janette, Jeff, Henry, Melanie and Jim) all found economic capital more important than symbolic capital. This group was split between those who were dissatisfied (James, Phil, Jeff) and satisfied (Henry, Melanie, Jim, Janette) with the profile of their firms. Although James, Phil and Jeff all gave up their time for non-economic activities with the local community or their professional bodies, they felt the returns for their business were negligible. Of the satisfied participants who did not rate symbolic capital as important for their business, Melanie, Jim and Janette were all located in small satellite towns in the Central Belt of Scotland. Previous research has found that firms in non-metropolitan areas may engage less in reputation-building activities due to fewer options for involvement (Grzyb 2006).

The results for Joyce were the most strongly skewed in favour of symbolic over economic capital. The interviews revealed there were a number of reasons behind this, for instance, being diagnosed with cancer at aged thirty and having other business ventures meant that the economic capital from her accounting practice was not as important as for other participants. Joyce stated her main interest was in helping people, and that selling herself and her services was not a primary motivation. It transpired that through helping clients and not having primarily economic motivations, Joyce accrued symbolic capital which led to the accumulation of other forms of capital, such as social capital, as she explained:

> *I was giving my time for free yes, but it was a good way to establish your self in the local area. Picking up local clients actually helped me to get more into the community and networking for other things.*

Thus helping people generated symbolic and social capital, for instance in terms of recognition for certain benefits which have been granted. This 'denied capital' is recognised as legitimate. In this way, Bourdieu (1990: 118) explained that "*the strategy of accumulating the capital of honour and prestige… produces a clientele as much as it is produced by them*". The perception of status or legitimacy which can be produced by donating valuable resources such as time is recognised by clients and potential clients, and may then be convertible back into needed resources such as economic resources or referrals.

It was also possible to confirm this eschewal of economic gain from Melanie, who previously worked with Joyce and her husband Fraser:

> *He (Fraser) does nae look for financial out of it. Sometimes he just helps people out, like a client of mine just now who was a client of Fraser, we're going to be having a meeting to look over capital gains and inheritance tax and well, none of the two of us will fee the client for that and you should be able to get good fees for things like that. Fraser also helped out one of my clients, who had been a client of Joyce and Fraser, who's trying to sell his business because he's got cancer.*

This exhibition of symbolic capital, in donating valued resources such as time and expertise without feeing is, according to Bourdieu (1990) 'one of the mechanisms that make capital to go capital'. Engaging in non-economic activity and the eschewal of economic gain could, therefore, be associated with the performance of the firm through increasing the volume or convertibility of social and cultural capital. For instance, the symbolic capital accumulated by Fraser within networks in Edinburgh's banking community had allowed Melanie to gain access to an unsecured bank loan which she had been unable to get from her own bank. Being referred by Fraser to a bank manager he knew personally gave Melanie access to finance through the 'credit of renown' that Fraser had accrued from his dealings with this person. Bourdieu's (1990: 119) writing on symbolic capital explores how, in market based transactions, exchange can be achieved *"by virtue of the credit and the capital of trust that stems from a reputation for honour as well as wealth"*. The implication of the findings in relation to the relative configurations of capital is that those participants who placed more emphasis on symbolic capital, gain "*credit, but in the broadest sense, a kind of advance, a credence" (*Bourdieu 1990: 120) which will assist in gaining access to resources when required.

There were notable differences amongst the participants in terms of the particular types of non-economic activity they would engage in and their attitudes towards this behaviour. Richard commented:

> *I mean I do engage in non-economic activity but it's not to improve the reputation of the firm. A number of years ago I took on power of attorney for a chap who was mentally ill and he'd been left some money. I mean I got a fee out of it but the thing has been going on for years and years and I've never taken any more fees for it.*

A key point also made by Richard in the above comment is that it was not explicitly done in order to improve the reputation of the business but from a sense of moral obligation, thus signalling honourability. For Andrew and Simon, on the other hand, engaging in non-economic activity was done conspicuously in order to improve the profiles of their firms. Andrew's comment on his partnership's activities indicates this:

> *I'm not sure they're non-economic though, they're always economically motivated. [...] the motive is obviously to get to know a lot more people and hopefully develop your business on the back of that.*

The social contribution of their business was less important for Simon and Andrew than for Joyce, but giving their time up for building and maintaining symbolic capital was seen as necessary for developing a reputation and enhancing the profile of the business. Variations in the cost or intensity of non-economic activity, Veblen (1994: 32-33) has proposed, allows fine distinctions to be made between individuals who are competing within specific social arenas for status and associated advantages. Greater reputation will therefore result from acts which seem to serve no lucrative or other directly useful purpose, and symbolic capital will be increased when a greater amount of time or other resources are involved in the performance (Bleige-Bird and Smith 2005).

In terms of extant research, there is a limited and only fairly recent interest in the implications of symbolic capital for small businesses (Fuller and Tian 2006; Grzyb 2006; Spence *et al.* 2003; Shaw *et al.* 2008). The link between small firm reputation and symbolic capital needs to be explored and refined in the small firm context. The mainstream discourse on reputation has tended to focus on large enterprises, assuming smaller enterprises do not proactively engage reputation-building exercises due to resource constraints. The findings therefore add support to the emerging body of research which finds that small firms are active participants in the community and do engage in non-economic activity, whether it is for philanthropic or reputational purposes. There was some support for the notion that greater symbolic capital is found with more mature businesses (Fuller and Tian 2006). All of the participants who were found symbolic capital important for their firms were between 50 and 58 years old with the exception of Patrick. Most of the Chartered Accountants, with the exception of Melanie, were also in this category and the other category was occupied by Chartered Certified Accountants. For this category, who found economic capital more important than symbolic, the age range was 32 to 50 years old. A limitation, as stated, is that the present study did not collect data from clients. Given the analysis suggests a link between performance and the non-economic activity, gaining the clients perspective on their choice of accountant and how client's define symbolic capital would be useful avenue to pursue in future studies.

6.4.2 Prestige, Status, Authority and Honour

As far as Bourdieu's writings are concerned, the notion of symbolic capital is treated somewhat vaguely, as "*the form that the various species of capital assume when they are perceived and recognised as legitimate*" (1989: 17). To this extent, Bourdieu's definitions of symbolic capital could include numerous terms such as honour, prestige, reputation, renown, authority and attention. Concepts of reputation have been widely researched in the social sciences and Shenkar and Yuchtman-Yaar (1997)'s view is that terms such as prestige, image, goodwill and reputation have been adopted by different disciplines to denote the same concept of 'standing'.

Cogniscent of the various terms and their definitions that might relate to symbolic capital, emergent categories revealed from the participants' interviews were: prestige, defined as "*a reputation arising from success and a favourable and publicly recognised name or standing for merit achievement*" (Shenkar and Yuchtman-Yaar 1997: 1362); status, referring to the relative rank that an individual holds in a social hierarchy based upon honour or prestige; authority, related to the perceived power of the participants to influence important constituencies such as clients, external organisations and peers; and finally, honour, related to how the character and ethical outlook of the participants differed. These categories are presented in the following discussion, although it should be noted that they were often overlapping, for instance a participant's 'status' might be inferred from their 'prestige'. Symbolic forms of capital also, by definition, overlap with the analysis presented on the other forms of capital.

Prestige

Prestige was viewed in the Fuller and Tian (2006) study as coming from sponsoring local sports clubs or charitable activities. Therefore there is an overlap between prestige and the notion of engaging in non-economic activities which also reinforces social status. The eschewal of economic gain signals or advertises resource holding potential, or reputation to stakeholders such as clients and potential clients. This finding has been explored in fields outside of management disciplines. Boone (1998), for example, has used animal signalling theory as a means to explain conspicuous consumption and magnanimity in the field of anthropology. Prestige, it is proposed, can then be exploited through priority access to resources.

Prestige can be gained via association or affiliation with important individuals and organisations (Shenkar and Yuchtman-Yaar 1997; Young and Larson 1965). A number of the participants (Gavin, James, Richard and Samuel) had been asked to join the Rotary Club. This was viewed as being prestigious by the participants, as to become a member, one must be invited by a Rotarian and it is restricted to mostly professional occupations. The stated purpose of the organisation is to bring together business and professional leaders to provide humanitarian service, encourage high ethical standards in all vocations, and help build goodwill and peace in the world (Rotary International 2009). The activities of the Rotary Club therefore represent further efforts on behalf of the participants to engage in non-economic activity for a good cause.

Participants remarked that the Rotary Club do not advertise their members or charitable activities but could still signal prestige to other organisations and potential clients who were also members of the Rotary Club. The closed nature of its membership and strong norms and trust amongst members indicates that this organisation provides solidarity benefits of social capital, and therefore has potential benefits for those professionals who are asked to join. In concrete terms, such as referrals, the membership had brought little benefit to the participants' firms and was seen as a significant investment in terms of time and effort. This may explain why participants who were members were not satisfied with the profiles of their businesses.

Examining participants who were satisfied with the profiles of their firms, the principle memberships they held with external organisations which may have signalled prestige were the Chamber of Commerce, golf clubs and other sporting associations. Simon and Janette, for example, did voluntary work at a golf club which they felt helped to raise the profiles of their firms to potential clients. Most of these satisfied participants stated that they did not use sport and other leisure activities in a strategic manner to grow their businesses. James, who was dissatisfied with the profile of his firm, by contrast commented that:

If I have a game of golf in the week I do it with an aim in mind. I'm not just *going out for a nice four mile walk. I'll go out with people that I think I can talk to about business.*

This implies that an underlying strategic motivation may reduce symbolic social capital. Most participants that had referrals from associates at golf or other sports associations claimed they had never intended this to be the case and had not actively pursued clients. Being seen as *"touting for business"* (Simon) might impact negatively on the prestige with which an individual is held and therefore reduce the likelihood of gaining new business. It might also be the case that professionals who do not search actively for business give out a signal that they are already successful, making the quality of their service subtly apparent to potential clients.

Given that prestige is a *"relational, emergent property"* (Shenkar and Yuchtman-Yaar 1997: 1373) it can be signalled and received in different ways to different audiences. Joyce and her partner Fraser appeared to be the most prestigious participants as they had gained positions of renown in numerous organisations. Joyce commented that:

We had quite a high profile in Edinburgh, to a degree. Fraser was a High Constable and a member of the Leith Chambers and other things. [...] because we're both from middle class Edinburgh families with the right connections through our schools and bits and bobs, we fitted the mould, and the area of Edinburgh we lived in was very affluent so it was relatively easy.

This comment indicates that gaining positions of prestige was seen by Joyce as being influenced by their social class and educational background. This type of prestige is embodied, and cannot be transferred or created artificially by individuals. There was an underlying theme in a number of interviews, particularly those conducted in and around Edinburgh, that there was an "*old boys network"* (Janette) and that there was a 'stock chat' which would be used to assess an individuals prestige. Gaining prestige of this nature does not directly lead to improved performance but does suggest that certain participants were able to signal their standing to a wealthier constituency than others. Positions awarded in the professional bodies (as with Jeff and Phil), on the other hand, were not considered to elevate the participants' standing, as it only signalled prestige to other accountants rather than potential clients.

Status

Status refers to the relative rank that an individual holds, including attendant rights, duties, and lifestyle, in a social hierarchy based upon honour or prestige (Hargreaves 2009). The word status refers to social stratification on a vertical scale, and is seen by sociologists as formally defined rather than based on actual behaviour (Rossides 1993). Status has been categorized into two different types: achieved and ascribed (Linton 1935; Rossides 1993). Ascribed status is based on inherited position, whereas achieved status can be earned through personal achievements. A number of factors which overlapped between prestige and status have already been discussed, such as membership of prestigious organisations and other formal positions attained. This section will explore status variations relating to the different professional associations. It also emerged that size of firm had status implications for various constituencies such as potential employees, clients, professional bodies and external organisations.

In sociology and anthropology, social status is seen as the honour or prestige which is attached to one's social position (Anheier *et al.* 1995). The fact that status is co-determined by the organisations an individual is affiliated with is not extensively acknowledged in organisational behaviour and sociological literature (Baron 1984; Shenkar and Yuchtman-Yaar 1997). For professionals, the power to impress and influence is tied in with their membership of professional associations, which also signals reputation, and confers authority and legitimacy.

By belonging to a professional association, professionals have a reciprocally shared understanding of appropriate behaviour which is reinforced by the regulatory processes of the professional body (Greenwood *et al.* 2002). Rewards, in terms of income, are then distributed on the basis of this status. Small practitioners' have historically fought to protect their qualification, as they rely on it more than larger firms for their social status (Ramirez 2009). Small practitioners rely on a 'macro-actor', their professional body, to represent their interests to relevant constituencies in the accounting field such as other professions and the State.

Most participants felt that being a member of a professional body improved their reputation and was useful to their firm, which confirms the importance of professional bodies in signalling status for small practitioners. The exceptions were Andrew, Gavin and Jeff. Andrew felt the larger type of clients that his firm was trying to attract would *expect* an accountant to be qualified. Also, as Andrew was located in Perth there were no local meetings of his body, the ACCA, and his firm was registered as CA. He felt the practice benefited more from their association with ICAS than from his association with the ACCA. Gavin and Jeff were both disillusioned with the role played by the professional bodies, as Gavin's comment indicates:

> *I don't think any of the professional bodies generally recognise what their true role is, and their true role is to support the profession and they've kind of lost site of that. They think their role is to support the public and somehow their role has become regulatory and that's part of their role but their role is to support their members.*

Many of the participants, including those who found membership of the professional bodies useful for their firms, commented on the costs of professional association being disproportionately high in terms of the benefits they received. The professional bodies were also seen as favouring the interests of the large accounting firms, and were commonly accused of offering little support for their small members in practice. Given that small practitioners have long formed the bulk of the membership of professional accounting bodies, particularly the ICEAW and ICAS (Matthews *et al.* 1998; Ramirez 2009), it might be expected that the policies of the accounting bodies would represent their interests. However, Ramirez (2009), in a comprehensive overview of thirty years of the constitutional history of the ICEAW concludes that very little has been achieved in its efforts to represent its small practitioners.

It emerged overall that the professional bodies were seen as having a conservative role in monitoring and engaging with other stakeholders but, contrary to the findings of a study by Greenwood *et al.* (2002), did not provide effective venues where interactions could occur with other professionals. It has been noted that, historically, practitioners in small firms have been reluctant to participate in the activities of the bodies (Ramirez 2009). For two (Jeff, James) of the three participants who had considerable involvement in their professional body, it was not found to be useful for prestige, status, or increasing their social capital. Only Phil found it useful for getting his name known. Therefore, whilst professional bodies are important for the legitimacy of the profession for members in large *and* small firms, members in smaller firms rely more on the social and symbolic capital of accreditation, and yet are relatively powerless to influence and shape the professional body to fulfil their needs.

Participants often perceived differences between chartered and chartered certified status. It has been noted (Friedson 2001) that intra-professional segmentation has been neglected in studies. Ramirez (2009: 405) writes that "*the professional space has always been hierarchically ordered and disdain for certain types of professional identity has probably existed since the beginning of the Institute*". The divisions which run through the profession emerged from the study as being based not only on the legitimacy of qualified versus non-qualified accountants, but on the status of the professional body, the sector, and the organisation the accountant was affiliated with (for instance, large or small firm, or industry as opposed to practice).

The origins for the difference between the prestige of ICAS as opposed to ACCA, it emerged, came from a number of different elements. Historically, the ACCA was seen more for foreign students, older people coming into the profession, or those who were only training on a part-time basis. It was also characterised by much greater flexibility, lower entry barriers and less exclusivity, as Samuel's comment summarises:

> *I think the exclusivity of it helps keep that going. Because there are tons of ACCA students and a lot of people don't really push on with their exams. It's so much more flexible that it therefore doesn't have that, you know, as soon as you make something semi-exclusive, it's only graduates, then you lose out. They'll always be a certain size the ACCA, they'll always be bigger than ICAS. But yeah, there's certainly a snobbery about it which has nothing to do with how good they are.*

ACCA was seen as more for accountants who were working in industry, which was generally looked down upon by those accountants who were in practice. Overall, the findings confirm Ramirez's (2009) view that the profession has hierarchical dispositions, and working in industry positions was traditionally viewed as an inferior career path in accountancy. The prestige of professional association was generally higher for chartered accountants or those participants who were in CA firms, and these participants were generally in the group that were satisfied with the performance of their firms.

A principal difference between the two professional bodies is that ICAS require accountants to be in practice whilst training, whereas ACCA allow accountants to gain qualifications whilst working in industry. At the time when most of the participants were taking their qualifications, ICAS also required trainees to have a degree rather than a HND, which would have also excluded many participants in this sample. Because it is necessary to undertake training within an ICAS firm, some of the participants made comments such as ICAS being "*the biggest closed shop out there*" (Jeff). ACCA, by contrast, offered an 'open access' qualification: "*You can become an accountant from any source. You can be unemployed and become an accountant. You just need practical experience once you've got the exams, that's all"* (Jeff). The exclusivity of chartered status was seen by most participants as being linked to its better reputation. Although the examinations were similar, the entry and pass standards for ICAS were seen as being higher. There was some support for this in light of the fact that two of the participants (James and Samuel) had been training with ICAS but had failed to receive the required grades in the examinations which led them to turn to ACCA.

The perceptions of most participants and extant research indicate that an ICAS qualification, as opposed to ACCA, is seen as having higher status, which could have performance implications for business owners and their firms. ICAS graduates were seen as commanding higher initial salaries, particularly as they are often recruited into the larger accounting firms. Samuel commented on the reasons behind this, and why his business tended to recruit accountants who were not chartered: *"ICAS newly qualified and students get paid for the reputation of ICAS as opposed to how good they are".* Being a CA registered firm, as opposed to ACCA, could therefore assist in recruiting the best quality trainees, as CA firms can offer trainees a qualification which can be converted into higher economic returns. Additionally, possessing an ICAS qualification will provide more lucrative gains from personal investments in the cultural capital. This finding highlights how symbolic capital illuminates the complex interplay and convertibility between economic and cultural capital.

A number of the ICAS participants commented that becoming a CA was the natural progression having decided to be an accountant, as at the time they were sitting their exams, there was "*basically chartered or nothing"* (Richard). Of the ACCA participants satisfied with the profile of their firms, a number were in CA registered practices (Henry, Janette and Andrew) even though they were chartered certified. These participants said that the certified status had not affected their career in any way, but it came to light that being certified could cause problems when trying to make partner due to ICAS regulations governing the proportion of non-CA partners that are allowed in a chartered practice (which is fifty per cent or more). For this reason Henry had considered applying for chartered status but was put off by the requirement to complete three years training even though he was a fully qualified accountant. He commented, amongst others, that it was only in Scotland that there was *"...a peer system where the CA's look down their noses to everyone else*".

Being a member of ICAS was also seen as being more useful for accountants in practice due to greater access to sources of social capital. As discussed in the previous chapter, the fact that many of the members of ICAS are in practice as opposed to industry, means that ICAS may be more useful for accessing sources of social capital (other accountants) and drawing needed resources from this network. Irene's partner was ICAS, and so she could benefit from these resources, but still commented that:

> *Looking back, I think I would have done ICAS had I been a bit more clued up a bit earlier on that that's what I wanted to do. I think if you want to be in practice, I think ICAS is probably better. In industry I don't think it makes that much difference but I think ICAS is more focused towards practice and still are because all of their students have to go through that way.*

A key differentiator between ICAS and ACCA also came from client perceptions. Most ACCA participants commented that some clients would ask them if they were chartered, and they would subsequently have to explain and justify their chartered certified status. Despite the fact that the ACCA are a larger professional body than ICAS, being a chartered as opposed to a chartered certified accountant is perceived as more legitimate by clients, and therefore has greater symbolic value. It was commented by a number of participants that this situation was particular to Scotland, although the ICEAW also have a strong reputation in the rest of the UK (Ramirez 2009).

The size of the firm was also found to bring with it a certain amount of prestige and could also be seen as a vertically structured form of status. This was important for the performance of the firm in terms of attracting and retaining clients, and because larger firms had more human resources and technical expertise than small practitioners. Phil commented:

I suppose the size of it does bring prestige with it because they've got in-house skills that I won't necessarily have. They'll have some who maybe has a great deal of experience in corporate finance, raising funds from various sources and getting grants. Although I know how to tap into things like that, it's not the same. I would say that the smaller you are, the less prestigious you tend to be.

A common perception was that banks and other external organisations, such as the Inland Revenue, viewed the status of firms hierarchically based on size. Gavin, for instance, made the following comment on the Inland Revenue:

It's always a worry that if you're a small practice they'll pick on you because you're deemed to be a relatively easy target or a suspect target.

The sentiment was more apparent in those firms that were unhappy with their profile, and from sole practitioners, who took the situation quite personally. For instance Jim commented that: "*I feel as if it's a slight on me, that they don't trust the figures I've put in*".

With the notable exception of the larger practices (Andrew, Henry, James), many participants found that the size of their firms was seen as a weakness by other accountants. The problem with this, it emerged from the interviews, was particularly in terms of recruiting staff. Recruiting good quality professional service personnel is seen as a problem across the professional services, and particularly in accounting which has traditionally controlled supply through capped entry into the profession (Hanlon 1999; Ramirez 2009). Although commented on little in the literature (Shenkar and Yuchtman-Yaar 1997), the small professional service firms in this study experienced major difficulties in recruitment. The skills shortage was seen as escalating salaries within the profession, which taken alongside high agency fees, made the cost of recruiting qualified accountants inhibitive for small practices. Training accountants was seen as expensive and time consuming, with the problem that many trainees would leave once qualified. Larger firms, particularly the Big Four, were seen as possessing greater amounts of all the forms of capital for attracting staff, as Phil's comment summarises:

> *It's hard to retain staff purely because bigger firms have bigger clients and pay bigger salaries, and also people are developing through… they can progress. They themselves are looking to sit exams and get better experience to help them with their exams… when you're my sort of size, you can't give them that experience.*

The larger firms have more opportunities for interaction with colleagues, a wider client base, and were generally perceived as having more prestige, status and authority in the accounting market. Therefore larger firms, with their greater stock of capital, can offer trainee accountants better opportunities to access and accumulate social and symbolic, as well as economic and cultural, forms of capital.

Many of the participants, particularly those who were satisfied with the profile of their firms, did not view the size of their firms as a weakness to clients. In fact many claimed it was the opposite, and that their small size was a key feature in attracting clients. The general view of these accountants was that it was 'horses for courses', meaning that smaller firms tended to want a small accountant who would offer a more personalised service and better value for money. For those participants who felt that the size of their firm was seen as a weakness to clients, the problem tended arise from those clients who had grown bigger. Bigger clients, it was suggested, may need to raise substantial sums from banks, and if this is the case, the banks prefer one of the larger accounting firms, as James explained:

> *Within certain ranges I don't think it makes a difference but if you're going to the bank for ten million then yes, you need a bigger name […] They just*

feel that the larger organisation is potentially more competent. They've also got bigger PI [professional indemnity] cover so that might be something they take into account as well.

It is therefore apparent that the capital configurations of small practices can send a negative signal to external organisations, that look for the assurance offered by the higher professional indemnity insurance and higher status of large accounting firms. The above comment also reflects that association with a more prestigious accountant has symbolic value for clients, who benefit by association with better access to resources from other organisations. James commented that having one of the Big Four as an accountant *"… gives people a sense of well being and security*" and makes them loyal to the organisation rather than individuals.

The conclusion drawn from the status implications of size confirms that of other studies which view size as the one determinant of reputation or standing that cuts across the sociological and economic literatures (Weizsacker 1980; Shenkar and Yuchtman-Yaar 1997).

The notion of ascribed status did not surface in many of the interviews, with the exception of Melanie and Joyce. Joyce had previously employed Melanie, but stated that she would not allow Melanie to deal with certain clients because of her accent. When explaining the situation, Joyce commented:

Melanie, her background is so… she's worked hard. She's very colloquial. Her mother's actually English, very well spoken. She's picked it up from school. It's the grammatical errors, the tenses and things get mixed up, all these things are slightly wrong but it really doesn't matter.

It was interesting to note that Joyce pointed out the difference with Melanie, then commented that it did not matter. Bourdieu (1989: 16) would view this comment as part of Joyce's strategy of condescension, which are "*those strategies by which agents who occupy a higher position in one of the hierarchies of social space symbolically deny the social distance between themselves and others… thus reaping the profits of the recognition granted to a purely symbolic denegation of distance which implies a recognition of distances"*. The same strategy may also be used by chartered accountants when they claim the ACCA qualification is just as good as ICAS: denegating the distance is symbolic and serves to recognise and therefore reinforce the distance. Melanie commented on her ascribed status as being a consideration in her career. Even though she had the chartered qualifications she explained

> *To be honest I would have never chosen to be an accountant in a larger firm because I did nae fit the mould. They're looking for someone straight out of University. They're no looking for people that are married and have a family.*

Linguistic capital, the mastery of and relation to language (Bourdieu 1990) is a form of embodied cultural capital, which signals legitimacy, status and other symbolic benefits to key stakeholders. Although out-with the bounds of the present study, understanding ascribed status and linguistic capital could help create a more fine grained understanding of capital configurations and convertibility.

Authority

Authority was another aspect of symbolic capital to emerge from the analysis of the first and second interviews. Authority has been defined by Weber as the chance of commands being obeyed by a specifiable group of people (Weber cited in Camic *et al*. 2005: 403). In this respect, authority is often synonymous with power but Bourdieu (1984, 1990) offers a more fine grained understanding of authority. Rather than commanding others to act, authority is the ability to induce them to act in certain ways through the utilisation of resources available to the agent. As a professional grouping, accountants are seen as having the power and authority to act in various roles to different constituencies such as clients, peers and external organisations, and have a monopoly over certain practices such as audit (Everett 2004). Joyce made a comment which highlights the position of authority that accountants as a social grouping possess:

> *As accountants you see you have all the links with the banks and all the financial institutions and they trust you. You're at a higher level… ours is a big advantage if you're actually doing other things, for yourself or whatever. Being chartered accountants people naturally put some trust in you: the fact that you might even know something about your own finances is quite remarkable. They don't question you in the same way.*

All the participants felt that their clients trusted their professional opinion, which is perhaps not surprising given the asymmetry in information between accountants and their clients (Weems 2001; Hausman 2003) and that relationships with clients in professional services depend on trust (Sharma and Paterson 1999). The variations in symbolic cultural capital, on the other hand, were quite marked. Gavin, Samuel, Richard, Melanie and Andrew all considered themselves to be an authority in certain areas of accountancy. For Samuel and Gavin, this knowledge came from their membership of external organisations which provided access to technical information. James and Andrew were both in larger firms with more resources, such as qualified personnel and time, and were able to gain more specialised knowledge in certain areas. Richard and Melanie, on the other hand, were sole practitioners and the source of their expertise was harder to determine. The interview data suggests that these participants developed their authoritative knowledge from their ICAS training and developing tacit knowledge over time. This group, with the exception of Samuel, indicated that their opinion was sought out by their peers. Therefore being seen as an authority in certain areas made the participants a potential source of social capital for other accountants.

There were also participants who did not feel that they were experts in any particular area of accounting but still said that their opinion was sought out by their peers. All of the ICAS participants stated this to be the case. This finding supports the social capital benefits of ICAS that were discussed: through having more members in practice, chartered accountants appear to have a larger and more useful network for gaining resources such as information. Overall, participants in the larger firms showed evidence of greater authority but there was not a clear link between authority and performance. A number of the participants who were very satisfied with their profiles and found it easy to gain new clients, such as Janette and Irene, did not see themselves as an authority in any particular area. Linking back to the cultural capital discussion, small accounting practitioners often see themselves as generalists rather than specialists, and the small size of clients they often service might not have unusual or highly technical needs. Technical quality has been shown in other studies to be a necessary but not sufficient condition to retain clients (Sharma and Patterson 1999). This may be partly due to the fact that the failure of core services in this context is relatively rare (Lovelock 1996). Although some participants had lost clients because of a perceived technical failure, such as the client being investigated by the Inland Revenue, clients seem to take technical quality as a given, and loyalty and satisfaction are driven more by other factors such empathy and involvement.

Honour

The final aspect of symbolic capital which emerged from the data could be related to what Bourdieu (1990) might term '*honour'*. Honour relates to a person's character in terms of trustworthiness, integrity, fairness, honesty and respect. This theme emerged from the interviews in themes such as: maintaining professional distance from clients (explored in social capital); accepting gifts from clients; and the sometimes unspoken rules of practice related to setting fees and going after other accountants' clients (explored in economic capital). What became apparent from the analysis was that performance was not necessarily related to honour in the traditional sense of a professional (Cohen 1996). Successful practitioners embodied and signalled attributes that were relevant and would improve their standing with relevant constituencies. When trying to understand the differences in 'honour' in the professional service context, Wilson's (1973) seminal anthropological work on the conflict between reputation and respectability was useful in understanding the two clusters that emerged.

Respectability refers to rationalised and even institutionalised sets of ideals and moral absolutes (Wilson 1973: 229) which in the present study was reflected by those accountants who held above all else the values of professionalism. Respectability is involved with positions rather than persons, whereas reputation is a standard of value that comes out of involvement with the world of relationships: "*a moral measurement of a person's worth based on his or her conduct with other people"* (Wilson 1973: 227). These may be overlapping, for instance accountants that uphold the ethics of the profession sternly may gain reputation with certain audiences such as other professionals. On the other hand, reputation may be gained with clients from personal interactions that are not related to, and potentially go against, professional values.

Gift exchange is one way in which symbolic capital can be generated. Gifts create obligations that must be reciprocated, or else the recipient will be placed in a subordinate position, and as such, gifts set up durable relations of reciprocity and domination (Bourdieu 1977: 195). Obligations are not normally acknowledged, a denial which Bourdieu terms 'miscognition', and this is normally supported by the separation in time between the gift and counter-gift. Smart (1993: 397) explains further that:

> *Obligation is not an objective, measurable quality, but a socially negotiated (and often renegotiated outcome). The implication of this point for the idea of the necessity of misrecognition in a gift exchange is that the partners do not have to be unaware of the instrumental goals involved but that these goals cannot be made explicit.*

In the present study, a number of the participants were very aware of the implications of the symbolic power of gift exchange. Those participants most concerned with respectability in terms of professional values were adamant that one can "*never ask for* *anything for nothing"* (Simon). If offered gifts, discounts or other services from clients, participants (Irene, Simon and Janette) made comments that they would never do so, as this would make them beholden to the client. Irene, for instanced, commented: "*You can't be in a position where someone owes you a favour. You're bought then. If a client does a favour for you, you're compromised"*.

An opposing viewpoint emerged from some participants who had a more flexible view of gift exchange. Their position deviated from what would be seen as professionally respectable, but was seen as acceptable in terms of building their reputation and strengthening their relationships with certain clients. Samuel's admission illustrates this well:

> *In terms of having that close relationship… I would say look at my files and you'll know how I do things. I've got a reputation for doing things properly. I was in Italy in the summer and one of my clients arranged the place for me… They know I'll be there for them and they'll happily be there for me.*

This comment illustrates that Samuel was still aware of the significance of this exchange. He comments on the reciprocal nature of the exchange, accepts that it might be viewed as risky by other professionals, and made efforts to justify his actions and his professional standards. The attitude of those participants concerned with respectability would be that this client could potentially ask for a favour in the future related to their work and therefore professional integrity and independence has been jeopardised. In terms of honour, the participants had different notions of what was acceptable as a gift, and what might be seen as an improper 'bribe', a difference which seemed to depend on the character and dispositions of different accountants.

There was no evidence to suggest that any of the participants were in anyway untrustworthy or dishonest but their views about the importance of 'respectability' and the responsibilities of being a professional accountant varied considerably. Jeff, Samuel, Patrick, Phil and Jim all made comments related to the fact that they did not like to view themselves as traditional accountants. Patrick's comment was indicative of this group:

> *The bits I prefer tend to be talking to people, relating to people, relating to people that aren't accountants... I don't have any close friends who are accountants. I'm not a conventional accountant and because of that, pretty much from day one I thought I don't see myself as being a traditional accountant type.*

Instead, these participants were concerned with communicating with their clients, and ensuring that, based on their encounters, they were viewed as fair and respectful. Reputation with clients, it appeared, was not always associated with professional respectability. A potential problem involved with this was that these accountants tended to be isolated from other accountants, and therefore found it problematic to gain access to information and other solidarity benefits of social capital. As Bourdieu (1990: 119) aptly notes, "*ostracism is a terrible sanction and is more than symbolic: owing to the limited technical resources, many activities would be impossible without the help of the group*".

For other accountants, notably Simon, Irene, Janette, and Richard, respectability appeared to be of most importance. This group felt it was their duty to uphold the integrity of the profession, even if it occasionally lost them clients. Simon, for instance, commented that there are certain grey areas in accounting, and that other accountants might be willing to support a client in something that he would not be willing to. He commented that: "*I'm seen as being quite conservative in my views but I'd rather be seen there than maybe at the sharper end where I'm not comfortable being".* These participants also considered their reputation for honour with clients as important, priding themselves on features of their business such as 'confidentiality' (Irene), 'personal service' (Irene, Janette), 'fairness' (Simon, Janette) and 'empathy' (Richard). Ultimately, however, this personal service had to be of a respectable and professional nature. Melanie and Joyce fitted mostly with this cluster of participants, but they were both willing to admit that their involvement with clients was sometimes on a more personal level. Melanie for instance, commented:

> *With most of my clients, you do take the trouble to get to know them, you know, on a personal basis… sometimes it can help to know their background as well so that you can give them advice about different aspects and for some things you need to understand them to point them in the right direction.*

Respecting their clients and getting involved with their businesses was seen as particularly important for these participants. All of the female participants fell into this category, which valued respectability highly, and felt involvement with customers on a personal level as important. Recent in-depth research with female accountants has suggested that giving clients value and personal service is an important motivation, and one reason why many women leave the large accounting firms to set up their own practice (Haynes 2008; Wallace 2009)

The remaining participants from larger firms (Henry, Andrew and James) towed a strong professional and ethical line but still espoused the importance of client relationships and added value. They were more accepting of commercial values within the boundaries of professional ethics. Other research has noted that accountants from larger firms tend to display more loyalty to their organisation than professional values (Greenwood and Suddaby 2006; Suddaby *et al.* 2009), which might explain this scenario. Also, participants from larger practices did not have to rely on other professionals for resources, and therefore were not as concerned with signalling respectability to their peers.

6.4.3 The Performance Outcomes of Symbolic Capital

Shenkar and Yuchtman-Yaar (1997: 1373) define organisational standing as "… *a social mechanism designed to resolve the uncertainty faced by multiple constituencies who lack the ability to discern quality, value, performance or other relevant attributes*". Bearing in mind that in the professional services, uncertainty is high due to information asymmetry and credence attributes, symbolic capital is an important mechanism for acquiring clients and securing their trust. This analysis builds on sociological and anthropological principles that public generosity or extravagant piety is a form of social competition in which the most generous or self-sacrificial gain most prestige (Bleige-Bird and Smith 2005; Bourdieu 1986; Veblen 1994). This behaviour results in intangible social benefits, reconciling 'disinterested' behaviour with more materialist notions of individuals as self-interested but socially embedded decision makers. Building symbolic capital over time through non-economic activity, helping others and engaging in activities which raised the status, profile or reputation of the firm resulted in benefits of a tangible and intangible nature.

The key outcomes of gaining symbolic capital are client loyalty and satisfaction, positive word of mouth and client referrals. In relation to the social capital literature, examining symbolic capital or how credibility is maintained, provides some explanation for the motivation of network members to donate needed resources. Symbolic capital was important in motivating other professionals to donate needed resources such as information. Similarly those participants who engaged in non-economic activity tended to find gaining new clients relatively easy, suggesting symbolic capital is associated with satisfaction and referrals.

Much previous research into the benefits to symbolic capital has been carried out in non-business related environments, for example in ceremonial feasting and conspicuous consumption (Bliege-Bird and Smith 2005). Adding to the limited extant research on symbolic capital and small firms (Firkin 2003; Fuller and Tian 2006; Lam *et al.* 2007; Shaw *et al.* 2008; Stringfellow and Shaw 2009) the present study therefore proposes that in the context of small professional service firms, a similar principle applies: symbolic capital provides a signal which helps generate needed resources, be they economic, social or cultural.

6.5 Summary: The Interplay between the Forms of Capital

This chapter has outlined an analysis of the dynamic and overlapping forms of capital in a purposive sample of small accounting practices. This final section draws together these findings, illustrating patterns related to three overlapping forms, their convertibility and their relationship with social capital and performance. Ultimately the owners of small businesses use and develop their forms of capital to gain access to needed resources for their firms. Zott and Huy (2007) state that the key three resources for small firms are: employees (attracting and retaining high-qualified employees); capital (attracting enough to fund current operations and planned development); and customers (developing the customer base). Based on the particular resource needs of participants in this study, this section explores how different forms of capital, particularly their symbolic value, allow different owners to access these needed resources. The overall volumes and configurations, alongside their convertibility, helps to explain the different social capital outcomes and perceived variations in performance outlined in the previous chapter.

Table 6.4 displays the characteristics of the forms of capital which had the strongest association with convertibility into needed resources for participants' firms within the study. Reading the table from left to right, the configurations of capital on the left were most associated with those participants who were satisfied with the profiles of their firms, and who seemed most able to draw benefits from their networks. These particular forms of capital, within the professional service context studied, are seen as having a stronger symbolic value for gathering resources for professional service businesses. Symbolic value and the ability to gain resources for the development of the firm were, however, dependent on a number of factors which are not necessarily captured by looking at these characteristics in isolation. The data collected in this thesis together with reflection on findings of other research, suggests that successful business development is multi-faceted and also depends on: social skills (Baron and Markman 2003; Baron and Tang 2009); the variety and frequency of symbolic actions; the intrinsic quality of the offering; uncertainty; and similarities between resource holders and those requiring the resources (Zott and Huy 2007). This analysis contributes to other research which has argued for the need to understand agential as well as structural/field level factors when examining the relative benefits that can be obtained from social capital (Battilana 2006; Edwards and Jones 2007).

Table 6.4 Forms of Capital and Symbolic Value

FORMS OF CAPITAL	STRONG SYMBOLIC VALUE: ASSISTS THE CONVERTIBILITY OF SOCIAL CAPITAL FOR THE DEVELOPMENT OF BUSINESS	→	WEAKER SYMBOLIC VALUE: LESS ABLE TO CONVERT SOCIAL CAPITAL FOR THE DEVELOPMENT OF THE BUSINESS
ECONOMIC	• Goal is stability	• Profitability is important	• Goal is maximising fees
	• Partnership	• Sole Trader	• Limited Liability Co.
	• Funded from personal savings	• Loan from family	• Funded from bank finance
	• Prestigious office location	• External but standard office location	• Works from home
	• Uses compassionate pricing or time recording	• Time recording or fixed price agreement	• Uses discounting or value pricing

CULTURAL	• Bachelor Degree • Practicing Certificate and Audit • Specialist professional knowledge and expertise • Trained in CA practice • Previous experience as partner	• HND • Practicing Certificate • Industry/client knowledge and expertise • Trained in non-CA practice • Previous experience in practice	• MBA • Practicing Certificate • General business/manageme nt knowledge and expertise • Trained in industry • Industry experience
SYMBOLIC	• Interested in the social contribution of the business • Engages in leisure activities and has position of responsibility • Values professional accreditation moderately • Feels being a small size firm is a strength • Chartered Status • Associates themselves with the image of an accountant • Respectability as a professional of utmost importance	• Engages in non-economic activity for moral/ethical reasons • Engages in varied leisure activities • Values professional accreditation greatly • There are strengths and weaknesses to being a small business • Chartered Certified but working in Chartered organisation • See themselves as an accountant but non-traditional • Values respectability but builds personal links with clients	• Engages in non-economic activity to enhance the reputation of the business • Strategic engagement in leisure activities to gain business • Does not view professional accreditation as important • Feels being a small business is a weakness • Chartered Certified • Does not associate themselves with the image of an accountant • Reputation with clients of utmost importance

6.5.1 Convertibility of Capitals and Business Development

Reflecting back to the findings of the previous chapter, the primary resource needs participants required in the nascent/start-up period were clients and advice/support, with more varied resource needs at development. To illustrate the importance of overlapping forms of capital and their convertibility detailed in Table 6.4, as well as acknowledge the role of moderating factors, it is useful to compare and contrast participants who generally suffered from a lack of resources, with those for whom resource acquisition was a relatively straightforward process. A short synopsis will therefore be presented of both Jeff and Irene's capital configurations to highlight the nuances of convertibility within the professional service context.

Jeff was the participant who discussed the most critical periods around the start-up period, and the only participant who found it difficult to break-even in this initial period. In terms of cultural capital, he had never worked in practice before starting his business, having completed his training with a large nationalised company and subsequently continued to work in industry positions as an accountant. His tacit knowledge of accounting practice was therefore low relative to those participants who had, at the very least, worked in practice before starting their own. Lack of experience in practice also limited Jeff's access to potential sources of information and advice to in these early stages. Consequently, Jeff relied on a network of weak, unreciprocal and relatively new ties that demonstrated low levels of trust. Whilst he was a proactive member of the ACCA, having achieved positions of responsibility and was well known within this organisation, he did not find any contacts useful for his business. This may be explained in part by the ACCA having less members in practice but also that he may have been perceived as less credible due to his industry background. The data suggests that his position, relative to the 'field' of professional accountants had a detrimental impact on his access to resources.

In terms of explicit knowledge, Jeff had an MBA and a practicing certificate but no audit qualifications. A deeper knowledge of general principles of business and management taught on the MBA did not appear to be useful to the owners of small professional practices in this study. It may be that clients and other relevant stakeholders do not see this qualification as legitimate in this context, in contrast with the findings for other sectors (e.g. Zott and Huy 2007). Jeff's lack of an audit qualification might have discouraged the best graduates from joining and training with his business (leading to staff problems), and also means that larger businesses may not consider his company as an option. As Jeff had very few contacts who were practicing accountants, a further problem was caused by him requiring an audit referral partner which requires trust. In summary, at start-up Jeff started his practice with a configuration of cultural capital which had less symbolic value for relevant stakeholders such as clients and other professionals. He had to search for a range of resources in this period including his client base and finance, and unlike other accountants with a more credible profile in terms of qualifications and experience, he also had to try to establish his legitimacy in this period. Given high levels of uncertainty with regards to the delivery and quality of professional services, managing issues of legitimacy where cultural capital is concerned emerged as important for resource acquisition in the present study.

The relative importance of economic capital was greater for Jeff than most other participants and whilst there were some participants who shared his outlook and were in businesses that were performing well (such as Henry), this may have had more symbolic significance for Jeff's resource acquisition. Jeff was orientated towards sales and growth in his interviews and even invited the researcher to a sales event involved with purchasing time share apartments (to which he also invited clients). This does not demonstrate a high level of client commitment or a commitment to traditional professional values, which have been shown to be of importance in a service context (Frow 2007; Gounaris 2005). Consequently this may have damaged the convertibility of Jeff's social capital, for instance, the willingness of clients donate referrals. There was a marked difference in the outlook of participants where the importance of economic capital was concerned, which reflected ongoing changes and struggles within the professional field (Ramirez 2009).

Jeff's strong fee-orientated focus is likely to have damaged client relationships as well as limiting his access to the best employees. Other participants had indicated that they did not like working in practices that were like 'conveyor belts' and that this was a motivation to go into practice (e.g. Irene, Janette, Richard). Jeff had a high staff turnover rate and many critical periods for his business were centred on employee-related problems. At start-up, Jeff operated his business from home which was not necessarily an issue for participants such as Melanie who started with a client base and greater personal credibility but Jeff may needed to convey his professional organisation symbolically by having an external office location at this early stage (Zott and Huy 2007). Finally, Jeff had created a Limited Liability Company which might impact positively for legitimacy in other entrepreneurial contexts but for professional service organisations, partnerships or sole traders appeared to be more credible forms of organisation.

The notion of symbolic capital relates to whether or not forms of capital are perceived as legitimate by relevant stakeholders. In terms of professional knowledge, Jeff did not see himself as an authority on any areas of accounting, which may have limited the esteem with which he was held by clients and other professionals (which also impacts on reciprocity and social capital resource acquisition). Jeff had a widely dispersed clientele, as opposed to specialising or targeting similar others as clients, which some of the more successful participants had done (Irene, Simon etc.). Homophily was discussed as an important feature of social capital and resource acquisition in the previous chapter, and links to the present discussion of the symbolic value that forms of capital can have for small business owners. Discussion of prestige and status suggested that the value of certain features of symbolic capital, such as associating yourself with the image of a traditional accountant or engaging in non-economic activity, are linked to the characteristics and perceptions of the ties that are resource holders. Coupled with indications of a lack of social skills, such as social perception, Jeff's lack of homophilious ties is another factor which may have contributed to his difficulties in accessing resources to help develop his business. The data suggests that status and value homophily have a strong influence on resource acquisition and may supercede the examination of capital characteristics alone. For example, Jim had similar cultural capital to Jeff but was better able to gather resources for his business. One marked difference was in their views on the value of professional association for signalling credibility, with Jim valuing it highly and Jeff disregarding its symbolic value.

Irene shares some characteristics with Jeff: they are a similar age; they both started their business in the mid-1990's; and they are both members of ACCA as opposed to ICAS. The differences between their businesses, in terms of their level of satisfaction with its profile and their ability to access needed resources for its development are however significant. In terms of cultural capital, Irene has worked in practice and had achieved partner status before starting her current business. Previous experience as partner in an accounting practice aided the performance of Irene's start-up in numerous ways, including access to a bank of clients, a partner with which to start the firm, and tacit knowledge of running a practice. Irene's partner was a member of ICAS, thus mitigating any weaknesses associated with ACCA membership (for instance, less sources of social capital given there are fewer practicing accountants). Additionally this gave her business additional knowledge and skills which she believed made their practice very attractive to clients.

In terms of explicit knowledge, Irene had Bachelor's degree, a practicing certificate and the qualification to conduct audits. Participants with degrees had reached higher positions in practice relative to those participants with a HND in accounting, confirming the role of institutionalised forms of capital in career progression (Smith 2010). Additionally, having prior experience in practice, particularly as partner, was linked to successful business performance and resource acquisition. This could be linked to skills and knowledge but may equally be linked to legitimacy amongst relevant stakeholder groups, which is important in the professional service context. This finding shows an overlap between human and social capital forms, and suggests it may be more difficult than has been acknowleded to separate these from their resource outcomes (Davidsson and Honig 2003). Audit is a qualification which, for Irene, had a distinctly symbolic value. She did not train graduates and only had one or two audit clients remaining yet, in her case, as with other participants (Simon, Joyce, Richard etc.), maintaining this qualification was importance for signalling personal capability and credibility (Zott and Huy 2007). Given Irene's configuration of cultural capital at start-up, she did not have to search for resources and having a credible profile, in terms of qualifications and experience, was linked to legitimacy and continued positive business development.

The relative importance of economic capital was fairly low for Irene, who valued the social contribution of the business and engaged in non-economic activity that was not necessarily undertaken to enhance the performance of her business. It was very apparent that Irene had left her previous practice so that she could offer a more customised service and better client care than she believed was possible in a larger practice. This confirms and extends Zott and Huy's (2007) findings regarding symbolic management and stakeholder relationships and further underlines the role of client commitment in the professional services (Frow 2007). Contributing to an understanding of what motivates network members to donate resources, especially when the exchange is often characterised by generalised reciprocity (as in the professional services), attitudes towards the importance of client care and giving up time (an important resource) helps the owners of small practices gain access to needed resources including referrals. Whilst strong performance was not always linked to having an office location (Joyce, Melanie and Jim all worked from home) there were occassional advantages. For example Irene had gained one of her largest clients from someone who was walking past her central Edinburgh office.

In relation to symbolic capital, Irene did not see herself as an authority on technical accounting, yet she did find that other accountants would seek out her opinion and she felt this was valued amongst her peers. Acquiring information and advice from other professionals was therefore likely to be easier for Irene than for Jeff. Irene was very particular about the types of clients she wanted for the business, and throughout the development of her practice, status homophily had proven to be useful for resource acquisition (although was presenting a threat due to her ageing client base). Whilst Irene did not find that being Chartered Certified as opposed to Chartered had damaged her business, she had previously worked in CA practices, had a partner who was Chartered, and stated that were she to turn back time, she would opt for ICAS as opposed to ACCA membership. She was therefore acutely aware of the advantages and symbolism of professional status but had found ways to succeed without this. Irene strongly associated herself with traditional professional values such as independence. It seemed that her behaviour and attitude symbolised 'honourability' to relevant resource holders. In the professional context, the nature of the service makes trust important (Hitt *et al.* 2006) and therefore symbolic capital was linked to Irene's ability to secure benefits from networks, for instance, gaining referrals for clients from her bank manager.

6.6 Conclusion

This chapter has presented how the volume and configuration of capital may impact on the performance of small professional service business owners, depending on their status within the dynamics of the field of accountancy. The findings presented have shown that despite operating in the same field, participants acquired different configurations of capital over their professional lives. The relative importance with which symbolic capital was valued over economic emerged as a division which, according to extant research, is widespread in the accounting profession. It was reasoned that cultural capital would not significantly differentiate professional service firms from one another, allowing an understanding of the performance implications of social capital to be understood. To the contrary, it emerged that cultural capital *does* differentiate firms. For firms competing in the traditional 'professional' arena of restricted cultural production, high levels of cultural capital may help the convertibility of social capital and the generation of symbolic capital which improve performance. Non-economic activity, for instance, and being seen by relevant constituencies as honourable or prestigious was associated with those professional firms that performed well, and which were able to mobilise social capital sources to assist their firms. However, it has been noted in accounting research that the structure of capital in the field has been shifting towards commercial rather than professional values, meaning that firms with lower levels of symbolic cultural capital could be equally successful. The capital configurations and volumes for these commercially orientated participants were mixed and differentiation emerged from the following factors: a fine grained understanding of aspects of embodied cultural capital, such as social skills; how effective the business strategy was within the participants particular context (this may involve activities that are in direct contrast to the traditional code of ethics for accountants); and finally, whether the participant had readily available access to social capital, for instance through business partners or previous associates. The final chapter discusses the implications of these findings for small professional service business owners, and for professional bodies and other regulatory agents in the field. It will also highlight areas for future research, as well as presenting the limitations acknowledged in the present study.

CHAPTER SEVEN

Concluding Remarks, Recommendations and Limitations

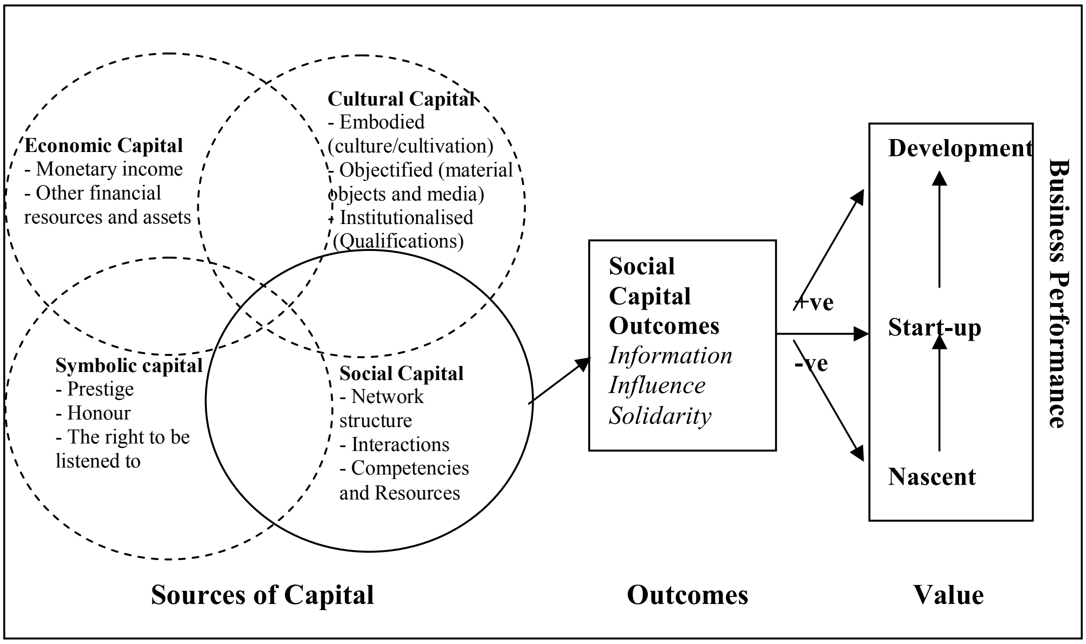
7.0 Introduction

This thesis explored the interplay between social capital and the development of small professional service firms. This chapter draws together key findings and contextualises the analysis presented. Importantly, this chapter presents a summary of the nuanced understanding of the interplay between social capital and firm development acquired by this study. It has been argued that the exploratory approach adopted, and the two stage research design employed, were appropriate for capturing changes in configurations of social capital and revealing the interplay between these and firm development over time. Further, the thesis has presented evidence which indicates that capital configurations must be viewed holistically if the interplay between social capital and small firm development is to be understood. As there is a scarcity of prior work within the entrepreneurship literature on both capital configurations and convertibility, this thesis contributes towards developing this understanding and identifies areas for future research. The particular focus on small professional accounting practices helps to build a theory of capital and firm development in a relatively under-researched sector which is of growing importance to the economy. Acknowledging research limitations, the chapter concludes by offering recommendations for future research and discusses the practical insights and potential impact the research can generate for small accounting practitioners and other stakeholders such as professional bodies and government.

7.1 Conceptual Framework

Chapter Three described the conceptual framework developed for this thesis and is shown again in Figure 7.1 below. This framework includes the overlapping forms of capital as described by Bourdieu (1986). The aim of the study was to consider the interplay between these different forms of capital and the convertibility of social capital over time. By applying the framework in a professional service context, it was reasoned that, as small professional service firms have low economic capital requirements and high levels of cultural capital, differences in resource acquisition might be attributable to social capital.

Figure 7.1: Conceptual Framework for the study of Social Capital



Four objectives were identified for rigorous inquiry and discussion will now turn to each of these objectives, considering the extent to which they have been achieved and how the findings to emerge inform the theoretical foundations of this thesis, as proposed in the conceptual framework.

Objective 1: *To describe the structural and relational features of social capital in small accounting practices, highlighting the positive and negative outcomes of social capital for firm development.*

Social capital is the good will created through social relations that can be mobilised to facilitate the attainment of needed resources, influence, and sponsorship (Adler and Kwon 2002). It is commonly accepted in entrepreneurship, organisation and management literatures that connections and networks are important in the establishment of new ventures (Adler and Kwon 2002; Aldrich and Zimmer 1986; Birley 1985; De Carolis *et al.* 2009; Jack 2010; Maurer and Ebers 2006; Nahapiet and Ghoshal 1998; Tsai and Ghoshal 1998; Uzzi, 1996; Walker *et al.* 1997). The main benefits of social capital to the new ventures are access to information, influence and solidarity (Adler and Kwon 2002). Bridging forms of social capital have been most prominent in the entrepreneurship literature in relation to the performance of new ventures (De Carolis *et al.* 2009). Bonding forms of social capital, resulting in solidarity, are less acknowledged in this discourse.

This objective was investigated by collecting social network data, including those morphological and relational network dimensions as specified by Mitchell (1969, 1973), used during periods of positive and negative performance for participants' businesses. It was possible to retrospectively gauge the social capital resources that were used in a variety of situations by participants in the study. The most important resource holders involved in performance changes were identified and network ties were investigated to determine both structural and relational features. The analysis described in Chapter 5 illuminated a number of structural and relational features that were sometimes similar to, and sometimes in contrast with the findings of other small firm studies. These are discussed below.

When linking performance outcomes to structural elements of social capital*, homophily* emerged as a prevalent theme. Building on Zott and Huy's (2007) findings, it was identified that structural similarity and value *homophily* between resource holders and small business owners was important for the acquisition of resources. More satisfied business owners who were better able to extract benefits from their networks clearly associated themselves with similar others, such as other professionals and partners. Those ties that were instrumental for resource acquisition often shared structural or value *homophily* with the business owner. *Homophilous* ties improved the likelihood of resource acquisition because of improved communication and also because *homophily* was likely to improve relational features of social capital such as trust and reciprocity. *Homophily* could also pose threats for small business owners, particularly as some business owners felt it would cause serious issues for their business as their client base aged with them. *Homophily* is not extensively discussed in the small firm literature, and therefore the positive impact of *homophily* on resource acquisition. and its potential disadvantages during development, contributes to a more nuanced understanding of this well established sociological concept (Ibarra 1995; McPherson *et al.* 2001).

Research with firms of all sizes is increasingly pointing towards relational rather than structural features of networks as being linked to performance and value creation (Swaminathan and Moorman 2009; Welbourne and Pardo-del-Val 2009). This study contributed to a better understanding of the relational features of networks within the professional service context. Adding to the understanding of contents, this study found that multiple contents were only present with certain ties, namely previous work associates and business partners. For most owners, client ties were purposefully limited to contain only professional contents, such as advice. This contrasts with findings in other less regulated professional industries, such as advertising, where normative relationships between business owners and clients have been found to be important for performance (Neergaard *et al.* 2005; Silversides 2001; Shaw 2006). Contextual factors, such as the traditional drive towards independence in the liberal professions (exacerbated by recent regulatory changes), leads to lack of multiplexity in the ties an accountant can hold with their clients (Cohen 2006).

The importance of reciprocity in building and maintaining the sources of social capital for small businesses has been outlined in prior research (Hansen 2005; Hu and Korneliussen 1997; Larson 1992; Powell 1991; Van Wijk *et al.* 2008). The notion of instrumental reciprocity helps to explain the motivation of others to donate needed resources (Portes 1998). It was found that reciprocal exchange was also affected by the professional context. As with contents, the professional code of conduct implies that donating resources to clients other than those required as part of the service provision was generally seen as inappropriate. This made reciprocation that might seem normal in another context, such as rewarding referrals, problematic in the professional context. Clients were still motivated to donate needed resources to owners, suggesting that clients in a professional context are compelled by normative rather than instrumental motivations, and that exchange is based on social rather than market or hierarchical relations (Adler and Kwon 2002; Portes 1998). Given the particular issues professionals encounter with instrumental reciprocity, generalised reciprocal exchange of resources between clients and small practitioners is highlighted as important in the professional context, and should be considered as a feature of relational capital in future research.

In respect of the strength of ties used in positive and negative instances of performance, it was interesting to note that strong ties were prevalent in negative incidents. Support was often the principle resource sought by business owners, and this is most effectively accessed from strong, close ties, such as family and business partners. Even in incidents of positive performance, weak ties were rarely instrumental and where weak ties were used, they tended to be with other professionals, who share a sense of community and analogous outlook through professional association. Therefore weak ties to other professionals bridged the owner to information, advice and client referrals, but the qualities of the link are based on bonding, not bridging capital. The network boundary of core bonding and bridging linkages may therefore be different in the professional services to other entrepreneurial contexts, where links to professionals are seen to be bridging (Hite 2005). This finding complements recent research which is becoming more reflexive about the link between 'bonding' and strong ties, and 'bridging' and weak ties (Tiwana 2007). Additionally it supports research by Elfring and Hulsink (2007) by showing that the types of ties used by small business owners will vary according to the type of venture and initial founding conditions.

These findings illuminated some of the conditions through which resources can be accessed by small professional business owners from their network of relationships. However, there are a number of caveats to these findings that made the achievement of this objective only partially complete. Firstly, using the critical incidents technique to gather social network data meant that some variables were not fully understood. For instance, total network size was not captured due to the use of name generator techniques and focusing on particular incidents rather than the total network. The findings regarding density in the present study were also treated with caution as network density involves measuring the proportion of theoretically possible direct links that are actually in existence (Barnes 1969: 63). Outside of the incidents discussed, business partners may have numerous network ties that are not known to the other partner, but this data was not obtained in the present study. Secondly, this method did not permit the researcher to ascertain potential sources of social capital that were not used in the incidents. If this information was collected it would help to determine whether business owners managed their networks and strategic actions effectively during the incidents discussed.

The conceptual framework indicated positive and negative outcomes of social capital that could reveal differences in firm performance over time. The study did identify certain configurations that were associated with positive and negative performance, and adds to an understanding of the structural and relational features of social capital that are linked to resource acquisition, and particularly social capital's negative effects. It may therefore be appropriate to view the conceptual framework in reverse, *i.e.* that performance changes are indicative of different configurations of social capital that will allow access to resources rather than *vice versa*. The conceptual framework should also be reconsidered with respect to performance. In this thesis, it was discovered that the perceived performance of the firm was often relative to the personal goals and motives of business owners. Particularly in sole trader firms or small partnerships, the collection of performance-related data may be more usefully considered as an aspect of '*habitus'* and this is returned to later in the chapter. Moreover, social network data alone was shown to be inadequate at explaining why some business owners were more able to access resources than others. Whilst it was theorised that high levels of cultural capital and the relatively low importance of economic capital in the professional services context would allow the performance implications of social capital to be considered, it was found that *all* forms of capital need to be considered to gain a fine grained understanding of social capital and its interplay with the development of small firms.

Objective 2: *To further understanding of the process of networking by examining configurations of social capital at start-up and development phases and exploring how social capital is generated and used over time.*

Addressing continuing concerns about a lack of understanding of process in network studies (Slotte-Kock and Coviello 2010; Jack 2010), this thesis aimed to elucidate the process of networking. This was achieved through retrospective qualitative methods that explored how the sources and outcomes of social capital changed from the emergence to the subsequent development of the business. The key findings for this objective will be briefly discussed below. In particular, these findings helped to shed further light on the relative value of strong and weak ties throughout a small firm's development, and contributed towards an understanding of network evolution and processes in a professional services context.

In most instances, the critical contact that provided needed resources at the nascent and start-up phases was a strong tie. This supports the findings of various entrepreneurship studies in which initial opportunities and resources have been found within the relationally embedded ties of social networks, such as family and friends (Hite 2005; Hite and Hesterly 2001; Jack 2005; Larson and Starr 1993). There is however limited consensus in the entrepreneurship and management literatures as to the relative value of strong and weak ties (Granovetter 1982; Hansen 1999; Jack 2005). As the resource needs for professionals principally revolved around support and referrals, this thesis argues that strong ties are especially instrumental at the start-up stage within the professional service context. In other sectors, where successful emergence depends on non-redundant information or access to finance, it is likely that weak ties spanning a large network will be relatively more beneficial

Bonding social capital, based on durable trustworthy ties, were found to be of paramount importance to performance. What was of particular interest, however, were the positive performance outcomes resulting from dissolving ties with previous partnerships at emergence. Ties with partners are particularly strong: based on trust, mutual dependence and reciprocity. In the professional service context, a nascent business owner is often motivated to start-up their business due to the break-down of ties with a previous firm. Tie dissolution in partnerships was always related to the break-down of one or more of the key features of trust, namely: reliability, openness, competence and or the belief in the good intentions of another party (Misztal 1996). In terms of convertibility and performance, this finding suggests professionals consciously dissolve ties with previous partners, to allow themselves to retain the social capital sources they need to start their new businesses. The notion that relational capital can be dissolved in order to gain access to needed resources has not been extensively explored (*c.f.* Grabher 1993) and this thesis suggests it sheds useful light on the performance differences of start-ups in the professional services.

In support of Elfring and Hulsink's (2007) concept of 'network evolution', there were more weak ties mentioned in incidents at the development stage, although strong ties continued to be the most instrumental for resource acquisition. At start-up, resource needs were related to prior experience and this continued to impact on resource needs throughout the firm's development. Severing strong ties from a previous partnership at start-up contributes to the discussion of organisational embeddedness by demonstrating that, in the professional service context, successful owners are strongly embedded in their professional-client networks (Gulati and Gargiulo 1999; Mohr and Spekman 1994; Powell 1990; Uzzi 1996). It was discovered that clients often feel loyal to the accountant rather than the firm and will follow the practitioner to the new practice, as recurring ties with clients are characterized by trust, durability and interdependence.

Participants entering business ownership from industry positions, or who did not have previous experience working as a Partner, had greater resource needs. Coming from a weakly embedded position in industry had numerous disadvantages: firstly, the owner did not have an established client base; secondly, the owner did not have an established reputation; and finally, the owner was not embedded in the community of practitioners. Professional embeddedness helps access needed resources for client contacts, reputation and professional expertise, which makes the professional context considerably different to other entrepreneurial contexts (De Carolis *et al.* 2009). When starting a new practice, a cohesive core of contacts was the most useful source of social capital for entry level accounting practitioners, particularly in view of the time it takes to develop trust with clients. Participants without an established client base were more closely aligned with Elfring and Hulsink's (2007) pattern of 'network renewal', where strong ties are used for legitimacy and to offer moral support and advice, but weak ties are important for information resources, in these cases usually referrals for clients. This again underlines the interplay between different forms of capital, which will be further outlined when discussing objectives three and four. Overall, there was evidence that network evolution, more than network renewal, characterised those participant's who were satisfied with the profiles of their firms, and who seemed most able to gain resources for their business from their networks.

The research found weak ties to be more prevalent in situations affecting performance at the development phase. Weak ties were particularly important for accessing technical information that would otherwise take too much time or money to acquire. Again, for owners who had started their business after having experience of working in an accounting practice, a benefit was the access this provided to weak yet bonding ties (e.g. previous work associates) who would donate needed resources when required without the expectation of financial returns. Weak ties with external organisations (with bounded solidarity and instrumental norms) at the development stage were particularly important for allowing owners to access to technical information. Findings uncovered fine grained differences when examining the resource needs of the owners of small professional service firms compared with other science-based or technology-focused sectors (c.f. Colombo *et al.* 2010). In these sectors, networks rich in structural holes often provide owners with timely information about new opportunities. By contrast, in accounting practices the required information resources are not so much timely as time-consuming, technically complex and therefore difficult to acquire. To overcome this, some owners had joined in formal collaborative arrangements with other firms to share specialised information in areas such as tax.

This finding has a number of implications: firstly, it suggests further support for the role played by bonding weak ties as opposed to structural holes for the performance of small professional service firms; secondly, it suggests that in order to compete with larger firms and their superior access to information resources, collaborative arrangements that permit such resources to be accessed through closed networks is a useful strategy for small business owners; and finally, the findings demonstrate that in the professional service context, information sharing networks must have closure and bounded solidarity to be perceived as useful to owners. Even when there is closure, such arrangements were shown on occasion to break-down due to a lack of trust or incompatible goals, suggesting membership has both benefits and risks. Work exploring the human capital benefits of collaborative arrangements is at an early stage (Welbourne and Pardo-del-Val 2009), especially in the professional services (Adler *et al.* 2008), and this study suggests it can have positive performance outcomes for firms in highly regulated and technical professions such as accountancy.

Findings at the development phase were particularly useful for exploring the social capital business owners draw on to deal with negative situations or crises. Two of the incidents discussed at the development phase involved a partner leaving. The strong tendency towards *homophily* in partnerships, and the common occurrence of the dissolution of these ties, support the notion that the patterns of tie dissolution mimic those of tie formation (McPherson *et al.* 2001). Therefore it may be important for *value* and *status homophily* to exist when the partnerships form, but this might not protect the relationship from tie decay in the development stage, when these values may change. It has been mentioned that ties with partners are strong and trusting, with considerable interdependence. Whilst social exchange theorists have considered negative relationships (Homans 1950) and some network studies by organisation theorists have explored the outcomes of negative interactions (Labianca *et al.* 1998) this area is relatively unexplored in entrepreneurship. The risks of social capital have been identified (see for instance Portes 1995, 1998) but the possibility of reinforced and stronger relationships (between remaining partners when a partner leaves) being created from tie dissolution is an unexpected outcome in this thesis.

Although trust develops in client relationships, findings did not support the notion that as networks evolve they will develop into exchanges with multiple exchange processes, as proposed by Larson and Starr (1993). This stage model has been well received (Hoang and Antoncic 2003) and has been used as the basis for other network development research (Lechner *et al.* 2006; Ostgaard and Birley 1996; Shaw 1999, 2006; Shipalov and Li 2008; Schutjens and Stam 2003) but was not found to apply effectively in the accounting context. Larson and Starr (1993) proposed that relationships increasingly involved interweaving social and business exchanges as parties build and refine their economic and social contract. Other models have also noted that social commitments accrue in the form of favours and obligations (Starr and MacMillan 1990) which increases the quality and ease of interaction (Hite 2005). For the same reasons, the analysis does not provide support for Hite's (2003, 2005) evolutionary model of embedded ties, as this also proposes that ties will move through personal and dyadic phases to a social phase.

The findings of this research suggest contents with clients remain uniplex, although may develop some normative components such as social chit chat. Research underlines that the distinguishing characteristic of the professional accountant is being seen as unbiased and independent (Mednick and Previts 1987; Zeff 2003). Most empirical evidence for the importance of independence has been based on non-audit services and its relationship to audit independence, and thus has often been undertaken with large accounting businesses (Jenkins and Krawczyk 2000; Suddaby *et al.* 2009). This study provides evidence that even in smaller, less formalised environments, most accountants are careful to maintain their independence. In the professional services context, trust does increase between clients and practitioners during development but not on the basis of multiple exchange contents. Trust can stem from an entrepreneur having genuine concern for an exchange partner's welfare (Smith and Lohrke 2008) and it was found that owners in this study demonstrated considerable concern for their clients' welfare.

In terms of understanding the processes of networking outlined in objective two, the findings of this thesis in relation to contents, network evolution and renewal, tie dissolution and changing resource needs, help to build a clearer picture of network development in a professional services context. The key finding with respect to how social capital is generated and used over time is that this must be considered through the business owner's relative capital configurations rather than through their social networks alone. Reflecting back to the conceptual framework, these findings have underlined that it is not the stage of the venture *per se* that determines the relative value of ties or a firm's changing resource needs. The capital configurations already possessed by the nascent business owner determine their resource needs, their potential access to sources of social capital, and the likelihood that they will be able to gain resources from these ties. There was evidence, nonetheless, that certain configurations of social capital might have positive or negative outcomes for performance in different business stages: for example, a high degree of *homophily* in the client base at development could pose succession problems. There is a two-way relationship between positive and negative outcomes of social capital and the stage of development of the firm: certain configurations of social capital may have positive or negative outcomes for different stages of development; equally, the stage of development is likely to produce particular configurations of social capital that have positive or negative outcomes.

The findings in this thesis revealed that social capital, operationalised through social network theory, can only partially explain the differences between business owners and their access to resources. Therefore, in order to achieve objectives one and two, which aimed to understand the interplay between social capital and resource acquisition, the convertibility of different forms of capital must be understood. For this purpose, objectives three and four sought aimed to examine the overlaps between the forms of capital featured in the conceptual framework. Objective three aimed to explore the configurations of capital that were possessed by participants and objective four aimed to conceptualise how these forms of capital were converted into needed resources. Because of the overlap between the analysis of these objectives, the findings are presented together in the forthcoming discussion.

Objective 3: *To explore the dynamic and overlapping forms of capital in the professional services context.*

Objective 4: *To better understand convertibility and the performance implications of various capitals for the owners of small professional service firms.*

It was found that subtle differences in configurations of capital across the participants could build a more coherent explanation of the development and performance of the business owners' firms than examining social capital data alone. A discussion of objectives three and four is proceeded by a broader abstraction of data analysis, which uses concepts from Bourdieu's broader social theory to provide explanations for differences across profiles of participants.

In respect to objective three, this thesis uncovered that there were differences in the relative configurations of capital possessed by participants. Due to apparent similarities in cultural capital (indicated by professional accreditation), it was proposed that cultural or human forms of capital would have less impact on performance in small professional service firms. A recent meta-analysis of human capital in entrepreneurship research found that it is the *outcomes* of human capital (such as task-related knowledge and skills), rather than investments in human capital (such as education) that have most impact on entrepreneurial success (Unger *et al.* 2009). The findings in this study confirm and extend this notion. For the owners of small professional firms, who make significant investments in human capital, successful outcomes from this form of capital are related to factors such as technical skills from being in practice, or the relevant social skills they possess or acquire. The findings in this thesis support the notion that, although human capital is part of cultural capital, it is useful to extend the human capital concept to the broader notion of cultural capital, which relates to non-physical wealth founded on reputation (Bourdieu 1986; Thompson 1999). Bourdieu (1986) points out that human capital writing, through focusing only on academic investment, ignores the transmission of cultural capital and the investment of time that makes the profitable rate of return different for some individuals than others. This thesis uncovered different configurations of cultural capital across professional business owners, which added to a more nuanced understanding of the role of institutionalised and embodied capital on small firm development.

Although participants all had practicing certificates from recognised professional bodies, cultural capital was found to overlap significantly with symbolic capital, and this had implications for the value and convertibility of their institutionalised cultural capital. Bourdieu's notion of field refers to a structured space of positions, in which positions and their interrelations are determined by the distribution of different kinds of resources or 'capital'. One of the most important properties of field is the way in which it allows one form of capital to be converted into another. It is commonly acknowledged that in the professions, high cultural capital is capable of being turned into economic capital (Bourdieu 1990; McDonald 1995). Within fields, actors struggle for power and legitimacy, and it has been noted that the Institute for Chartered Accountants has habitually fought to maintain the exclusive rights to the name Chartered Accountant (CA) (Lee 1995). The accounting field, according to the findings of this study, could therefore be seen as hierarchically structured. Consequently, individuals with particular types of institutionalised cultural capital (e.g. audit qualification or ICAS accreditation) have greater symbolic capital, and thus better chances of accessing resources, such as clients, i.e. social capital. Having a practicing certificate from ICAS or ICEAW allows accountants to use the CA title, which was viewed as having a better reputation amongst clients and other stakeholders. Many clients associated *being* a professional accountant with the CA title. This finding extends Richardson and Jones' (2007) study, which explored the different professional associations and the power of the professional brand in Canada, by considering these issues in a Scottish context. The nature of accountants' professional accreditation does not objectively make a difference to the quality of their work but its value is determined subjectively, by how other relevant actors within the field perceive the legitimacy of the qualification.

In terms of convertibility, the CA title, through being perceived as more legitimate and prestigious by relevant stakeholders, allows chartered accountants to gain better access to social capital outcomes. There is increased trust in the chartered title. The necessity of training in a CA firm also grounds its members in the professional, as opposed to the business field, and generates better access to professional sources of social capital for its members in practice through embeddedness. Overall, the social capital benefits of chartered status were manifold, including: membership of an exclusive group, with associated benefits of closure and solidarity; and better access to key resources, such as technical advice. Chartered accountants, from the moment they qualify, are also granted higher salaries, demonstrating that this form of cultural capital allowed better conversion rates to economic capital. It emerged that the interplay between the *habitus* of ICAS practitioners and the particularities of the Scottish context led to a particularly marked divide in perceptions and practices. This thesis can only report the comments of participants in this respect, but the perceptions and practices that result from the symbolic value of different professional titles across different geographical locations would be a worthwhile avenue for future research.

Findings with regard to professional status were most significant in terms of improving the conversions of capital, although other indicators of cultural capital, such as a University degree, also led to increased returns (such as the better chance of achieving partner status prior to start-up). In terms of professional accreditation, the only difference amongst business owners was that some had their audit certificate and others did not. The audit qualification could, prior to 1994 when the first audit threshold was introduced, be converted into increased economic capital for its holders. Prior to 1994, all registered companies in the UK had to have their accounts audited but since the threshold was raised to £5.4 million in 2001, the market for audits is dominated by the large firms. Bourdieu (1986) discusses the material and symbolic profits associated with qualifications. He suggests that, due to changes in the conversion rate between institutionalised cultural capital and economic capital, investments made in time and effort to gain qualifications may turn out to be less profitable than was anticipated when they were made. Although the audit qualification may still generate some economic and symbolic benefits, the cost of maintaining the qualification may not be worthwhile for many small practitioners in long run. The results of legislative changes such as the audit threshold on small accounting practices in the UK have only recently been considered (Ramirez 2009). Further research, from a field perspective, would be useful in defining how changing configurations of capital and convertibility rates are impacting on different sized accounting firms.

The methods by which accountants set their fees reflected both contextual differences and contrasting *habitus*. Adopting customary 'professional' or relational methods of pricing in accountancy would relate to the use of time-recording, fixed fees, or compassionate pricing. Traditionally, professional firms have not operated in open-price competition in a free market, and often "*do not compete on price or cost, and some do not even primarily maximise profits"* (Løwendahl 2005: 163). Accountants who were in larger multi-partner practices tended to use time-recording methods, a traditional cost-based method used by the liberal professions (Løwendahl 2005; Maister 1990). Smaller practices tended to use fixed fees, calculating price in terms of how long the work would take, and setting a fixed fee seen as appropriate for the amount of work. Sole practitioners sometimes used 'compassionate pricing', where the customer is charged what they can afford. All of these methods in various ways reflect traditional professional values. The first two methods reflect a belief that service quality is of paramount importance to clients, not fees. Discovering that professional accountants are also flexible in their fees, for example using dynamic pricing to reflect the size of the clients firm, builds on research conducted in other professional sectors. This research has proposed that small firms in professional services are more concerned with customer relationships than speed and performance (Empson 2007).

Other methods of pricing reflected a different underlying value system, the *habitus* of the business advisor (Ramirez 2009) or managed professional business (Hinings *et al.* 1999) which is discussed further below. Value pricing, for instance, is a method of pricing developed for non-professional business contexts, where instead of pricing according to cost, the price is set as the perceived value to the customer (Nagle and Hogan 2005). Another pricing technique was to use discounting, usually by rewarding referrals. Offering financial inducements such as lower fees was previously illegal, and is still warned against by the professional bodies on the basis that it might lead to questions regarding the accountants objectivity, professional competence and due care. In relation to the first set of pricing techniques, these techniques show an orientation towards the ethics and values of the traditional professional. The first set of methods suggest high symbolic capital, either in terms of being able to price on the basis of reputation, credibility and a customised service, or on the basis of making symbolic investments, which provide the possessor with claims on the labour and resources of others in the future (Bourdieu 1977). The concept of pricing and how it acts as a form of symbolic management (Zott and Huy 2007) has not been extensively examined, particularly for small firms. As a concept, it fits within the interplays of the forms of economic, social and symbolic capital and has an impact on convertibility through it's symbolic importance, especially within the professional services context.

The expectation that access to economic capital would have limited impact on the performance of small professional service firms was confirmed by the analysis. Although there were subtle differences in economic capital, for example whether the accountant had premises or worked from home, these did not often differentiate business owners in terms of performance, for instance, in their abilities to attract clients. The relative value placed on economic capital in terms of profitability and fee income was, nonetheless, an interesting finding. It suggested an interplay between the motivation of network ties to donate resources and the professional's disposition towards certain forms of capital. There has been some interest in the notion of shifting professional identities as the markets for professional services have moved towards de-regulation, globalisation and heightened competition in recent years, and research has found a divide in the professional identities of accountants (Greenwood and Empson 2004). Given that the knowledge work of professionals is ambiguous and lacks tangible quality cues, maintaining impressions of 'expertise', 'knowledge' and 'problem-solving' has been proposed to be extremely important for professional service firms (Alvesson 2001) and for entrepreneurial firms (Zott and Huy 2007). The findings in this thesis were that business owners with a low professional identity, who were disparaging of the knowledge work they perform, tended to be unhappy with their performance. It is therefore proposed that for small practitioners, nurturing the image of professionalism and the value of professional work generates important symbolic capital. When the professional is being perceived as legitimate in the eyes of relevant stakeholders, the convertibility of cultural and social capital increases, and suggests improved performance of the business. Findings also proposed that the framework developed by Nahapiet and Ghoshal (1998) should be adapted in the professional services context to demonstrate the capacity of individuals to create organisational advantage, to gain social and other forms of capital from intellectual capital rather than *vice versa*, and that benefits of intellectual capital may be from existing rather than new knowledge.

The final aspect of embodied cultural capital to be discussed relates to communication effectiveness and social skills. The service literature has for some time considered interaction and interpersonal skills as an important component of satisfaction (Neergaard *et al.* 2005; Patterson *et al.* 1997; Sharma and Patterson 1999). Managing client relationships in professional services is complex, involving a shared understanding of the problem and mutual acceptance for the proposed solution, which makes social interaction and social skills important (Alvesson 2001). Research in social capital and entrepreneurship are also beginning to explore the notion that social skills are important in determining who will be able exploit their social capital effectively (Baron and Markman 2000, 2003; Baron and Tang 2009; Jack 2010). This study confirmed that the convertibility of social and cultural capital improve with enhanced social skills. Those business owners who demonstrated social perceptiveness and social adaptability were able to develop their businesses more effectively.

A key finding of this thesis surrounds the role played by symbolic capital in determining the convertibility of other forms of capital. It has already been mentioned above that for some participants, economic capital was more important than for others. For professionals, who live on the sale of cultural services to a clientele:

> *... the accumulation of economic capital merges with the accumulation of*

> *symbolic capital, that is, with the acquisition of a reputation for competence and an image of respectability and honourability* (Bourdieu 1984: 291).

Engaging in non-activity was one way in which small business owners generated symbolic capital but the level of activity, underlying motivations, and returns on this activity varied. Findings suggest that the eschewal of economic gain, and giving time for free, sends positive signals to potential sources of social capital which helps motivate them to donate resources when needed to the business owner. With the exception of the owners in larger multi-partner practices, owners in those businesses performing well often claimed such activities were not economically motivated or consciously undertaken to improve the reputation of their business. Non-economic activities that were community-orientated generated more positive effects than activities that were professionally related. Drawing on literature from sociology and anthropology, the findings suggested that symbolic capital is built through a combination of prestige, status, authority and honour (Bliege-Bird and Smith 2005; Shenkar and Yuchtman-Yaar 1997). Evidence of these attributes helps small business owners convert social capital. Being seen as an authority on certain aspects of accountancy, for instance, signals the individual has cultural capital that is perceived as valuable. This could lead to higher fees, client satisfaction and referrals. Being seen as honourable can generate a positive reputation and trust, leading to referrals and client loyalty, or might signal professional respectability to other professionals and external organisations, aiding the exchange of information and referrals. Prestige and status, gained from embodied cultural capital or relative rank within the social order, can be exploited through priority access to resources, particularly social capital outcomes such as influence and power.

The findings confirm that, for owners of small accounting practices, building symbolic capital is important for success. Zott and Huy (2007) found that symbolic management is likely to be more important in situations where there is greater uncertainty over the intrinsic quality of the offering, which is evident in the professional services. The findings of this thesis have given some initial answers to objectives three and four, and a set of principles which could be used as a basis for further research, particularly within other professional services contexts. Symbolic capital acts as a lubricant which will enhance the convertibility of other forms of capital. Many studies use objective measures of capital, for instance examining social capital using network size and networking frequency, or cultural capital using qualifications. Studies often fail to examine how forms of capital overlap, what motivates people to donate resources, and how the relative value of forms of capital vary relative to the field. Configurations matter, of course, but consideration of the overall volume of capitals a business owner has, and the interplay between different forms in certain fields, provides a better promise of understanding the development and performance of small firms.

The findings for objectives three and four highlight some alterations which could be made to the conceptual framework, principally revolving around three concepts: the removal of symbolic capital from something which is possessed by the business owner, to a lens through which their capital is perceived by other actors in the field; the introduction of the relative configurations of capital held by other actors in the field, particularly dominant actors; and the introduction of the notion of *habitus* to explain individual identity and disposition, and how the individual forms of capital relate to those of the field. With this in mind, the final part of the discussion below will contextualise the findings of the study, drawing on Bourdieu's concepts of field and *habitus* and illuminating relevant patterns between groups of participants.

7.2 *Habitus*, Field and Capital

When reflecting on capital configurations and issues of convertibility, particularly with regard to participants' dispositions and symbolic capital, existing theory was compared with the findings. '*Habitus'* and 'field' are central notions in Bourdieu's work (1977, 1984, 1986, 1990). *Habitus* is defined as "*a system of temporally durable dispositions, embodied unconsciously and predisposed to function as frameworks that generate and* *regulate practices and ideas*" (Bourdieu 1977: 72). In other works, *habitus* represents habitual, patterned ways of understanding, judging, and acting which arise from our particular position as members of one or several social fields, and from our particular trajectory in the social structure (Terdiman 1986). Despite variations in individual behaviours, *habitus* gives groups consistency by providing a means of self-recognition and a sense of identity that is fairly stable over time.

The link between *habitus* and the performance outcomes of strategy has been tentatively suggested in small firm research (Anderson *et al.* 2007; Anderson *et al.* 2010). Overall, few studies have attempted to use the social theory of Bourdieu to frame their understanding of entrepreneurial performance, despite the advantages it offers in capturing the process and nature of capital accumulation. This may be due to problems with applying the notion of *habitus,* which is viewed as an ambiguous term (DiMaggio 1979) which leaves little room for agency and social change (Battilana 2006; Boyer 2003; Mutch 2003).

The application of the notions of field and *habitus* to literatures in marketing, entrepreneurship and management is limited at present. *Habitus* has however been used to explore changing professional identities in fields such as medicine (O'Connor 2007) and careers advice (Artaraz 2006). Recent research by Hamilton and Ó hÓgartaigh (2009: 910) applies Bourdieu's framework to the accounting profession to explain how the privilege of the auditor to declare what is 'True and Fair' value (TFV) "*reinforces the status quo and the constitution of hierarchy and inequity that exists in the accounting field"*. In common with the views presented in Battilana's (2006) framework and Oakes *et al.*'s (1998) work, the present analysis has drawn on Bourdieu's social theory to investigate whether groups of participants may share a *habitus* that is subtly different to that of others within the field. Furthermore, do the *habitus,* social positions and capital configurations of participants explain the differences in performance found in this research? Whilst this study did not use *habitus* as its conceptual frame, recent research by Anderson *et al.* (2010) into networking practices and processes found *habitus* to be a key structural quality, or 'relational artefact' that assists networking through the creation of shared views, perspectives and practices.

According to Bourdieu (1990), fields are structured systems of social positions within which struggles take place over resources, stakes, and access. Social position, for instance whether the group is emerging or declining, and whether the agent's position is becoming stronger or weaker in the field, will therefore affect the acquisition of various forms of capital. Fields are defined by the different forms of capital that dominate: cultural, economic, social and symbolic forms will variously dominate in different fields. Bourdieu (1990) regards fields as networks of social relations, and positions within fields as 'positions of possibility'. The field is in constant flux, reflecting relations of power and the structure of capital accumulated. The outcome of this struggle will orientate strategy and distribute members of the field hierarchically, depending on the kinds of capital they possess and the number and types of position within the field (Jenkins 1992). The link to performance can therefore be made in that capital represents power over the field, and the chances of profit in a particular field will be determined by whether or not actors have access to the particular kind of capital that is dominant (Bourdieu 1985). Capital structures the possible strategies and actions available to actors, and determines the autonomy actors have over changes in the field (Oakes *et al.* 1998).

This analysis builds on previous research (Anderson *et al.* 2007, 2010; Anheier *et al.* 1995; Battilana 2006; Greenwood *et al.* 1995; Hamilton and Ó hÓgartaigh 2009; Oakes *et al.* 1998; Suddaby *et al.* 2009) and fills a gap in our understanding of how capital configurations may link social actors in small accounting practices. The analysis presented has revealed both differences in the capital configurations of participants and the performance implications of these differences. It was found that whilst findings regarding social capital contributed to an understanding of firm performance, data on this capital alone was not sufficient to understanding these performance differences. This was enhanced through appreciating cultural capital which, particularly in its embodied form, contributed to an understanding of the development of participants' firms. Symbolic capital also emerged as a compelling explanation for performance differences, as its possession signals that an individual's capital is perceived as legitimate by others. Of particular relevance to this discussion is a consideration of the relative importance of economic and symbolic capital presented in Chapter 6. Other research has suggested that *habitus* might be reflected in an orientation towards either economic or symbolic capital (Anheier *et al.* 1995). The findings reported in Chapter 6 are summarised again below (* indicated the participant was happy with the profile of their business):

Values symbolic capital more than economic:
Joyce*, Richard, Andrew*, Irene* and Simon*
Values symbolic and economic capital equally:
Samuel, Gavin and Patrick
Values economic more than symbolic:
Jim*, Henry*, James, Melanie*, Janette*, Phil and Jeff

The following section will consider each of these profiles in relation to the performance profiles discussed in the Chapter 5 and the analysis of capital presented in Chapter 6. It is proposed that these profiles share characteristics and dispositions (or *habitus*), which, relative to the accounting field, helps to explain performance differences amongst participants' firms.

Profile 1: 'Business advisor' Professional Habitus

This profile contained Jeff, Patrick, James, Gavin and Phil. Each of these participants either valued economic capital equally or more than symbolic or cultural capital. The group of the participants who regarded economic and symbolic capital as equally important also shared some similarities in the configurations of their capital. This profile had varied firm sizes, with two sole traders, two limited companies and a partnership. Competition for this group was believed to come from unqualified accountants who could offer clients a similar service for less. The stated desire for growth was prevented by demand constraints, rather than capacity constraints that were found in other groupings. The firms with staff used time recording methods, Phil used discounting methods and others favoured 'value pricing' (Samuel, Gavin, Jeff) where customers choose the level of service they require and pay accordingly.

Samuel, Gavin and James all felt they were very much authorities on certain areas of accountancy due to the range of technical information they could access through their membership of formal business networks. However, this group did not find that their opinion was commonly sought by their peers. This suggests that although they had authority through access to cultural capital resources, this was not readily convertible into social capital benefits. Either the cultural capital of these participants was not acknowledged by their peers and lacked symbolic value, or their peers did not know about or have access to these resources, which may indicate a weakness in the structural and relational characteristics of these participants' networks. Whichever explanation holds, the motivation of others to donate social capital is likely to be less if there is no reciprocity. Although social capital sources seem high for this group, the actual social capital benefits to performance may not be as significant. It should also be noted that professional accountants could access social capital resources from other professionals without having to pay membership to join a network group, therefore costs were lower for them.

This group revealed a low commitment to professional identity and values, evidence of which is shown in the following quotes:

> *I don't have any close friends who are accountants. I'm not a conventional accountant because of that pretty much from day one I thought I don't see myself being a kind of traditional accountant type* (Patrick).

I think we're business advisors at the end of the day. Compliance is a given. It just happens in the background. The rest is how to improve the way you do it (Gavin).

(I'm) less of an accountant and more of business man… it's all about customer service, marketing, business development services, strategic planning, all that kind of thing for clients. You know, accounts and tax returns are commodities and they'll always be under pressure but where the real value is, and the people who are best placed to do that are accountants (Samuel).

This group tended to have lower cultural capital: only two members had audit and only one had acquired a bachelor's degree. One was a CA (Patrick) and the rest were ACCA members. Most of these participants' spoke of having many problems related to staff, suggesting that the social perception of these participants was quite low (Baron and Markman 2003; Baron and Tang 2008). This may be associated with limited performance. Social adaptability, by contrast, appeared high for this group, as they all made comments alluding to the fact that they were able to speak to a wide range of people of different ages and backgrounds.

Performance characteristics were similar for this profile, as was the finding that most members of this profile had, at some point in their professional lives, been extensively involved with their respective professional bodies. Generally this profile felt their professional body involvement was not productive for their business. This group found engaging in non-economic activity and the social contribution of the business to be of moderate importance. Social capital analysis for this group found a high membership of varied external organisations which participants reported were variable in terms of usefulness for their business. The picture that emerges from the social capital analysis is that whilst these participants seem to have access to a range of sources, particularly other professionals through their professional bodies, these were of limited use to them in terms of gaining resources for the performance of their firms.

Profile 2: 'Traditional' Professional Habitus

This profile of participants shared a *habitus* that reflected the norms and ideals of traditional professional accountants (Joyce, Richard, Simon, Andrew and Irene). They orientated themselves more towards cultural and symbolic capital than economic. In terms of performance, this group were all moderately to very satisfied with the profiles of their businesses, and found it easy to attract new clients and compete with other firms. The sizes of the practices varied considerably, from sole traders (Joyce, Richard) to small partnerships (Simon, Irene) and a larger partnership (Andrew). Feeing practices varied with the size of the firm: the sole traders both priced compassionately whereas the partnerships used time recording or fixed agreements. This group all believed that engaging in non-economic activity was important, although some (Richard, Joyce) appeared to be more philanthropic than others. This group signaled symbolic capital value through their commitment to professional values and 'honour': participants such as Simon and Irene were the most adamant of all participants about not receiving gifts from clients and maintaining their professional independence.

Participants in this profile benefitted from social capital, and had a fairly high membership of external organisations. Memberships were often linked to positions of responsibility in the organisation, such as Treasurer. This profile did not have time or the inclination to be proactive networkers, perhaps because networking was not their area of responsibility, or because they were winding down the business. Participants were, however, aware of the importance of networking and placed a greater emphasis on quality rather than frequency. This profile of participants were often members of prestigious external organisations which generated solidarity benefits, and were useful for signaling and generating symbolic capital. With the exception of Andrew, all participants felt that it was easy to meet new people with whom to discuss business. Reflecting back on the critical incidents data, this group had a higher proportion of other professionals in their close contact group than other profiles, and all of their most important ties from the incidents were accountants or other professionals.

High embodied cultural capital helped this profile of participants to embed themselves in prestigious organisations. Due to their high symbolic capital, this profile of participants were effective at motivating other professionals, occupational groupings and organisations to donate needed capitals including social, economic and cultural forms. This profile did not demonstrate strong social adaptability, however, and *homophily* effects in their client base posed a threat for succession, as did their unwillingness to grow larger or take on additional qualified staff. Joyce was not concerned about this as she was going to wind down her practice without selling it and Andrew was in a larger firm which did not have succession issues. Most participants in this group (again, Andrew in the larger practice was the exception) did not feel that they were authorities on any particular areas of accountancy but their opinion would still be commonly sought by their peers. This suggests that their cultural capital was a potential source of social capital, given that information and other resources are likely to be exchanged reciprocally. This may explain why their important network ties were often to other professionals. It also denotes that their cultural capital had symbolic value: i.e. they were viewed with esteem and considered an authority by select peers.

Three of the participants in this profile were chartered accountants and of the remaining group, Andrew was in a CA firm and Irene's business partner was ICAS; overall the influence of ICAS was stronger than ACCA in this group. Opinions about the relative usefulness of their professional associations, and the implications of the size of their practice for peers and clients varied across the group. The average age of participants is 54, making them the oldest group. This may explain their disposition, as extant research (c.f. Elias 2004) has suggested younger accountants are more commercially orientated (most likely as a result of the field shifting in this direction in recent years). This profile of participants had higher volumes of cultural capital, probably due to their age and experience. All participants had previous experience as partner prior to starting their present firm and had had the opportunity to build tacit and explicit knowledge over a longer period. These participants all possessed an audit qualification, and three out of five participants also had a bachelors' degree. Giving a personalised service to clients was important for these participants, particularly espoused by Joyce, Irene and Richard. This is likely to have improved the functional quality of the service that was offered, which leads to higher customer trust and loyalty (Patterson *et al.* 1997; Sharma and Patterson 1999), and therefore a greater possibility of referrals. Social perception seemed high is this group but social adaptability was lower, particularly with Joyce and Simon.

Profile 3: 'Non-traditional' Professional Habitus

This profile of participants were also satisfied with the performance of their firms but had different dispositions and capital configurations to those of the profiles discussed above. This group (Jim, Janette, Melanie, Henry) were motivated more towards economic than cultural and symbolic capital. Again, the group did not have similar sizes and the profile includes two sole traders working from home, a partnership with unqualified staff and a multi-partner firm with qualified staff. Feeing practices again varied with firm size: sole traders priced either compassionately (Melanie) or discounted (Jim); and both the larger firms used time-recording methods. Findings indicated that this profile of participants had lower symbolic capital. Whilst this profile of participants generally felt engaging in non-economic activity was important for the reputation of their firm, none of them considered the social contribution of their business to be important. Symbolic capital characteristics relating to 'honour' and respectability were lower in this group: Henry and Jim, for example, rewarded referrals which conflicts with traditional professional values. The positive performance of these participants' firms would seem to contradict Maister's (1997) assertion that professional firms are distinguished by their adherence to professionalism. Maister's (1997) research, however, does not focus on small professional service firms and also predates much of the regulatory change in the accounting sector that was outlined in the literature review, which may have encouraged a more widespread adoption of commercial values.

In terms of sources of social capital, this group were only members of six external organisations, including their professional bodies. Where memberships did exist, they were seen to be very useful to the performance of their business. External memberships were mostly non-business related, for example the Church and sports clubs. The male participants (Henry and Jim) found meeting new people with whom they could discuss business very easy, whereas the two women found this quite difficult. The critical incidents data did not suggest any clear similarities between these participants, apart from the tendency for a high number of ties, with a large proportion of weak ties. This may suggest this group's positive performance relates to their bridging capital, as they do not form memberships of groups to gain solidarity benefits but instead rely on a higher number of weak ties to access resources. The male participants networks, in particular, aligned more with Granovetter's strength of weak ties perspective than any other participants in the study.

This profile of participants did not feel that they were authorities on any particular areas of accountancy: Janette and Jim did not feel their opinion was sought by their peers at all, whereas Henry and Melanie felt their's were. As far as networking was concerned, a differences across genders was again found: Henry and Jim were proactive networkers whereas Melanie and Janette very rarely did any form of networking, preferring to keep their personal lives as separate as possible from their professional lives. This may also be because these women participants believed they were operating at capacity and did not wish to grow their business any larger whereas both males were keen to grow their firms. Another observation is that three of the four participants in this profile located their business in rural satellite towns in the central belt of Scotland; this may have impacted on the potential range and style of networking activities possible.

Only one member of this group was a chartered accountant, although two others were in CA practices. Jim was the only ACCA member not affiliated to ICAS in any way. This group of participants strongly valued their professional association for improving their reputation amongst their peers and their clients, more than any other profile. This may suggest that they needed to leverage the signaling potential of professional association more than other groups and acquire symbolic capital in the form of prestige and status. The average age of the participants in this group was 45, making them the youngest group. Again, this confirms extant research which suggests that younger accountants are more commercially orientated than their older counterparts (Elias 2004; Suddaby *et al.* 2009). Compared with the participants of profile two, this group had lower cultural capital, most likely resulting from their lower age and hence less experience; however they did possess more indicators of cultural capital than participants in profile one. In this profile, no participants had previous experience as partner before starting their present firm; three had an audit qualification and, in terms of tacit knowledge, seemed to be effective at strategically targeting certain sectors to build up specialised knowledge. Janette and Henry were also able to benefit from the cultural capital of their partners, staff and other organisational resources.

The customer and their needs were seen as central to the concerns of these participants, which was different to the professional ethic of those business owners in profile two. Research by Anderson-Gough *et al.* (2000) found that a strong service ethic still exists in more commercial accounting practices, as the discourse of the clients organises and motivates employees and controls their career success. For those participants that were not sole traders, there was a sense that they felt more committed to the organisation than their profession: for example, both Janette and Jim would often discuss in the plural: what 'we' would do rather than referring to themselves. Jim and Melanie, on the other hand, seemed to be isolated from other professionals and their professional bodies, operating as sole commercial operatives with no organisational ties. These two participants would refer to other members of the profession as being orientated differently from themselves: Melanie said that she didn't fit the mould of a CA; Jim commented that he felt accountants didn't have the commercial or the common touch that he had. Social perception seemed to be high in this group, as was social adaptability reflected in the varied structure of their contact networks and their client portfolios.

7.3 Theoretical, Methodological and Practical Implications

7.3.1 Theoretical Implications

This thesis has explored the connections between various literatures: small firm networking and social capital; Bourdieu's (1986) conceptualisation of overlapping forms of capital; and the methodological implications of capturing process-based data. Findings have a number of theoretical implications for each of these fields. Building on extant small firm research, this thesis addresses the central question of how networks facilitate the development of small businesses. Whilst the network paradigm is well established in the small firm literature, it has been repeatedly acknowledged that there has been limited research that explains the processes that underlie the networking phenomenon (Shaw, 2006; Slotte-Kock and Coviello 2010; Jack 2010). This thesis adds to extant research on patterns of tie formation in small organisations (Elfring and Hulsink 2007; Greve and Salaff 2003; Hite and Hesterly 2001; Jack 2005). The study found some support for the notion of 'network evolution' (Elfring and Hulsink 2007), through which emergent firms rely initially on strong ties, and incorporate more weak ties as they enter the development phase. However, in this study, strong ties remained the most instrumental for resource acquisition. The findings discussed support Larson and Starr's (1993) conceptualisation of increasing density (and homophily) in networks, and contrasts with Hite and Hesterly (2001) who identify an increasing proportion of instrumental weak ties at development.

This thesis also contributes to a more nuanced understanding of the strength of ties argument. Weak ties are generally conceptualised as 'acquaintances', characterised as having infrequent contact and by moving in different social circles. Strong ties are often 'close friends', with frequent contact and high density (Granovetter 1983). This thesis uncovered links between professionals that are, by this definition, weak ties but which possessed bonding attributes, as professionals share many underlying attitudes and norms. It was also found that, for particular types of technical information needs in the professional context, closure and trust are important. This confirms Jack's (2005) contention that network research requires an appreciation of information requirements, tie usefulness, and trust. This thesis also sheds further light on the consequences of strong ties and homophily. Whilst both can be linked to positive performance outcomes for small businesses, tie dissolution and excessive homophily in the networks of older business owners indicated the potential for negative outcomes for businesses in the development phase.

By focusing on an industry in which legitimacy and a client base (rather than finance or non-redundant information, for example) are primary resource needs, the study discovered that initial network conditions and resource acquisition are highly dependent on business owners' prior experience. Lack of experience as an owner, or of professional practice, led business owners to turn to weak ties at emergence which were less successful for resource acquisition. In the professional service context, it was found that clients mainly felt loyalty to the individual rather than the firm, which made the client base a mobile resource for nascent business owners willing to sever ties with their previous practice. This also indicated that client-based sources of social capital are individually rather than organisationally anchored in this context.

A particular contribution offered by this thesis centres on an understanding of the dynamics of social capital in the professional services context, which is a fast growing sector with resource needs and characteristics that appear to be different to 'entrepreneurial' businesses. The findings in relation to content were particularly revealing, as contrary to other small firm sectors, ties rarely acquired multiplex contents (Greve and Salaff 2003; Hoang and Antoncic 2003; Shaw 2006; Slotte Kock and

Coviello 2010). Due to issues surrounding professional identity and independence, ties were often uniplex, with only business-related content, even after they had been established for many years. Multiplexity may not, therefore, always be linked to increasing trust and interdependence. This finding appears to be particular to the professional context, and further research could explore to what degree this is applicable to other professions such as law, medicine and architecture. The findings in this thesis are embedded in the features of the professional service firm, but also provide further time-sensitive evidence and fine-grained data that contributes towards small firm network theory by demonstrating the links that exist between resource acquisition and different tie formations over the development of the small firm.

A fundamental contribution of this thesis was achieved by adopting the conceptual framework of Bourdieu (1986), which shed new light on the networking processes of small firms by revealing both the interplay between overlapping forms of capital and the effects of different volumes and configurations of capital on owners' resource acquisition. The thesis contributes towards Bourdieu's (1986) work in four ways. The first contribution is the conceptual framework, which explored the assumption that relatively similar levels of one or more forms of capital would make performance differences attributable to social capital. In contrast, the findings suggest that objective measures of, for instance, cultural capital are not sufficiently fine grained to capture the different resource-holding potential of individual business owners. Secondly, the findings discussed have encouraged a grounded conceptualisation and operationalisation of different forms of capital to emerge. This is important given that the definitions provided by Bourdieu (1986) are somewhat vague, particularly in respect to symbolic capital. The indicators of symbolic capital to emerge from this research may provide a basis for further development and testing in future studies. Thirdly, while Bourdieu (1986) discusses forms of capital as being overlapping and dynamic, studies have not generally considered the convertibility of different capital forms. This thesis thus provides some preliminary attempts to examine convertibility issues, which appears to be fundamental to understanding resource acquisition from networks. Finally, this thesis concluded by theorising links between *habitus*, field dynamics and the forms of capital to develop an explanation for the different development patterns of small firms, which takes into account structural as well as agential influences on business owners' ability to access and utilise social capital. There have been relatively few studies (Anderson *et al.* 2010 is one recent exception) that have attempted to illuminate network development through the application of Bourdieu's (1986) broader social theory. The findings relating to forms of capital and their convertibility highlight the importance of symbolic capital. Different volumes and configurations of capital must be seen to be legitimate by relevant resource-holders in order for the business owner to have successful outcomes from their network ties. This finding adds to limited extant research which explores how business owners use symbolic management to acquire resources (Zott and Huy 2007). The analysis in this thesis suggests symbolic capital together with social skills (Baron and Markman 2003; Baron and Tang 2008) hold the key for accessing and unlocking the potential resources contained within relational ties. Overall, this thesis proposes that, in line with recent organisational research interest in Bourdieu (De Clerq and Vorinov 2009; Emirbayer and Johnson 2008; Ozbilgin and Tatli 2005), his social theory provides significant promise for a rich, contextualised understanding of small firm development that can acknowledge structural constraints on opportunity and resource acquisition as well as possibilities for agency and change.

7.3.2 Methodological Implications

Finally this thesis also has several methodological implications. The two stages of interviews undertaken in this study captured retrospective data that was useful in considering processual features of small firm networks. Whilst it was not possible, due to time contraints, to conduct a wholly longitudinal study, the methodology used had a number of advantages. The life story technique allowed situations, such as critical incidents, to be recorded in their entirety *and* in the context of the owner's life story, as opposed to capturing 'snapshots of a particular point in time' (Jack 2010). Life story interviewing had numerous advantages for understanding network processes: it records context, allowing the analysis of network data to be grounded in a deeper understanding of the participant; it is also useful for capturing data relating to the forms of capital as they are accumulated and used throughout the participant's careers; and this style of interview was also an effective precursor to using critical incidents, in terms of both building rapport and allowing critical incidents to emerge from the participants perspective rather than the researchers. Returning to the business owners a second time also allowed a longitudinal perspective to be adopted for a proportion of the data collected.

By using established theoretical frameworks from sociology and comparable constructs and measurements, the critical incident technique was also shown to be effective as a method of studying network processes using a stage-model of small firm development. One issue was that the nascent and start-up period were difficult to separate when examining resource acquisition, as incidents tended to span both periods. Additionally, it may have been useful to separate the development phase into more stages, given that a number of participants were considering winding down their businesses. Rather than examining network development by looking at the stage of a firm's life cycle, findings suggest it may also be useful to separate and study changes in terms of different business owner's motivations. Using two separate qualitative techniques, one open-ended and one semi-structured was useful for capturing different aspects of networks and networking. Rather than being entirely grounded and inductive, the rich findings made in this analysis involved the 'dance of theory and data' (Anderson *et al.* 2010) in which emergent findings are constantly compared and conceptualised with extant theory. In terms of moving small firm network theory forward, this type of research philosophy, as opposed to wholly inductive or deductive research, is suggested as a positive foundation for future studies.

7.3.3 Implications for Policymakers and Practitioners

For small practitioners, this thesis proposes the benefits of intra-professional social capital on performance. Given the issues of increasingly demanding clients, growing pressures of regulation, increased competition and the growing dominance of the Big Four accounting firms in the sector, small practices should consider collaborative arrangements to alleviate these pressures. Adler *et al.* (2008) explored the impact of changes on the professional community and identified that, in the medical profession, new forms of community were taking shape in response to these pressures. It was found that communities of practice in knowledge-intensive industries were most effective when they took collaborative forms. The findings of this study suggest that an antidote to the burden of increasing regulation and technical complexity could come from collaborative arrangements with other accounting firms. Gaining access to specialist information such as tax helps to raise the profile of smaller businesses and secures better performance through client satisfaction and increased referrals.

Additionally, the findings suggest that whilst partnership has inherent risks of loss of control, loss of trust and partner defection, the benefits outweigh the risks. Partners provide access to social, cultural, economic and symbolic capital that can be a close and readily convertible form of capital for business development. Findings suggest that managing partnership can become more complex as size increases, meaning that the relative benefits and risks of capital volumes and configurations should be considered when proposing to increase the number of partners in the business. Partners should be chosen on the basis of value *homophily* to increase trust but status *homophily* should be considered carefully due to succession issues, and the risk that overlapping and dense configurations of social capital may be less useful for the business. Heterogeneity in the client base should also be carefully considered, as this can also cause issues when considering succession. This research suggested the important role of strong ties at start-up but emphasised the impact of weak ties with closure or bonding attributes as important for performance at development. Therefore small practitioners should manage their networks carefully over the course of the business to ensure they do not become too embedded in closed networks or too reliant on strong ties.

The owners of small accounting practices should consider how they represent themselves to stakeholders, particularly in terms of their role and ability as credentialed accountants. Whilst compliance may be seen as a given, undermining the strong ethical traditions that underpin accountancy does not seem to be good for the performance of the business or the symbolic capital of the sector. The size of the firm is one indicator of reputation. Whilst small size is not a weakness as far as clients are concerned, it may be perceived as a weakness to other important stakeholders such as banks, the Inland Revenue and potential employees. Managing the impressions of such stakeholders should be considered as important for gaining access to needed resources for the business. To this extent, engaging in non-economic activity may have valuable economic returns if it helps build goodwill and a positive reputation.

For policy makers and organisations that are concerned with the performance of small accounting firms such as professional bodies, the following recommendations can be made. First and foremost, the community of small accounting practitioners need to be assisted so that they can form collaborative arrangements to exchange resources in a closed and protected environment. The professional bodies seem to be in a particularly useful position to make such arrangements, and also to help small business owners access needed technical resources and staff. As providers of continuing professional development, professional bodies need to improve the quality and technical complexity of the courses they offer, and might also consider the requirements of small firms in the delivery of such material. Time constraints may make online learning useful, and financial constraints could suggest that courses are priced to reflect the size of different practitioners' businesses. Differences in the perceived credibility and subsequent convertibility of the chartered as opposed to the chartered certified status should also be considered. The ACCA, in particular, could make efforts to communicate its reputation and status more effectively to the clients of its small practitioners, who are generally members of the small business community.

7.4 Limitations

There are limitations to the findings in this thesis, as is common with any robust scientific enquiry. Access to resources, particularly time, is a constraint on most research. The aim of the present study was to capture the dynamics of capital and their impact on firm performance. Instead of using longitudinal research, the researcher posited that retrospective research using multiple methods would be a useful way of capturing process and the impact of time. The methodology chapter discussed the efforts that were taken to minimise biases and errors that can result from using retrospective techniques. However, the accuracy of recall and retrospective recall bias are possible limitations of the findings. Golden (1992: 849) refers to problems in accessing the past as typified by *"pitfalls in retrospective accounts*"**.** Possible problems occur due to faulty memories, oversimplifications and rationalizations, subconscious attempts to maintain self-esteem due to needs for acceptance, achievement and security, and social desirability (Cox and Hassard 2007). Drawing on Cox and Hassard's (2007) exploration of retrospective research methods, their limitations in producing an entirely 'truthful' picture of the past may not be of such concern if the researcher is concerned with the nature of reality from the position of the participant. The ontological position of this thesis was interpretive and thus emphasised the importance of participants' perceptions and interpretations of their previously lived realities.

Whilst the critical incident technique was a useful tool for gathering social network data, there were some limitations in terms of the type of data that could be collected. The incidents did not allow the researcher to grasp features such as overall network size. Whilst some indication of this could be gleaned from general networking data, it was difficult to analyse certain network features using CIT data alone, for instance network density. Had there been more time, or fewer participants it would have been useful to collect information on more incidents from participants. Findings are dependent on the truthfulness of the data in which they are grounded (Hofer and Bygrave 1992) and so the possibility that data collected from participants was not truthful must be considered. Collecting data from different people involved in the incidents would have been useful. Gaining the perspectives of others would be particularly useful for understanding symbolic capital. It would have been useful to interview other stakeholders such as clients, other accountants and professionals working within the organisation. The collection of critical incidents data was retrospective and therefore suffers the limitations outlined above. Additionally, when collecting network data, Elfring and Hulsink (2007) propose that recall bias might lead to an under-representation of weak ties, and difficulties in identifying causal mechanisms.

There are limitations with respect to the sampling used in this thesis. The sample was mostly accessed through the ACCA and involved following leads as appropriate, thus being opportunistic. Whilst the advantage of this sampling method was flexibility, it meant there were considerable differences in the demographics of the sample, and fairly wide disparities in their businesses. For instance, some participants had started a new business whilst others had joined an established business, and several participants had only been running their business for a few years whereas a number had been in business for over ten years. These differences limit comparability across the sample, and also raise concerns with respect to causality. Additionally, the contacts approached through the ACCA may have introduced sampling bias, for instance, the ACCA may have only asked a certain ‘type’ of accountant to take part. Whilst the characteristics of the sample were discussed and contextualised in the analysis, it may have been useful to construct a sample of matched pairs, or created more robust criteria for inclusion in the study, so that differences could be said to be directly attributable to social capital rather than potentially explained by contextual factors. The aim of the research was, however, to generate a substantive understanding of social capital and its interplay with the development of small professional firms. The profiles identified in this chapter do not share particular similarities in terms of demographics or firm characteristics, which suggests this was not an issue in terms of the analysis.

The advantage of the sampling strategy used was that it left the researcher free to pursue new and interesting avenues as they emerged (for instance approaching ICAS accountants to compare with ACCA). The findings are, nonetheless, limited in the extent to which they can be generalised to a wider population of small firms. When analysing the findings and comparing the data with extant theory, research in entrepreneurship was often consulted, yet Chapter 2 acknowledged that small professional service firms do not align with many of the accepted definitions of entrepreneurship. It is also unclear, without conducting further research, how the findings of this thesis relate to other types of professional service firms in industries such as law and architecture, for example, or the small firm sector as a whole.

There are furthermore limitations with regards to the measures and constructs used in the empirical study. Performance had to be gauged through the use subjective measures as most business owners were unwilling to divulge financial information. An objective view of business performance based on turnover, for instance, would have been useful to compare the size and the success of the businesses in the study. The measurement of social capital is also a thorny issue in social science research. In this study, social network theory was used a proxy to measure social capital, but it tends to focus on actual rather than potential sources of social capital. Whilst previous research instruments and robust research from anthropology and sociology were consulted when creating the research instrument for phase two, these measures are somewhat crude, and may not have provided a complete picture of social capital. Many of the distinctions related in the theory used in this thesis are also vague and open to interpretation, for example: the distinction between strong and weak ties requires further refinement (Elfring and Hulsink 2007); and the forms of capital, and other concepts that are discussed by Bourdieu (1986) remain undefined and therefore difficult to operationalise. In order to limit the impact of these inadequacies and improve the replicability of the study, this thesis gave a full account of the measures used, and fully described the interpretive process.

7.5 Recommendations for Future Research

For small firm researchers, it is suggested that to understand social capital, studies should examine all forms of capital, their configurations, volume and convertibility in order to understand the outcomes of networking. The interpretive paradigm was particularly useful in gathering a rich and context-specific understanding of capital but the emergent findings in this thesis could be further developed. It would be particularly useful to adopt a case study approach where multiple sources of data, across time, space and persons, are examined to gain a fuller picture of the configurations and convertibility of capital. Of particular importance to furthering our understanding of symbolic capital is gathering data from the perspectives of relevant stakeholder groups such as clients.

Rather than take a grounded approach, it is suggested that researchers should first look to other social sciences, particularly sociology and social anthropology, but possibly other disciplines such as psychology, organisational behaviour, human relations, politics and leadership, in order to develop research agendas that builds on extant knowledge rather than describing specific contexts. Bourdieu's social theory offers promising prospects for capturing the complex interplays between structure and agency, and the dynamic processes through which individuals and organisations evolve and exchange value. It is not suggested that such studies should have positivist hypothesis-testing assumptions but that the present research demonstrates the usefulness in contextualising findings and developing conceptual frameworks from other social science traditions that share a common aim in trying to understand social behaviour. Given that the findings of this study with regard to the relative importance of different forms of capital varied according to individual dispositions and dynamics within the field of accounting, it is suggested that the notion of *habitus* should be explored in different professional contexts.

For social capital researchers in entrepreneurship, it is suggested that examining symbolic capital or how credibility is maintained, provides some explanation for the motivation of network members to donate needed resources. Adding to the limited extant research on symbolic capital will help to further the theoretical development of social capital outcomes (Firkin 2003; Fuller and Tian 2006; Lam *et al.* 2007; Shaw *et al.* 2008; Stringfellow and Shaw 2009; Zott and Huy 2007). Further, including an appreciation of an individual's *habitus*, dispositions and social behaviour will illuminate why social capital has different outcomes for different individuals (Anderson *et al.* 2010; Baron and Markman 2003). If agency based factors are considered alongside social structural factors, it is possible that context-specific theories of small firm networking may start to evolve.

7.6 Summary

This chapter has presented an overview of the argument developed by this thesis before presenting a summary of the findings which were generated and the implications which these have. Attention was explicitly drawn to the limitations of the research before detailing the recommendations which the findings of this research make for the owners of small accounting firms, policy and future research.

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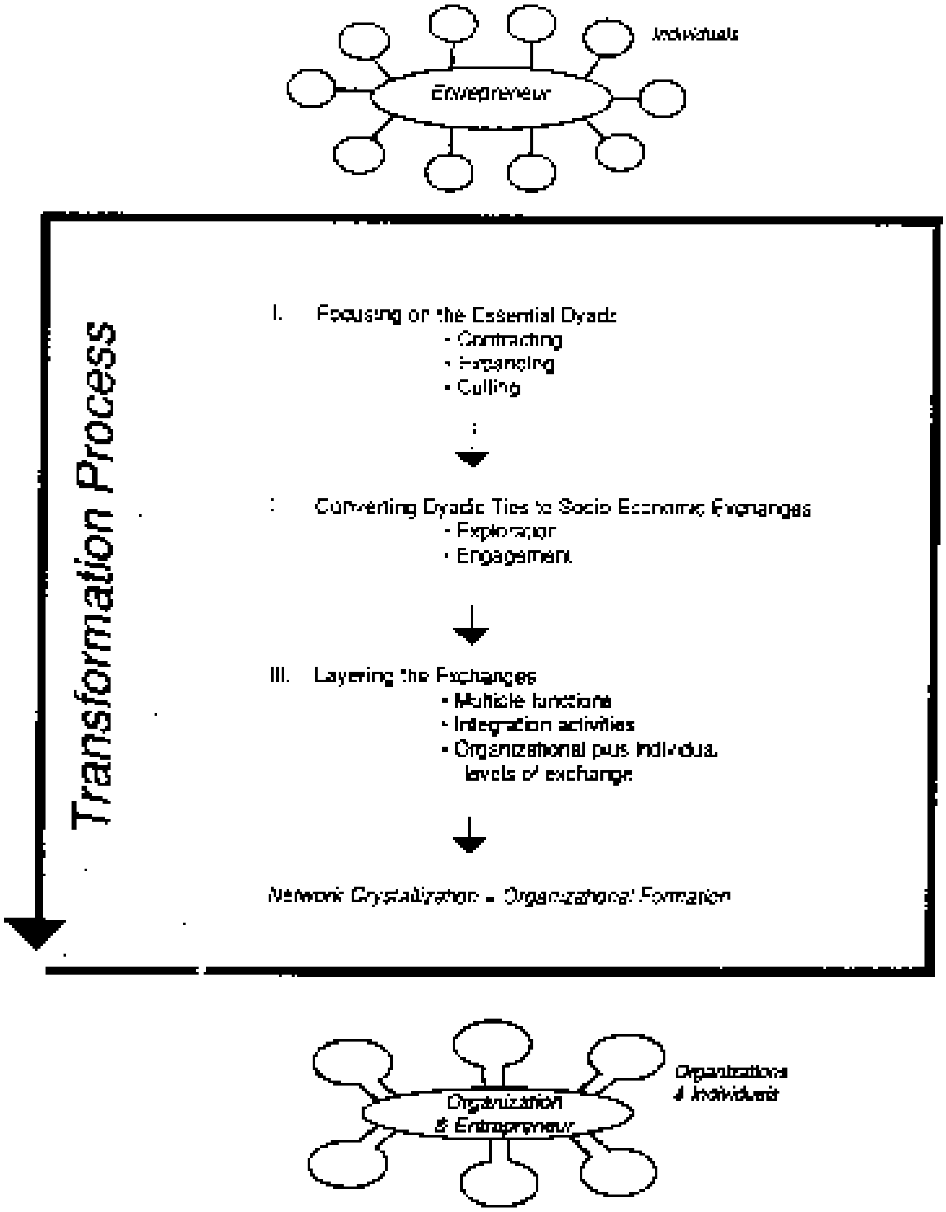
Appendices

Appendix 1: Network Model of Organisation Formation.



Source: Larson, A. and Starr, J. (1993) A Network Model of Organisation Formation, *Entrepreneurship Theory and Practice*, 17 (Winter),p. 7.

Appendix 2: Letter Requesting Participation

Date

Dear

I am writing to ask for your help with a doctoral research project which is examining how relationships impact on how small professional accountancy firms achieve success.

I am at Strathclyde Business School and the focus of my PhD is small firm marketing but I am particularly interested in the professional services sector. Accountancy has become the focus of my research for a number of reasons, but particularly because many accountancy practices are part of, or service the small firm sector, and are primary sources of external advice. My PhD aims to examine how the owners in small professional accountancy firms acquire goodwill through their relations, and to understand the impact this has on the performance of their firms over time. The research will be interview-based and can be carried out at your work place, at a time that suits. The focus of the interview will be to examine the background to you starting your business, and its subsequent development. A particular emphasis will be placed on any changes in performance, and any critical periods for the business.

I'll telephone your business in the near future to ask for your involvement in this project and I hope you can spare a small amount of your valued time to assist with this research. Confidentiality and anonymity for participants is completely assured, and full details of any papers or published documents will be available to those involved, upon request.

Lindsay Stringfellow
Doctoral Researcher, Strathclyde Business School

Appendix 3: Final List of Probes and Themes Generated from Life Story

Generic probes
Ask for similar episodes involving the same actor, places or types of events.
What was that experience like for you?
What happened next?
Tell me more about that
Themes: Regulatory change- family and kinship- co-directors and partners- investment and finance- client relationships- approaches to markets- attitudes towards growth.

Nascent

Could we begin with the year and age at which you decided to start your own business- what or who contributed towards this decision?
What situation were you in when you initially began to think about starting your business?
Were your family self-employed?
Were you in contact with other accountants or people that had started their own business?
Was anyone else influential in your decision?
Was it a positive pull factor such as a desire for independence or was it push, for instance dissatisfaction with previous employment?
Were any particular events significant in making you want to start your business
Did you feel you had enough resources at your disposal or was lack of resources a concern?
What skills did you have that you felt would be useful in starting your business?

How did you initially gather information on starting your own business?
Were the ACCA involved in this?
Who did you contact to gain key resources such as market and business information?
Was anyone not encouraging or forthcoming at this early stage?
Is there anyone that you have helped make decisions or gather resources in this early stage?
Who would you say was most influential in persuading you to start your own business or in helping you to gather the necessary resources?
What do you think motivated people to help you start your business?

Obstacles and barriers
What were your biggest fears about starting a business?
What were the biggest obstacles to overcome in planning and developing your business idea?
What were some of the things you did to gain your first customers?

Start-up

How did you go about setting up your firm?
How and why did you choose your premises/firm?
How did you decide to finance your venture? Were there any difficulties with regards to accessing finance?
Who did you contact and receive finance from for starting your business?
How did you make the key decisions with regard to the services offered, the prices charged, and how you would advertise and promote the business?
Did you use any government-based schemes, such as Scottish Enterprise?

First client
Tell me about your first client- how you found them and how the transaction between you went?
Are you still dealing with this person?
Tell me about your key clients…

How did you acquire your client base?
How did you go about gathering more clients for your business?
Is trust an issue when starting your own business- how is this built with clients?
Did you tend to rely on previous contacts, or did you actively seek new clients?
Who would you say your typical client was- has this changed at all over the course of the business?
Are there any social activities or membership of societies or clubs from which you have gained clients

How did your firm grow during the first year?
Were there any crises or unexpected events around the start-up phase?
What was the biggest challenge in the initial stages of starting the business and how did you cope with these?
Often small firms experience financial problems around the start-up phase… was this ever a concern for you and how did you deal with?
Marketing
How many hours would you say that you had to work at first- has this increased?
Are the number of hours you have to work a barrier to meeting more people in networking and other social situations?

Barriers and problems
What were the main obstacles in the first 6 -12 months?
Any major setbacks- how did you deal with these?
What relationships proved useful in the initial period of business?
How has working for yourself differed from working for a large company?

Business development and Establishment

Growth and development
Tell me about changes to your staff over the period of developing your business- what have these been and why?
What have your experiences as an employer been like- have there been any major problems with this role?
Have there been any changes to the legal ownership of the firm over its history?
If so, how was this experience?
Are you intending on taking on more staff or growing the business considerably over the next 5-10 years?
What are your concerns regarding achieving and dealing with growth?
How have regulatory changes affected the prospects for growth within your business?
How much effort and attention do you give to marketing in your business?
Have you needed to acquire more funding for your business- how did you go about this?
What have you required funding for- technology like computers?
Do you carry out audit work?
Have you been inspected

What have been your major successes?
Have there been any periods of crisis you have dealt very well with?
Have there been any unexpected situation of luck or good fortune that have contributed towards this success?
How do you think your contribution is viewed by the other partners in the firm?
What is your view of the contribution of other staff and partners?

Industry changes
What has you experience of events and changes within the accountancy profession been over the period of your business?
Who has been involved in these periods of change?
What has it changed with regard to your business?

Your role as general business resource: Do you regularly give advice to your clients outwith the accountancy role?
To which type of clients do you offer this most?
Is there anything distinctive about the relationships you form with these people?
Are there any clients with whom you have relationships outside of work?
Do you have any particularly positive or negative experiences with clients?

Relationships with other businesses?
Could you tell me about relationships you have with other businesses that are useful for your business?
What is exchanged between you- what do you have that they value and vice versa?
Do you meet with any of your competitors?

Joining the ACCA
Do you see your membership of the ACCA as contributing significantly towards the trust that your clients have for you?
Are there any other key elements important in establishing trust between you and your clients?
How often do you attend meetings- tell me about what happens at these events and who you meet
Have ACCA events ever lead to clients for you?
What do you think the membership demographic of the ACCA?
Discuss any advantages or disadvantages of your ACCA membership?
How does the ACCA encourage its membership to conform to formal and informal codes of conduct?
When have you been inspected by the ACCA- what happened?

Membership of other groups and organisations?
Which- when did you join- what goes on? Who do you know? What is the typical membership?
What happens at events- have any been particularly memorable? Why?
How often do they meet?
In what ways, if any, do these connect to your work?

How do you find competition within your particular area of accountancy?
Do you occupy any kind of niche?
Do you monitor the competition for their strategies and tactics such as pricing?
Do you network or collaborate with any of your key competitors?
Have there been any changes to the competitive landscape since you started your business?

Losing clients
Tell me about any situation in which you have lost clients?
What would you say was a typical reason for losing clients?
What do you do to try to keep your clients, for example, building a stronger connection with them, or offering extra business advice?
What's the most difficult aspect of client management?

Other problems with running the business
Have you experienced problems with any relations at work- with other directors or members of staff? How did you cope with these?
Have you had to formalise procedures at work, with regard to hierarchy or employees?
If you were to experience a problem at work, who might you discuss this with?
What is easiest or most difficult about your work?

Education

I would like to also get some aspects of your formative years, particularly any point at which your career path steered towards studying accountancy?
What school did you attend and from what years?
What was your overall impression of school and the relationships you built there?
Were there any particularly memorable events or episodes during your school years that you feel influenced your development and your career decisions?
Are you still in touch with people from school?

University
At what age and which year did you attend University?
Which University was that, and why did you choose it?
Did you know you wanted to be an accountant at this point? If not, when did you decide to take up accountancy?
Was anything or anyone influential in this decision?
How was your experience of University?
Were there any particular events or episodes that stand out over this period?
Are you still in contact with your peers from University?
What do you remember most about this period?
What organisations and activities did you get involved in at college

Post-university education and training
What year did you leave University?
What qualifications or educational experience have you gained since leaving University?
What is your experience of continuing professional development?

Professional career

Previous employment
Did you work in another firm before you decided to start your own business? Tell me about your previous employment…
What was the highest level you reached?
What skills did you take from your previous employment to self-employment?

Decision to leave
What made you decide to switch firms or leave employment altogether?
Did you gather any clients or key relationships from your previous employment that helped you?

Personal Life

I hope you don't think I'm prying but changes to personal circumstances can often impact severely on small businesses, such as the advent of children, the illness or death of a loved one… can you tell me about any changes to your circumstances over the course of your business which you think have been significant or may have affected your circumstances in any way?

Do you discuss business matters at home?
Are you married?
What role do they play in your working life?
Do you have any children?
Hoow do you spend your leisure time?
Who has shaped and influenced your life the most?
What were the most crucial decisions in your life- are you happy with what you've done so far?
What do you see for yourself in the future?

Close

Thank you for taking the time to speak to me today, it was really insightful. With your permission, I would like to contact you again in the near future for another quick chat, so you can fill in any gaps I identify in the analysis of your interview and add extra detail to some areas that are lacking.

Appendix 4: Informed Consent Form

I, the undersigned ……….........………. certify that I freely participate to the research project exploring the growth and performance of small professional service firms. The nature of the research project is as follows:

1. The project aims to better understand the role played by the owner in how the business performs over time.
2. Data will be gathered in two stages: the first interview aims to gather background information on the business owner and the performance of the business. A second interview will examine certain areas identified as critical for the business, with the aim of understanding the relationships that were involved. Each interview is expected to last less than an hour. With the interviewee's consent I would like to tape the interview.
3. Each interview will focus on the following themes:
    - Changes to the business owner's circumstances
    - Business information related to performance over the course of the business.
4. The interviewee has the right to refuse to answer any question, and may stop the interview at any time, without having to provide any justification.
5. There will be no risks to the participants of the study. Anonymity will be provided to protect participants, and any names of organisations or persons that come up in the course of the interview.
6. The following steps will be taken with regard to anonymity and confidentiality of information:
    - In papers the identity of the any organisation and the interviewee will be kept anonymous. An alphabetical code will be used to refer to specific organisations or persons. Also any other information which could be used by a reader to identify the organisation will be avoided.
    - Only the researcher will have access to the tapes and transcripts of the interview.
    - Once the interview is transcribed, and if the interviewee requests, a copy of the transcript can be sent. The interviewee will then have the opportunity to add changes s/he feels might be needed to make him/her comfortable with what s/he said during the interview. Each interviewee will be given six weeks to communicate to the researchers any concern or modification. Once this six week period is over it will be assumed that the interviewee agrees with the transcript.
    - When a draft of a research paper is produced, and if the interviewee requests it, a copy will be sent of the research paper for the interviewee to review.
    - The original tapes will be destroyed after the PhD has been awarded, as will any anonymous transcripts remaining

7. Research papers/presentations will be written from the information gathered, and eventually published in academic and/or practitioner journals.
8. A summary of the research will be sent to participants who ask for it.
9. The research project is under the responsibility of Lindsay Stringfellow, Doctoral Researcher at the University of Strathclyde. Supervisors are Dr Eleanor Shaw and Dr Sean Ennis.

Read and approved on………

…………………………………….
Participant's signature

……………………………………
Researcher's signature

Appendix 5: Background Information Form

Dear

Thank you for taking the time to speak to me today. In case there are some background details that we failed to cover in the interview, could you please take five minutes to fill out this form.

I have provided a stamped addressed envelope. Could I ask that you complete and return it within seven days?

Many thanks again for all your help,

Lindsay Stringfellow

Personal Details
Date of Birth:
Nationality:
Ethnic origin:
Marital status:

Education

Name	Location	Year (from- to)	Qualification achieved
School			
Undergraduate			
Post-graduate/ Professional			

Employment

Name	**Location**	**Year (from- to)**	**Job title**	**Highest level reached**	**Reason for leaving**

Membership of ACCA and other societies/clubs/networking bodies

Name	**Location**	**Year (from-to)**	**Average attendance per month (no. of meeting or hours)**	**Number of other members you know and discuss business matters with (approx)**
ACCA				

<u>Self-employment</u>

	Year (from- to)	**Changes to ownership**	**Changes to employees (year by year)**	**Changes to turnover or general performance (year by year)***
Current				
Other businesses				

**If you are not willing to divulge turnover information could you indicate changes in performance by noting turnover up or down, differentiating between a strong, moderate or weak increase/decrease.*

Any other changes to your personal circumstances:

Marriage, children, divorce etc:-

____
____
____
____

Appendix 6: Codes, examples and categories of critical incidents

CODE	EXAMPLE	CATEGORY
PRTR (Partner) STF (Staff)	Bringing in a new partner Losing members of staff	Human Resources
DRCT (Direct) RFL (Referral) SBT (Subcontracting) NTWK (Network) CHNC (Chance) RTN (Retaining clients)	Buying database of clients Gaining audit referrals Gaining subcontracting work Joining formal networking group New client walks in off street Clients retained from previous firm	Marketing
PRBD (Professional Body) PQUL (Professional Qualifications) CPD (Continuing Professional Development) EXQL (External Qualifications)	Being made local President Gaining audit certificate Attending sessions by professional body Getting an MBA	Professional Development
RTMT (Retirement) CCLS (Client closures) GROW (Client's firm grows)	Losing clients due to retirement Client's go out of business Clients business develops rapidly	Client circumstances
IND (Industry changes) LGL (Legal status) CLS(Closure of business) TECH (Technical issues) BSDV (Business development) EXIN (External investigation) LOC (Location) INSP (Inspection)	Raising of the audit threshold Changing to Limited Liability Ending a partnership Lack of support for tax issues Orientating as business advisor Investigated by HM Revenue Dept. Moving office premises Audit or quality inspection	Operations
BNK (Bank) FEE (Fees and income issues) INVT (Investment)	Getting a loan to start business Insufficient fee income Investing in new IT system	Finance
MRGE (Marriage) CHDN (Children)	Break-up of marriage Children leaving home	Family and Kinship

Appendix 7: Semi-structured Interview Guide

The following questions intend to build on what was gathered from the first interview and focus more specifically on the relationships that are important to your business. I have identified some events or periods that seemed fairly important to your business (on print out). Looking at the incidents or episodes outlined:

Could I first ask what you think about the incidents I have identified… do you agree that these important to the performance of your firm, either in terms of turnover or employee number? Can you suggest any alternative or more important scenarios?

Could you now reflect on these periods and who was involved in them, either directly or indirectly. First of all, could you try to think of the names of some people who you turned to at this stage in your business? These names could be anyone you might have turned to for advice, gained information or any other resources from, such as finance or even quite vague help, such them putting a good word in for you with someone or introducing you to someone else who could help you. This could have been at a personal or professional level, and might simply have been someone whose ear you bent during this period.

	1st Name	Age	Sex M/F	Length known (durability)	Occupation (range)	Family? Y / N (normative/emotional content?)
Person 1						
Person 2						
Person 3						
Person 4						
Person 5						

How did you get to know them? (business association BA, includes events, seminars, training; introduced by Professional Broker / Consultant or another party AP; friend F; or School, Church or Community link SCC, or Other O?) (brokers/bridges)

	BA	AP	F	SCC	Other
Person 1					
Person 2					
Person 3					
Person 4					
Person 5					

For each of these people, can you tell me what you speak with them about? (Tick all that apply) (content)

	P1	P 2	P3	P4	P5
Finance					
Legal					
Staff					
Loans/investmen ts					
Premises					
Marketing					
Family					
Other (specify)					

In this particular situation, what did they offer you? Have you reciprocated?

	Introductions to other people/ referrals (structural holes)	Informatio nadvice ideas?	Training sectoral technical help?	Financial other resources?	Moral emotional support?	Other?
Person 1						
Person 2						
Person 3						
Person 4						
Person 5						

Would you discuss important personal matters with any of these people? (1- not at all; 5- definitely)
(content, strength of relationship, multiplexity)

Person 1	1	2	3	4	5
Person 2	1	2	3	4	5
Person 3	1	2	3	4	5
Person 4	1	2	3	4	5
Person 5	1	2	3	4	5

For each of these people can you tell me how often you communicate with them? (networking activity)

	Up to 1hr/ month	1-3 hrs/ month	2-5hrs/ month	5-10 hrs/ month
Person 1	1	2	3	4
Person 2	1	2	3	4
Person 3	1	2	3	4
Person 4	1	2	3	4
Person 5	1	2	3	4

How would you describe your relationship with each of these 5 people? (tick one) (strength, multiplexity, intensity etc)

	P1	P2	P3	P4	P5
Very good friend					
Good friend					
Somewhat friendly					
Only business associate					
Business adviser					
Family member					
Customer					
Domestic partner					
Business partner					

To what extent do each of these 5 people also know one another? (density)

	Knows all others well	Knows all others slightly	Knows some, not all others	Doesn't know others	Don't know
Person 1					
Person 2					
Person 3					
Person 4					
Person 5					

How would you describe the networks of each of these 5 people? (tick all that apply) (reach, secondary network size)

	Small	Large	Easy to contact directly	Need to contact through intermediaries	Useful to me	Not useful to me	Never been introduced
Person 1							
Person 2							
Person 3							
Person 4							
Person 5							

Please rate the following personal characteristics (1= not very reliable/open/competent/genuinely concerned, 5= very reliable/open/competent/genuinely concerned) (trust)

	Reliability	Openness	Competence and capability	Good intent and concern
Person 1				
Person 2				
Person 3				
Person 4				
Person 5				

How has your relationship with this person developed since this stage in the business? (Durability, intensity, frequency)

	I see them more often	I see them the same amount	I see them more often	I am more comfortable with this person now	Our relationship is the same	I am less comfortable with them now
Person 1						
Person 2						
Person 3						
Person 4						
Person 5						

Finally, which individual was most/least useful to you in this situation?

Most useful……………………………………………………………………….
Least useful……………………………………………………………………….

Repeat these questions with two more incidents.
To conclude on relationships, I have a few more general questions about networking…
Typically how much time do you spend each month on the following activities? (networking)

	Once /month	2/3 x /month	2 / 5 x month	5-10 x month	Every day
Speaking with current customers, suppliers and others about business on the phone					
At business lunches					
At networking events					
Developing new contacts / meeting new people with whom you can discuss business					
Maintaining existing business contacts					

To what extent do you ever have problems meeting other business people outside of your personal contact network? (1- not at all; 5- a great deal; please circle) (reach)
1 2 3 4 5
In addition to your professional associations, could you confirm if you are a member of any professional or trade associations?(circle all which apply):
(network membership)

Professional Institutes	1
Local business association	2
Industry specific associations	3
Chamber of commerce	4
Rotary /Lions	5
Women only business club/association	6
Men only business club/association	7
Mixed sex business club/association	8
Other networking organisations (specify)________________________	9
Not a member of any association or club	0

To what extent have each of these helped your business? (1- not at all; 5-very much) (network impact)

Professional Institutes 1 2 3 4 5

Local business association	1	2	3	4	5
Industry specific associations	1	2	3	4	5
Chamber of Commerce	1	2	3	4	5
Rotary/Lions	1	2	3	4	5
Women only business club	1	2	3	4	5
Men only business club	1	2	3	4	5
Mixed sex business club	1	2	3	4	5
Previous customers	1	2	3	4	5
Friends / family	1	2	3	4	5
Domestic partner / spouse	1	2	3	4	5
Your bank	1	2	3	4	5
Your lawyer	1	2	3	4	5
Your accountant	1	2	3	4	5
Other (specify)____________________	1	2	3	4	5

35. If you attended a meeting of these associations, would other people who were attending, know who you were? (symbolic and density, reputation)

No, I would not be known	0
Few people would	1
Some people might	2
Yes, everybody	3

Reputation is important in the accountancy industry? How true do you feel the following statements are for you and your business: (1=not at all; 5= very much)(symbolic capital)

My professional opinion is sought by my peers	1	2	3	4	5
My moral position is trusted by my peers	1	2	3	4	5
I am well known within the local accounting community	1	2	3	4	5
I am well known within my professional body	1	2	3	4	5
My positive reputation has gained me clients	1	2	3	4	5
My clients trust and act upon my professional opinion	1	2	3	4	5
My clients do not question or test my professional ethics	1	2	3	4	5

My reputation amongst my peers has improved since start-up

1 2 3 4 5

Being a member of a professional association improves my reputation
… amongst my peers
1 2 3 4 5

… amongst potential and current clients
1 2 3 4 5

… amongst family and friends
1 2 3 4 5

I feel, in terms of prestige, my firm's size is a perceived as a weakness
… amongst my peers
1 2 3 4 5

... amongst potential and current clients
1 2 3 4 5

… amongst current and potential employees
1 2 3 4 5

My reputation is a tangible asset for the business
1 2 3 4 5

My professional reputation is tied in with that of the firm
1 2 3 4 5

I am seen as an authority on certain areas of accountancy
1 2 3 4 5

My opinion is valued in areas other than accountancy
1 2 3 4 5

I am satisfied with the current profile of the firm
1 2 3 4 5

I engage in non-economic activity purely to improve reputation
1 2 3 4 5

Human Capital

Ensure you have date of birth for all participants, and education/professional background

Please rate the following business scenarios in terms of difficulty

Obtaining equipment/facilities						
Attracting customers	Very Difficult	Quite difficult	Neutral	Quite easy	Very easy	Neutral
Competing with other firms						
Attracting skilled employees						
Complying with regulations						
Obtaining working capital						

Keeping up with technological advances						
Obtaining growth capital						

The following questions ask about your expectations and goals for the company. Consider first your PERSONAL goals… How important are the following goals to you?

PERSONAL GOALS	1. Not at all important	2. Somewhat unimportant	3. Neither	4. Somewhat important	5. Very important	6.Does not apply
Personal achievement. Challenging yourself or fulfilling a personal vision						
Personal recognition, status and prestige. Being respected by others						
Flexibility in work and family life. Being able to adapt your approach to work.						
Building great wealth. Having financial security or earning a larger personal, household, family income						
Being creative or innovative. Testing and						

implementing your own ideas or developing new products or services						
Creating a work situation where you can have satisfying work relationships						
Continue a family tradition or follow the example of a person you admire						

18. Please indicate the relative importance of each of these PERSONAL GOALS by rating them 1-7, with 1 being the most important and 7 the least important.

V	PERSONAL GOALS	1-7
	Personal achievement. Challenging yourself or fulfilling a personal vision	
	Personal recognition, status and prestige. Being respected by others	
	Flexibility in work and family life. Being able to adapt your approach to work.	
	Building great wealth. Having financial security or earning a larger personal, household, family income	
	Being creative or innovative. Testing and implementing your own ideas or developing new products or services	
	Creating a work situation where you can have satisfying work relationships	
	Continue a family tradition or follow the example of a person you admire	

Now, I would like you to consider the STRATEGIC BUSINESS GOALS you have for your company. Please indicate how important each of the following business goals is. How important is it to:

V	BUSINESS GOALS	Not at all importan t	Somewhat unimportan t	Neithe r	Somewha t important	Very importan t	Does not appl y
	Maximise profitability						
	Maximise stability and longevity of the firm						
	Maximise sales						
	Maximise value of the business to prepare it for selling						
	Maximise the social contribution of the business to the community						
	Maximise technologica l superiority, be a technology leader in the field						

20. Please indicate the relative importance of each BUSINESS GOAL by rating them 1-6, with 1 being the most important and 6 the least important.

	BUSINESS GOAL	1-6
	Maximise profitability	
	Maximise stability and longevity of the firm	
	Maximise sales	
	Maximise value of the business to prepare it for selling	
	Maximise the social contribution of the business to the community	
	Maximise technological superiority, be a technology leader in the field	

How accurately do the following statements best describe your OVERALL GOAL for this company?

a. Growing as rapidly as possible is the most important goal of this venture (check one)

Very accurately	1
Somewhat accurately	2
Neither accurately nor inaccurately	3
Somewhat inaccurately	4
Very inaccurately	5

v

b. Aiming for rapid growth is not what drives this venture (check one)

Very accurately	1
Somewhat accurately	2
Neither accurately nor inaccurately	3
Somewhat inaccurately	4
Very inaccurately	5

Rate yourself on each of the following business skills

	Poor	Fair	Good	Very Good	Excel lent
Human Resource Management					
Management and Organisation					
Commercialisation, publicity and marketing					
Operations Management					
Information Technology					

Value the importance of these personal goals
1= not important at all 2= not very important 3= quite important 4= important 5= very important 6= N/A

Personal achievement (challenging yourself) ____

Personal recognition (being respected by others, status and prestige) ____
Flexibility in work and family life ____
Personal income and wealth ____
Financial security ____
Being creative or innovative ____
Having satisfying work relationships ____
Independence/professional autonomy ____
Learning, improving your professional competence ____
Authority ____
Personal growth/self-realisation ____

Using the same scales, value the importance of these strategic business goals
Maximise profitability ____
Maximise stability and longevity ____
Maximise sales ____
Maximise the operational performance ____
Maximise the firms position in its field ____
Maximise the quality of the service ____
Optimise customer relations ____
Optimise the financial structure ____

Overall what are your most important business and personal goals?

Can I finally ask about you client portfolio- could you approximately divide the following group up from the total 100% of your clients:
Small_______% Medium_______% Large_______%

Manufacturing____% Services____% Personal_____% Charities______%
Other (specify)…………………………… __________%

Male________% Female__________%

Younger than me_______% Around my age_______% Older than me_______%

Start-up________% Established longer than three years_________%

Is there anything you would like to add to what we have discussed today or any final comments you would like to make?

Appendix 8: Codes and Categories

CATEGORIES	SECOND LEVEL CODING	EXAMPLE GROUNDED IN DATA
Cultural Capital • Institutionalised	AUDIT	"… if something comes in that you want to audit, and you don't have that competency, then if its lost, its lost forever" (Simon)
	PROFESSIONAL ED/CPD	"We use their [Merciers] training courses and they're very very helpful and we go to use their courses for CPD" (Janette)
	HIGHER ED	"I try and hide my HND" (Simon)
	PREV EMPLOYMENT (TACIT)	"I spent about three years with them (PwC) and it was good experience but … high expectations and very often time-demanding" (Richard)
	INDUSTRY EXPERIENCE (TACIT)	"I moved into industry which I still enjoy far more. By industry I mean out-with formal practice" (Patrick)
	GENERALISTS (TACIT)	"In a small firm you tend to become, not quite an expert in everything, but you have to know something about everything" James
	NON-ACCOUNTING	"If I can, all areas I'll have a go at because we've run small businesses" (Joyce)
▪ Embodied	SOCIAL SKILLS	"If you're going to be someone's accountant, you've got to be able to speak to them or else you'd get nowhere" (Melanie)
	SOCIAL ADAPTABILITY	"You've got to understand the business and understand the person and sometimes if they're a bit streetwise, you're scared" (Joyce)
	LINGUISTICS	"Melanie… she's very colloquial… She's picked it up from school. It's the grammatical errors, the tenses and things get all mixed up, all these things are slightly wrong" (Joyce discussing Melanie)
Economic ▪ Income	FEE INCOME	"Nowadays I'm a lot more circumspect about what work I take

		on because whilst there may be a big fee at the end of it, when you've got a lot of other work, you've got to get the other work done" (Simon)
	PROFITABILITY	"I think there's a certain size where its difficult to give as much attention to the client as the client would like and still be commercially profitable" (Irene)
	SETTING PRICES	"I think of a figure and think well can they afford it" (Joyce)
	ETHICS	"Ethically you're not supposed to offer inducements to get other clients" (Phil)
▪ Finance/ loans	START-UP FINANCE	"… the firm's bank just gave me a loan. One of the bank manager's I've met since has said because you're an accountant they would give you anything" (Henry)
	DEBT	"… there is a small balance of a loan that, what we did was we ran the overdraft up to a point and said well let's get this job finished" (Gavin)
▪ Property	LOCATION	"Some accountants work from home and they sort of bob along through life and accountancy is almost like a hobby to them" (Henry)
Social Capital ▪ Range	*HOMOPHILY*- STATUS	"There is probably a lot of generational thing there, in that most people feel more comfortable with people of their own vintage" (Simon)
	HOMOPHILY- VALUE	"You have to really know the people you're in business with, you have to trust them, and you have to find a way of having your standards and morals and everything else in line" (James)
▪ Density	LOOSE	"Teresa [business partner] has a very large network… A lot of connections but I think there will be a lot of connections that don't have

		connections with anyone else. It's useful." (Irene)
	TIGHT	"If you go in through a network channel, that threat is reduced and I find the network quite useful from that point of view" (Gavin)
▪ Reachability	CLIENT CONTACT	"A lot of clients were attracted to the fact they could have direct contact with us" (Irene)
▪ Content	UNIPLEXITY	"I don't go out with any of my clients. I don't have dinner with any of my clients… I don't see my clients socially" (Irene)
	MULTIPLEXITY	"We chatted about sport for about half an hour then he said have you got anything coming up in the medium term" (Henry)
▪ Reciprocity	REFERRALS	"Strangely enough with introductions and referrals it tends to be a one way street, more often than not" (Richard)
	BROKERING	"Whenever I introduce two clients to each other I always say to them that that's my client and they do such and such and I don't know if they do it well" (Phil)
▪ Trust	PARTNERSHIP BREAKDOWN	"It became messy after I left… there was nothing in my contract to say I couldn't contact clients and yes, that caused a bit of an upset" (Irene)
	CLIENT TRUST	"He tried to interfere with our audit independence and that is something which is enshrined" (Simon)
Symbolic Capital ▪ Prestige	HIGH PROFILE	"We had a high profile in Edinburgh, to a degree. Fraser was a High Constable and member of the Leith Chambers" (Joyce)
	PRESTIGIOUS ASSOCIATIONS	"I run a through things at the golf course which kind of get my name known … it does keep your profile there because you have had business through or there are people who are clients" (Simon)
	NON-ECON ACTIVITY	"He does nae look for financial out

		of it. Sometimes he just helps people out" (Melanie)
	REPUTATION	"The motive is obviously to get to know a lot more people and hopefully develop your business off the back of that" (Andrew)
	SOCIAL CONTRIBUTION	"… a lot of the businesses are really struggling, you know. I tend to support women in business" (Joyce)
▪ Status	PROF BODY STATUS	"The exclusivity of it keeps it (ICAS) going… there's certainly a snobbery about it" (Samuel)
	SIZE OF FIRM	"I would say that the smaller you are, the less prestigious you tend to be" (Phil)
	SIGNALLING	"They [banks] just feel that the larger organisation is potentially more competent" (James)
	ASCRIBED	"I would have never chosen to be an accountant in a larger firm because I did nae fit the mould" (Melanie)
	CREDIBILITY OF CHARTERED STATUS	"As accountants you have all the links with the banks and all the financial institutions and they trust you. You're at a higher level" (Joyce)
▪ Authority	SPECIALIST OR TECHNICAL EXPERTISE	"Other people maybe want that extra, in which case they'll gravitate away from us and go somewhere else" (Simon)
▪ Honour	GIFT EXCHANGE	"You can never ask for something for nothing" (Simon)
	INDEPENDENCE	"Your clients are not your friends" (Irene)
	PROFESSIONAL VALUES	"I'm seen as being quite conservative in my views but I'd rather be there than maybe at the sharper end where I'm not comfortable being" (Simon)
	CLIENT INTIMACY	"With most of my clients you do take the trouble to get to know them on a personal basis" (Melanie)

Appendix 9: Profile Performance Summaries for Participants

Profile 1: Participants Not Satisfied with the Current Profile of their Business.

Jeff emerged as the participant most dissatisfied with the profile of his business. Unlike most participants who stated their businesses were immediately profitable on their establishment, Jeff revealed that he had experienced problems since starting his practice in Glasgow in 1994:

> *Immense traumas, yeah. Simple things like some months there was not enough money to pay the bills. It was as simple as that. Fortunately my wife earns and still does and, at that time, I had to rely on her income.*

A reliance on family for financial capital was identified by a number of participants and is supported by extant research which has found that small businesses in various industries and contexts often tend to rely on family loans as a source of finance at start-up (Aldrich 1989; Bates 1997; Berger and Udell 2002; Kugler *et al.* 2007; Romano *et al.* 2001). Jeff related his start-up problems to the fact that he had established his business with no contacts as immediately prior to this he had held a position in industry i.e. he was employed as an accountant in a company rather than being in practice. It was common for participants without prior ownership experience to encounter problems because they lacked the social capital afforded by a bank of existing clients. Having decided to move into premises and take on staff, Jeff's business had suffered numerous setbacks during its thirteen years, principally revolving around staff leaving. Also contributing to such problems were challenges which Jeff identified as having occurred when moving business premises. Jeff described the progress of his business as 'good year, bad year', where profit and performance had never reached the levels he would have liked:

> *The way this business has always gone has been kind of steps and stairs. Every time we've got to the stage where we think costs have plateaued and the sales and the profits start to overtake it, there's always been an extra cost, an extra bit of development, an extra bit of progress, so the profits have always dived again.*

This unsteady development and the occurrence of numerous critical episodes with the business at all stages from inception to the time of the interviews had contributed towards Jeff's dissatisfaction with the profile of the business.
Despite these problems, Jeff revealed that he wanted grow the business, and strongly desired rapid growth, whereas most participants with the exception of James and Andrew did not want rapid growth at all. The turnover of his business at the time of the first interview was £132,000 and he planned this to grow to £250,000 in a year. Upon interviewing Jeff eleven months later, the turnover figure had not changed and he had lost more key members of staff. The contextual data and performance measures both suggest that Jeff's business was not, by his own estimations, performing well.

Patrick was also quite dissatisfied with the profile of his business. Patrick had just finished an MBA in 1993 when he decided to form his limited liability company in Glasgow. He also came from an industry position, although had worked as a chartered accountant in practice prior to that. Patrick was also relying on support from his partner, but stated that the business was profitable within one month of start-up. Unlike Jeff, Patrick commented that business had gone fairly smoothly:

> *One of the best things is that there doesn't seem to have been many traumatic points at all along the way and that's probably do to with my own personal liking for being in control.*

Patrick did not particularly want to grow the business any larger than it was at the time of the first interview and did not want rapid growth. This was because he did not want to take on staff and stated that the purpose for starting his practice was to have the flexibility to fit working life around other responsibilities, including a young daughter. The reason Patrick was dissatisfied with the profile of his business was that he was relying on one or two large clients for work. His business had not grown at all between interviews one and two, and he stated that he would need to look for more clients over the next few months to fill his time. Like JC, it can be concluded that Patrick was dissatisfied by the performance of his business.

The third participant found to be dissatisfied with the profile of his business was Gavin who, because he had taken over the business, which was based in Ayr, from his father in 1983 had not initially experienced problems acquiring either a client base or finance. Gavin had previously worked in practice in a large accounting business, and found identified access to both technical help and advice as problematic within the context of the smaller practice which he owned. In terms of growth, Gavin commented that since start-up the business had:

> *... grown reasonably steadily. I had no ambitions to conquer the world. What we did was we got it to a level where we were comfortable. We were making enough money that gave us a lifestyle that we were quite happy with.*

Following the unexpected death of his spouse, the business went through a period of poor performance, around 2000, while he was getting himself back on track. Profits had also been affected since 2003 by making investments in infrastructure and joining various networking organisations. Rapid growth was most definitely not wanted by Gavin, and he was neutral about taking on further risk and expending time to grow the business. Gavin's dissatisfaction stemmed from his concerns about succession, and his desire to grow the business. Overall, the business was performing in a steady way, but Gavin was unhappy with the current profile as he was looking for some moderate growth in his client base.

Phil was the fourth participant found to be dissatisfied with the profile of his business. Phil decided to start up his practice in Glasgow in 1994 due to dissatisfaction with working in practice with a previous employer and was able to become profitable straight away. Key fluctuations in the performance of his business were due to staffing issues and shortages. In contrast, the client base had remained fairly steady since inception in 1994. Phil was frustrated by the lack of growth and difficulties in attracting and retaining good quality staff. He commented on the plateau he felt the business was at in the second interview:

> *I don't feel as if it's improved at all, because you lose clients as well. I feel as if it's stagnant.*

The strong desire to grow was tempered by the fact that Phil did not want to take on additional risk or time in growing the business, and was certainly not looking for rapid growth. He revealed that he would consider growing the business by taking on a partner but had reservations about being able to find someone suitable. Set within the context of the interview, in common with Gordon, Phil's dissatisfaction with the profile of his business was centered round his desire for further growth and the difficulty he found in attracting new clients. However the general performance of the business in terms of was stable.

Samuel, the fifth participant to be dissatisfied with the profile of his business started his practice in Glasgow in 1996 after leaving his position as a partner in a larger business. There was conflict with the previous business upon tendering his resignation over the issues of clients following Samuel. Turnover steadily increased for the first four years and Samuel joined an organisation focused on helping accountants to serve their clients better, which changed the direction of his business. At this stage, Samuel became more focused on marketing and customer relationship management: offering clients services which go beyond accountancy alone. Having built profits to a level with which he was happy and grown his team to six from an initial two, this period of change was followed by a dip in performance, as Samuel explained:

> *We took a lot of hits because senior people in didn't work, agencies fees get them back out. And the team all changed at that time as well, presumably because we changed how we were doing things and people got unsettled and within six months to here the whole lot had gone, just about.*

Staffing issues were again a prominent cause of falling performance over the period of the business, and Samuel felt that running his own business without the support of a business partner was difficult at times. Growing the business was strongly desired by Samuel, and he was willing to take on the extra risk and responsibility this may entail, although he definitely did not want rapid growth. At the time of both the first and second interviews, growth was already occurring in his business in terms of clients and turnover, although staff numbers remained the same. However, the finding that Samuel was dissatisfied with the profile of his business and wanted to grow further demonstrates that performance was not at his expected or desired level. The conclusion was that Samuel's business was performing fairly well but that a greater degree of stability in human resources and further growth was desired.

James, the sixth participant to be dissatisfied with the profile of his business, joined his practice in 2003 by merging his previous partnership with an existing one. He made this decision as he feared mounting rules and regulations in the sector would become increasingly suffocating for small practices in forthcoming years. James described the circumstances of three different practices of which he had been partner, all in Glasgow. The stories of these practices were strewn with critical episodes such as going into partnership with an unethical accountant, and other problems relating to staff and partnership problems. Having brought his own client base with him to a well-established practice, the start-up period and performance of the practice was steady. Because this business dealt with larger clients, there were a few periods in which fee income had dropped considerably over the last few years of business, due to reasons such as retirement and changes in legislation. Succession was a major concern for James, which he related to legislative changes and a declining market of talent:

> *... because of all the changes in legislation, there are less and less people prepared to come in to the profession, less and less people prepared to take on the responsibilities of partnership and as a result of that, to get continuity of the practice is much more difficult.*

At the time of the second interview, it emerged that two of the four partners in this practice were considering reducing their hours with a view to retiring. These succession issues and client losses, combined with the fact that James was committed to seeking rapid, potentially risky growth, suggests that the performance of the practice was declining. The dissatisfaction with the current profile stemmed from recent critical events which reduced fee income and performance, rather than the uneven performance reported throughout Jeff's business.

To summarise these short case histories, the pattern which emerged was that growth was, in two cases (Gavin, Richard), only desired by the participants for succession reasons. The overall performance of these businesses emerged as being stable and healthy over the course of them describing the business's history. The fact that they still found attracting new customers difficult meant that the future growth of the business was not assured. Other cases desired growth due to a recent loss of business (James, Samuel) or because the business was at a plateau (Phil). The performance of these businesses was more unstable, with problems such as staff leaving interrupting the growth of the businesses. Given that these businesses found attracting new customers difficult, and there was the potential for further instability, performance was not particularly strong in these businesses. The business performing least well, according to the interview data, was Jeff, who had an unstable performance history over which growth targets were not met, and finding customers and competing with other businesses was seen as difficult. Patrick was not satisfied with the profile of his business and wanted to grow but realized growth could only be small and incremental due to a need for flexibility in his working hours. Most of the businesses that were dissatisfied with their profile were in Glasgow, all of them were male, and only one of them was in a multi-partner practice.

Profile 2: Participants Neither Satisfied nor Dissatisfied with the Current Profile of their Business

Richard was the only interviewee who responded that he was neither satisfied nor dissatisfied with the profile of his business. Richard had started his current business in Glasgow in1993, having been in two partnerships prior to this, and had also worked in medium and large accounting businesses. He was refused bank finance at start-up, but obtained finance from a family member and was instantly profitable due to the fact that he had an existing client base from his previous partnership. Richard had staff but they were not qualified accountants and overall the business had been performing in a steady and stable manner since start-up. The key concern for Richard was again succession issues, and particularly the fact that he was losing clients that he wasn't replacing, as he commented:

> *The major problem I see is that my clients tend to be maybe just slightly older than myself, I'm talking maybe about two or three years, maybe two to five years older than me so I'm going to have real problems in maybe about five years time because a lot of them are going to be retired or retiring and I've got two staff. So that's kind of a worry for me, you know, where's the business going to come from to replace that?*

Richard did not want to grow the business in a high growth or risky, time-consuming way, but did look towards growth so there would still be work for his employees when he retired. Overall, the performance of the business was steady but the diminishing client base, and no strategy to deal with this, was causing the interviewee some concerns.

Profile 3: Satisfied with the Profile of the Firm

The first participant found to be satisfied with profile of their business is Henry who joined a four partner practice in Glasgow in 2000, and found accessing finance through a bank to purchase 26% of the partnership to be no problem. Henry was very proactive in gaining new clients and did not find this difficult, as he commented:

> *When I first started I was given no clients and it was a case of on you go and build it up. From February last year I've taken on over a hundred clients just through referrals.*

The performance of the business was steady and growing although by the time of the second interview, one partner had decided to leave and another was retiring, which had caused tension and increased his workload. The business had already recruited a new partner by this time and was looking for further growth. Overall, the interviews and data reveal that this multi-partner practice was performing well despite disruptions to the ownership, and Henry was fairly satisfied with the current profile of the business.

The second participant found to be satisfied with profile of their business was Melanie who had worked for Joyce from 1993-1999, at which point Janet and her partner had decided to sell the business and offered Moira the opportunity to purchase clients and start up her own business. Melanie was refused a loan by her bank but was able to get a loan as Joyce's partner knew a bank manager and referred Moira to him. Melanie ran her business from home in Linlithgow, and had built upon the client base she purchased achieving consistent growth since start-up. Melanie wanted to grow the business further but stated that "*I just seem to get more and more busy and have less time".* Without taking on staff, it was unviable to grow the business much bigger but she was reluctant to take on the additional time and risk this would entail. She had no intention of moving her premises into an external office either. Overall, Melanie was fairly satisfied with the profile of the business, and found that attracting new customers was fairly easy.

The third participant found to be satisfied with profile of their business was Simon, who was third generation chartered accountant and, like Gavin, took over his father's practice in Glasgow in1993. Simon came from practice but this was his first venture as an owning partner. Although there was an established client base, Simon had a tuRichardulent start up period, as he explained:

> *The first few years were quite stressful I would say and the structure of the business that I came into and took over, like I say, a lot of the clients were my father's age and probably were packing up, retiring etcetera. So going from what we thought was a relatively good client base and secure fee income [...] I suppose in the space of about a year we lost about thirty to forty per cent of our fee income.*

Since that crisis point, growth had been steady, and he and his business partner had enough clients to keep them fully occupied. The crisis at the beginning had a profound effect on the interviewee's outlook though, and made him very aware of the need to keep gaining new clients in case circumstances changed and clients left in large numbers again. Simon was quite satisfied with the profile of the business, found it quite easy to attract new clients and did not want to grow the business. The business was performing well, and the major issue, according to Simon, was that he wanted to have time off over the next few years but couldn't see this being possible, and again the issue of succession.

The fourth participant found to be satisfied with profile of their business was Jim, who had started his business on the outskirts of Glasgow in 2004, having previously worked as an accountant in an accountant in a commercial industry context. Jim, unlike most other cases, saw himself as primarily a business man, as he commented:

> *Because I did seventeen, eighteen years in commerce I've got more a sort of business background than being just an accountant that sits and looks at numbers.*

Following a brief period of doing subcontracting work for a practice, he was able to gather some clients and decided to set up on his own. Jim grew his practice differently from most other participants who were found to rely on gradually building referrals from word of mouth. Instead Jim actively sought out potential new markets and rewarded clients financially for referrals. Jim was fairly satisfied with the profile of the business but wanted to grow it further. Taking on staff and premises was a consideration for the future but Jim was not aiming for rapid growth. Overall, Jim was positive about the performance and profile of his business, but the business was relatively young compared with most other cases, so it was unclear as to whether his unorthodox strategies for growth would be as sustainable.

The fifth participant found to be satisfied with profile of their business was Andrew, who was made partner of a three partner practice in Perth in1996. He did not have to raise finance as he had built up equity as a salaried partner. There had been a few negative periods for the business, including moving away from Perth to set up a branch in Inverurie which subsequently closed. The partnership also tried to expand into Dundee which was not successful, as Andrew explained:

> *Dundee's a very insular market. People from Dundee tend to use Dundee accountants and we were moving into the market and it was a tough market to get into, so it took a good while to build up and it was pretty much supported by the rest of the practice.*

The Perth office had done well throughout from having a large loyal base of agricultural clients. Some partnership clashes were reported but overall the performance of the practice was strong and Andrew said that finding new clients was fairly easy. Andrew was looking for further rapid growth but did not really want to take on any more risk or put more time into growing the business.

The sixth participant found to be satisfied with profile of their business was Joyce, who had set up two limited liability companies, the first one of which had ended in 1999 when Melanie purchased the client base. She had also run other non-accounting ventures with her spouse, who was a chartered accountant as well. Joyce's husband had brought many of the clients to the original business and was well connected in many influential networks in Edinburgh. The major personal event which influenced the way she ran her business was being diagnosed with cancer 21 years prior to the interview:

I've had breast cancer through all of this and it's still not great but you carry on, so this again is totally relevant to how I perceive this. It's on my terms and my terms only because you just don't know. I mean you keep going back for check-ups and they think things are fine but it's always hanging there.

This meant that she had to have clients who understood that she would not always be available they wanted, and she could not devote as much time or be as flexible as some other participants. Joyce's present company was set up in 2001, principally because she had moved into the countryside and wanted something to keep her mind occupied and also to help people in the surrounding rural community. Joyce and her husband were still running two other businesses, so the accountancy was not the major money earner for the household. Joyce was looking to wind down her business, particularly those clients who were in still in Edinburgh. Joyce was not looking for growth but felt it would be easy to find more clients if she wanted. As Joyce was very satisfied with the profile of the business, the evidence suggests that the business was performing well according to the owner's aspirations.

The seventh participant found to be satisfied with profile of their business, Irene, left a previous partnership and started a partnership in Edinburgh with a previous colleague in1997. The reason Irene left the previous business was because of frustration at the way clients were dealt with by this business, as she commented:

We set up so we could have a personal touch, where we could be contactable directly by clients, and we haven't really looked for growth. We wanted good quality clients though, as opposed to ten percent of the clients would be forty percent of the work, as it were.

There was conflict with the previous partnership due to the issue of clients leaving with Irene. No finance was needed and generally the performance and growth of the business had been steady since start-up. Irene was not looking for growth at all, but was always on the look-out for good quality clients and she found new clients quite easy to attract. She did the accounts work and her partner did tax which she saw as a particular benefit for clients. Overall, Irene was very satisfied with the profile of the business, she was able to pick and choose her clients, and therefore overall performance was sound.

The eigth participant found to be satisfied with profile of their business was Janette, who had also started a partnership with a previous colleague in Bo'Ness in 2002 and this was her first experience as partner. When they left the previous business they were able to take a significant client base of up to a hundred clients with them. This did not cause a conflict as the previous business, because this business had not prevented Janette from approaching clients, as she explained:

... (the previous business) were very specific that John wasn't to approach them, with regards to (clients) coming on board with John, but nothing was said of me, so I approached them and they all came with us in the end.

A problem was caused when they acquired a book-keeping business in the same year, as the staff from this business were not qualified accountants and were, in the participant's words, *cowboys*. This was the only major critical period for the business, and other than this the practice had experienced steady growth since inception. By the time of the second interview, because of some new clients she had acquired, Janette felt the work was becoming a little too much for the partnership and their small team of non-qualified part-time accountants. Her outlook in terms of growth was exactly the same as Irene's: she was happy for the business to remain the size it was and was very satisfied with the profile of the business, suggesting sound overall performance.

Appendix 10: Overview of Critical Incidents

(Incidents in **bold** were the incidents chosen by participants as critical to firm performance and were discussed at the second interview)

Case	Nascent	Outcome	Start-up	Outcome	Development	Outcome
Patrick	Professional development	Positive: Doing MBA influences decision to start business	Client	Negative: Client disputes and refuses to pay	**Marketing** **Client** Personal	**Positive: Referral to key new client doubles income** **Negative: Loses key client worth half of turnover** Negative: Unpaid work for family and friends
Simon			Client **Client**	Negative: Loses 40% fee income at start up **Negative: Loses one client worth 15% of fee income**	Marketing Marketing Regulatory change	Positive: Purchases database of new clients Positive: Meets key contact for referrals Negative: Loses clients following raising of audit threshold
Janette	**Client**	**Positive: *Circa* 100 clients follow from previous practice**	Operations Human Resources	Negative: Acquiring smaller business cause operational problems Negative: problems managing staff	**Marketing** Client	**Positive: Referral to key new client** Negative: Losing key client
Samuel	Client	Negative: Lost numerous clients due to dispute with previous business			**Marketing** **Human Resources** Marketing	**Positive: Joined network which changed core of business** **Negative: Lost four key members of staff** Positive: Positive feedback from clients in advisory board
Phil			**Marketing**	**Positive: Gaining numerous referrals at start-up**	Operations Human Resources Marketing	Negative: IT failure causes downtime Negative: Losing key members of staff Positive: acquisition of large client
Richard	Finance	Negative: Refused bank loan	**Marketing**	**Positive: Gaining referrals from Junior Chamber of Commerce**	Human Resources Human resources Operations	Negative: Break down of first partnership Negative: Break down of second partnership Positive: Gaining technical advice from practitioners
Melanie	Finance **Operations**	Negative: Refused bank loan **Positive: Decision to buy client base**	Client	Positive: Clients decide to follow into practice	Regulatory	Negative: First audit inspection

Henry			Marketing	Positive: numerous referrals from Bank	Regulatory Marketing **Human Resources**	Negative: Loss of clients due to raising of audit threshold Positive: Gaining clients from BMI network **Negative: Partner leaves practice**
Irene	**Client**	**Positive: Circa 20 clients follow to new practice**	Marketing Operations	Positive: Gaining referrals from Bank Positive: Decision to go into partnership	Client Marketing	Negative: Loss of major fee earning client Positive: Joining Chamber of Commerce
Gavin	Professional development	Positive: decision to enter practice	Operations	Negative: lack of technical support	**Operations** Finance Regulatory	**Positive: Joining organisation expands core offering** Negative: Profits fall due to IT investment Negative: Problematic interactions with HM Rev
Joyce			Professional development **Marketing:**	Positive: Gained clients **Positive: Gained clients**	Personal Marketing Human Resources	Negative: Closure of business Positive: New business opportunity Negative: PA threaten to sue
Andrew			Marketing	Positive: Key new client offers lucrative referrals in new sector	**Operations** **Operations** Regulatory	**Negative: Closure of office causing drain on resources** **Negative: Closure of office and loss of 5 members of staff** Negative: Loss of clients due to raising of the audit threshold
Jim	**Client**	**Positive: Gaining clients from previous employer**	Marketing	Positive: Gaining key new contact for referrals	Marketing **Marketing**	Positive: Referrals from Church and Community ties **Positive: Gaining key new contacts for referrals**
James			**Marketing** Operations	**Positive: Wins key contract of £13,000 p.a. for providing marketing services** Negative: Difficulties with moving into premises	Marketing Operations Finance	Positive: Joining BMI network for referrals Positive: Investing in accounts preparation software Negative: Financial problems during start-up
Jeff					**Personal** Client Operations Marketing	**Negative: Divorce and end of business partnership** Negative: Loses £50-60,000 of fees from clients going out of business Negative: Goes into partnership with unethical partner Positive: Gains new key client

Appendix 11: Client Portfolio of Participants' Firms

	MALE %	FEMALE %	YOUNGER %	AROUND SAME AGE %	OLDER %	START-UP %	ESTABLISHED %
Patrick	**50**	**50**	**0**	**0**	**100**	**0**	**100**
Henry	40	60	1	19	80	90	10
Andrew	60	40	5	15	80	5	95
Simon	90	10	5	75	20	10	90
Richard	70	30	10	70	20	5	95
James	**80**	**20**	**20**	**50**	**30**	**10**	**90**
Phil	**75**	**25**	**20**	**70**	**10**	**25**	**75**
Janette	80	20	30	20	50	15	85
Melanie	75	25	30	60	10	20	80
Irene	70	30	35	50	15	10	90
Gavin	**60**	**40**	**50**	**30**	**20**	**10**	**90**
Jeff	**75**	**25**	**50**	**35**	**15**	**20**	**80**
Samuel	**65**	**35**	**50**	**35**	**15**	**10**	**90**
Joyce	80	20	50	50	0	5	95
Jim	80	20	60	30	10	60	40

Appendix 12: Proportionate Client Portfolios of Participants' Firms