

## DIVERSIFICATION AND ENTREPRENEURIAL INTENTION: THE ROLE OF RELATEDNESS IN ITALIAN SMALL AND MEDIUM ACCOUNTING PRACTICES

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### ABSTRACT

*This article examines the role of product relatedness on entrepreneurial intention to diversify. In order to better understand the interaction between personal and organizational forces, our study aims to identify and analyze which variables improve entrepreneur's perception of opportunities and consequently their exploitation. Utilizing a sample of 750 Small and Medium Accounting Practices (SMPs) in Northeast Italy, our findings indicate that diversification relatedness calls different causes. The role of desirability, feasibility as well as age, education, and prior diversification experience all impact entrepreneurial intention but their impact depends on the level of relatedness.*

**Keywords:** Diversification, Entrepreneurial Intention, Relatedness, Small And Medium Accounting Practices.

### 1. INTRODUCTION

Diversification has long been recognized both as a central topic and as one of the most studied themes within strategy (Kang, 2013). Several reasons for justifying corporate diversification are recognized: sustaining competitive advantage, fostering growth, as well as increasing the chance of survival (Montgomery, 1994; Penrose, 1959). Despite these reasons, Hoskisson and Hitt noted "there is much work that remains before definitive conclusions are possible" (Hoskisson & Hitt, 1990, p. 492). Since that call, the field has moved slowly. Døving and Gooderham (2008) recognized there still exists a need for deeper analysis of this topic. Within those organizations characterized by an absence of structured routines, such as is typical in Small and Medium Enterprises (SMEs), we might expect the enactment of firm behavior to be mostly influenced by the intention of individual actors rather than through organizational routines (Fini, Grimaldi, Marzocchi, & Sobrero, 2010). Also, one would expect a central role to be played out through the entrepreneur's 'mindset' (Hitt, Ireland, Camp, & Sexton, 2001). Studies on entrepreneurship recognize that most new ventures are realized for the self-employment need of the entrepreneur. Few follow a growth-oriented initiative (Krueger, Reilly, & Carsrud, 2000). In our opinion this finding strengthens the role of entrepreneurial intention(s) on firm behavior. Fitzsimmons and Douglas (2011) provided empirical evidence that entrepreneurial growth-oriented intentions and entrepreneurial independence-oriented intentions are separate constructs. According to their study, an intent for independence is defined "as the individual's intention to start a new venture that is primarily expected to allow the individual to 'be one's own boss' while providing an income sufficient to meet his/her needs and/or aspirations" (Fitzsimmons & Douglas, 2011, p. 4). Growth-oriented intention could be defined as the "entrepreneurs' aspirations, intentions, preference, or willingness to grow their firms" (Fitzsimmons & Douglas, 2011, p. 4). Individual factors (e.g. self-efficacy, proactivity, experience, etc.) are recognized as directly connected to entrepreneurial growth intention (Choi & Shepherd, 2004; Dutta & Thornhill, 2008; Lee & Wong, 2004). Moreover, the impact of organizational factors (e.g. resource availability, and business plan attitude) and environmental factors (e.g. industrial competitiveness, and industry life cycle) on entrepreneurial growth intention has been well documented (Castrogiovanni & Justis, 2002; Dutta & Thornhill, 2008; G T Lumpkin & Lichtenstein, 2005; G. T. Lumpkin & Dess, 1996). Interestingly, the influence of the characteristic of the growth opportunity on entrepreneurial intentions seems to be under-investigated. Our study considers "entrepreneurial intentions" to indicate the "desires of the individual entrepreneur" whose firm is already up and running (Jenkins & Johnson, 1997). Moreover, using the lens of the "person-environment fit" theory (Douglas, 2012; Kristof, 1996; Kristof-brown, Zimmerman, & Johnson, 2005) we aim to add to the entrepreneurial intention literature variables that push firms to diversify thereby creating an important pre-requisite for growth (Hashai & Delios, 2012). More precisely, we want to examine more carefully the role of product relatedness on entrepreneurial intention to

diversify. Product relatedness is defined as “the extent to which a firm’s different lines of business or industries are linked” (Luo, 2002, p. 1). Our research tests the influence of personal characteristics - specifically age, education and previous diversification experience - as being important factors that influence the cognitive style of entrepreneurs. We also examine the effect of desirability and feasibility on entrepreneurial intention to diversify.

We draw our sample from within Small and Medium Accounting Practices (SMPs) located in the Northeast of Italy. This creates a unique context for our analysis. SMPs in accounting have been recognized as a growing multidisciplinary business context moving from the traditional mandatory accounting services to the more articulated offers via business advisory services (Berry, Coad, Harris, Otley, & Stringer, 2009; Gooderham, Tobiassen, Døving, & Nordhaug, 2004; Marriott & Marriott, 2000). The knowledge base and competencies required for delivering accounting services is common within the industry. Therefore, resources cannot fully explain the diversification trend that has developed within the industry over the past two decades (Døving & Gooderham, 2008). Indeed, mandatory accounting services are 'market pull' in nature and are often both required by law as well as being restricted to certified chartered accountants. Non- mandatory accounting services exhibit opposite characteristics. Italy offers an interesting research context as the competences to become a chartered accountant must be earned through a three-year internship followed by a qualifying exam at the conclusion of the internship period. The goal is to certify an initial level of competency of future chartered accountants. The northeastern region of Italy is recognized as being populated by several linguistic minorities (Lepshy & Lepshy, 1998). Indeed, important parts of this region are populated by German, Slovenian, and other native speaker groups. This allows us to limit any cultural biases that may exist in a sample collected within a single country.

In order to test our hypotheses, a structured questionnaire was developed and sent through e-mail to the 11,267 chartered accountants working in this geographical area. After two follow-up mailings, 750 useable questionnaires were returned for a sample rate of 6.7%.

A set of two logistic regressions with a hierarchical approach is used to test our hypotheses and to identify variables that foster entrepreneurial intention for diversification. Age, education, gender, perceived desirability, and perceived feasibility are used as dependent variables.

The remaining portions of our paper are organized as follows: literature context and hypotheses; methodology and measurement, and results. A summary conclusion ends the paper.

## **2 THEORETICAL BACKGROUND AND HYPOTHESES DERIVED**

Literature that examines new product development recognizes that a diversification strategy could be executed through either an external path (usually realized because of merger and acquisition processes) or through a secondary path of internal development (Hoskisson & Hitt, 1990). Within this second path, surplus resources are one of the most important factors for fostering the development of a diversification strategy (Hoskisson & Hitt, 1990). Intangible resources seem to play a primary role in developing a diversification path due to their better ability for developing and adapting to a changing environment. While internal resources represent potential, they still require a strategic decision in order to activate the diversification process (Grant, 1996).

The managerial motives to diversify “may exist independent of resources and incentives” (Hoskisson & Hitt, 1990, p. 466) . Hamel and Prahalad proposed the concept of strategic intent as an ambition to set targets requiring “a sizable stretch for an organization” (Hamel & Prahalad, 1989, p. 67). However, strategic intent should not be confused with unfettered ambition, since “it is a quest for new opportunities” (Døving & Gooderham, 2008, p. 848) and therefore requires a well-articulated desire to search for these new opportunities (Bagchi-sen & Kuechler, 2000). According to Mantere and Sillince, strategic intent should be considered on a psychological basis as the concept is “held by a conscious subject, capable of forming intentional states, mental states connected to an external reality” (Mantere & Sillince, 2007, p. 407). Therefore, strategic intent appears to be strongly linked with an individual's cognition of business opportunities, “yet there has been little conceptual and empirical development of this issue in the literature” (Choi & Shepherd, 2004, p. 377). Moreover, since intention is recognized as being a good

predictor of subsequent behavior (Krueger et al., 2000), there is a growing interest for understanding factors that influence intentions of entrepreneurs (Carsrud & Brännback, 2011).

According to literature, entrepreneurial intentions could be recognized as directly connected to perceptions of desirability and feasibility that are generally claimed to be the most important causes of entrepreneurial formation (Douglas and Fitzsimmons, 2012; Fini, et al., 2010; Krueger et al., 2000). Moreover the ability to well-analyze opportunities seems to be connected to several entrepreneurial characteristics like age, education and gender that affect cognitive style. The following section illustrates the connection among desirability and feasibility and cognitive style variables and their impact on entrepreneurial intention of diversification.

### **2.1 Desirability and feasibility between related and unrelated diversification intention**

Shapero (1982) recognized the role of inertia as a guide of human behavior. According to Shapero's model, behaviors for dealing with change depend on the relative "desirability" of the opportunity. Perceived desirability has been defined "as the personal attractiveness of starting a business which includes both "intrapersonal and extrapersonal impacts" (Krueger et al., 2000, p. 419). The concept of desirability has been used to define characteristics of entrepreneurial growth intent for entrepreneurs who were already running their own firms (Cassar, 2007; Dutta & Thornhill, 2008; Mambula, 2002) . Cassar (2007) recognized that desire, independence, and economic motivation as key predictors of growth intention. Economic motivation offers a direct impulse to growth with desire potentially serving a mediating role even though entrepreneurs strongly oriented to independence may decide to renounce growth if it threatens their independence.

Perceived desirability refers to the personal appeal of entrepreneurial action while perceived feasibility refers to the individual's confidence they can successfully complete specific relevant tasks. When conditions of perceived desirability and feasibility are merged, entrepreneurs are generally split into two camps, namely 'opportunistic' entrepreneurs - motivated by a need to achieve or to succeed - and 'necessity' entrepreneurs, driven by survival-oriented motivations and with a high desire to avoid risk (Carsrud & Brännback, 2011).

Building on this distinction, several studies have analyzed relationships between firm characteristics and venture growth. However, few have studied the phenomenon of growth itself (Dutta & Thornhill, 2008). Most research has focused on the entrepreneur's perception of desirability and feasibility in order to justify the entrepreneur's decisions. Little research has analyzed the 'opportunity' characteristic and its connection with the perceptions of entrepreneurs. Using the "person-environment fit" (PE) theory (Fitzsimmons & Douglas, 2011; Kristof, 1996; Kristof-brown et al., 2005) our research seeks to better encompass the connection(s) existing among the perceptions of individual entrepreneurs and the opportunity characteristic. PE theory considers "the compatibility between an individual and a work environment that occurs when their characteristics are well matched" (Kristof-brown et al., 2005, p. 281). According to this approach, people actively search for work situations that best fit the bundled combination of the outcomes they seek. It is reasonable that entrepreneurs will derive greater satisfaction and will pursue opportunities that provide the salient outcomes they appreciate, or, conversely, fewer of the things they do not appreciate. Using the assumption of inertia as a general guide of human behavior (Shapero, 1982) and the "PE" lens (Fitzsimmons & Douglas, 2011; Kristof, 1996; Kristof-brown et al., 2005), it is reasonable to imagine that relatedness could affect entrepreneurial intention. Even though relatedness has been recognized as a key variable in diversification processes when these processes are carried through joint ventures (Luo, 2002), it appears that both the role and impact of relatedness on entrepreneurial intention has been under-investigated.

Drawing on this hypothesis we aim to analyze the influence of desirability and feasibility considering different levels of relatedness on diversification. Indeed, literature recognizes relatedness as a key variable in order to define antecedents of diversification (Kang, 2013; Rumelt, 1974). More precisely, product relatedness is "the extent to which a firm's different lines of business or industries are linked" (Luo, 2002, p. 1). Variables used to define the degree of linkage are generally accepted as being: common skills, resources, and market or purpose (Døving & Gooderham, 2008). Given that related diversification is primarily a consequence of deploying surplus intangible resources (Hoskisson & Hitt, 1990; Wan, Hoskisson, Short, & Yiu, 2011), the feasibility of developing a process of diversification could

be recognized as strictly connected to perception of quality of intangible resources. Nevertheless, related diversification, due to its connection with existing skills, requires less effort for the firm since core resources can be leveraged between businesses. Moreover, “related diversification in a fast-growing industry and less deterrent environment can achieve even greater economic benefits” (Luo, 2002, p. 16). In the specific case of related diversification within SMPs, desirability becomes the key variable driving entrepreneurs to pursue opportunities. Indeed knowledge required is widely available within the industry and services developed could be provided to existing clients of the firm. Thus:

**Hypothesis 1.** Related diversification intentions are primarily influenced by an entrepreneur’s level of desirability.

Unrelated diversification requires knowledge acquisition efforts in order to develop the new product/service. The perception of available resources assumes a central role in shaping entrepreneurial intentions. The development of an unrelated diversification requires both a strong entrepreneurial will and the perception of availability (internally or externally) of the required resources. Within the SMPs context unrelated diversification requires to build on competences that are not well spread within the industry (or at least less known than related diversification). Thus:

**Hypothesis 2.** Unrelated diversification intentions are influenced both by an entrepreneur’s feasibility and desirability

## 2.2. Cognitive style between related and unrelated diversification intentions

Dutta and Thornhill (2008) commented that cognitive style is a moderator of competitive perception and has a direct impact on growth oriented decisions.

Cognitive style reflects how (and how well) information is judged. In this case cognitive style may determine the process for how information is treated and, subsequently, the quality and quantity used by individuals for their decision-making process. According to Dutta and Thornhill, “we expect cognitive style to influence the entrepreneur’s interaction with the environment, specifically with regard to how the environment affects growth intentions” (Dutta & Thornhill, 2008, p. 314).

Therefore, when it comes to those decisions involving diversification we should expect a significant difference in entrepreneurial intention based on interaction between the characteristics of different opportunities and the entrepreneur’s cognitive style. Several variables are recognized as having a significant influence on cognitive style. Those of age and education have been shown to be associated with decisions to exploit opportunities (Fitzsimmons & Douglas, 2011; McMullen & Shepherd, 2006; Shane, 2003).

More precisely, we can hypothesize that when opportunities are less connected with pre-existent firm activities (as in the unrelated diversification process) the role of these variables becomes more important. This is due to the need for both processing added information and for working with newer, less well-known, environments. Nevertheless, when diversification is connected with skills that are well-known within the industry we can assume their role to be less important for explaining diversification intention. The availability of required knowledge within the industry reduces the role of developing specific competences at a more structured level. The complexity of the innovation process fosters other variables that become better explainers of the intention to diversify. Within SMPs context education is a key variable since services could be offered both from people with and without a university degree. Therefore:

**Hypothesis 3a.** Education is positively related to entrepreneurial intention for both related and unrelated diversification.

**Hypothesis 3b.** Education is more positively related to entrepreneurial intention in related, than in unrelated, diversification.

Age has also been recognized as a variable strongly connected to entrepreneurial intention. In relation to an individual’s age and entrepreneurial activity, “University graduates between 25 and 34 years of age show the highest propensity toward starting up a firm” (Shinnar, Giacomini, & Janssen, 2012, p. 474). The age of the firm, however, is negatively related to diversification processes (Coad & Guenther, 2012).

Focusing on German machine tool manufacturers Coad and Guenther (2012) measured minor and major rates of diversification. The rate of minor diversification decreased more quickly in younger firms than in situations of major diversification. According to their data, when comparing the age groups 1-5 years and 6-10 years, an average reduction in diversification was approximately 47% for minor diversification, while the reduction in average major diversification was approximately 39%. Therefore:

**Hypothesis 4a.** Age is negatively related to entrepreneurial intention both in related and unrelated diversification.

**Hypothesis 4b.** Age will be more negatively related to entrepreneurial intention in related diversification.

Entrepreneurial experience has been recognized as a determinant characteristic that leads entrepreneurial intention (Dutta & Thornhill, 2008) with experience being defined as a bundle of “things that happen, or events that occur, during a specific time period” (Reuber & Fischer, 1999, p. 31). According to these studies, a founder's experience moderates the relationship between opportunity and venture performance (Chandler & Hanks, 1994). Moreover, experience is recognized as having a direct impact on the entrepreneurial intention of growth. Also, initial intentions can be modified as new information is acquired as experience is gained (Dutta & Thornhill, 2008). A primary aspect is the distinction between the stock of experience and the stream of experience (Reuber & Fischer, 1999). Here, contextual characteristics impact the way in which experience should be analyzed. When it comes to diversification intention the role of relatedness can impact entrepreneurial decisions since the existence of previous diversification experience can influence the way entrepreneurs handle information and take decisions (Pennings, Barkema, & Douma, 1994). Thus, we can derive that:

**Hypothesis 5.** Prior diversification experience is relevant for unrelated diversification intentions.

The role of gender is recognized as a moderating variable that fosters entrepreneurial intentions (Shinnar et al., 2012). Researchers have found women less likely to prefer growth outcomes (Cassar, 2006). Given that unrelated diversification is characterized by novelty, uniqueness and growth opportunities we propose:

**Hypothesis 6.** In unrelated diversification, male gender has a greater impact on entrepreneurial intention.

### 3. METHODOLOGY

Our research method consisted of a structured questionnaire provided to those Italian SMPs located in northeast Italy. This region was selected as it is characterized by a large number of small, usually family-run, organizations. Moreover, this region has been recognized (Lepshy & Lepshy, 1998) as being populated by several bi-linguistic minorities (e.g. German and Slovene speakers) which allow us to reduce cultural bias in data collected within a single country.

Contacting local chartered accounting associations, allowed us to obtain a list of 11,267 SMPs. All respondents met the definition of 'small and medium enterprises' as established under European Union guidelines. (None of the firms are subsidiaries of larger corporations). These firms were then sent a structured questionnaire via e-mail. Three mailings were sent in order to increase the response rate. This process yielded 2,266 questionnaires for a response rate of 20.1%. Of these, 750 were answered completely (7% of the total population). Our response rate is comparable to other similar surveys (Døving & Gooderham, 2008; Mole, 2002).

The responding SMPs employ on average 6.7 people including owner(s), partners and staff. As Table 1 indicates, the number of services provided by the SMPs average 4.8 with a range from a minimum of two to a maximum of fifteen (standard deviation of 2.5). The respondents' average age is 47.4 with a range from 26 to 78 (standard deviation of 10.12). The sample is can be divided into 170 female and 580 male respondents. These data show an under-representation of women as nationally statistics indicate only 1 out of 3 chartered accountants are female. The level of average education shows that 549 respondents (73.2%) claimed to own a university degree while 201 possess a high school diploma.



**TABLE 1. NUMBER OF SERVICES PROVIDED AND AGE**

| Variables (N=750)                   | Average | SD    | Max | Min |
|-------------------------------------|---------|-------|-----|-----|
| Number of services already provided | 4.8     | 2.50  | 1   | 15  |
| Age                                 | 47.4    | 10.12 | 26  | 78  |

#### 4. MEASUREMENT

##### 4.1 Dependent variables

Our dependent variable is calculated as the intention of introducing new services into the firm's portfolio thus developing a diversification process. New services are identified by counting each service that will be provided within the following twelve-month period. In order to develop the complete list of services Italian accountants are allowed to provide, we interviewed a group of five experienced, authorized, chartered accountants. This list was then compared to the official website of the Italian Association of Chartered Accountants. From this comparison 18 services were identified. This final list closely replicates prior studies in the field (Bagchi-sen & Kuechler, 2000; Døving & Gooderham, 2008). In order to classify services as being mandatory accounting services the Italian legal classification of services as assigned to chartered accountants (we used the Italian law: D.Legs. 28/06/05 n.139). The first classification was then submitted to a second group of experts for further verification. We ended up with a list pretty similar to the general classification proposed by the International Federation of Accountants (IFAC, 2010). The methodological approach to match and compare information acquired by the analysis of the law, specific reports and experts interviews was previously used in other studies on SMPs (Døving & Gooderham, 2008). Table 2 shows the list of total services and the corresponding percentage of firms surveyed offering each specific service.

**TABLE 2. MANDATORY ACCOUNTING SERVICES**

| Code  | Description                               | Already provided | %   | Will be added | %  |
|-------|---|------------------|-----|---------------|----|
| SV_01 | Accounting management                     | 165              | 22% | 21            | 3% |
| SV_02 | Debt administration/closure of firms      | 63               | 8%  | 45            | 6% |
| SV_05 | Taxation/tax planning                     | 144              | 19% | 37            | 5% |
| SV_07 | Financial auditing                        | 638              | 85% | 44            | 6% |
| SV_08 | Administrative routines                   | 404              | 54% | 14            | 2% |
| SV_09 | Valuation of firms/mergers/demerger       | 11               | 1%  | 66            | 9% |
| SV_10 | Administration of naval accident practice | 109              | 15% | 15            | 2% |
|       | <i>Total</i>                              | <i>1534</i>      |     | <i>242</i>    |    |
|       | <i>Average per firm</i>                   | <i>2.04</i>      |     | <i>0.32</i>   |    |

For each new service introduced we coded a dummy variable (0 and 1, respectively) and indicated whether it was a mandatory (or non-mandatory) service. According to our data, there is an average of four services provided to clients. These are divided almost equally between mandatory (2.04) and non-mandatory (2.3) services. The entrepreneurs responding were considering adding 1 new service consisting of 0.32 new mandatory services and 0.76 new non mandatory services on average. The data reflect the importance of product-market innovation for these SMPs. In the aggregate most firms within the sample are planning on increasing their portfolio by a rate of at least 25% (1 new service added to an average of 4 services already provided). Tables 2 and 3 provide descriptive statistics for recognized

mandatory and non-mandatory services and the intention of new service development. Two percent of the firms intend on adding a service in the next year with a maximum of 11 percent being indicated for the service (variable) of Strategic Planning.

**TABLE 3. NON-MANDATORY ACCOUNTING SERVICES**

| Code  | Description                                 | Already provided | %   | Will be added | %   |
|-------|---|------------------|-----|---------------|-----|
| SV_06 | Remuneration schemes/ administration salary | 446              | 59% | 18            | 2%  |
| SV_03 | Arbitration                                 | 147              | 20% | 62            | 8%  |
| SV_04 | Bankruptcy and crisis management            | 461              | 61% | 44            | 6%  |
| SV_11 | Inheritance issues/generation transfer      | 332              | 44% | 59            | 8%  |
| SV_12 | Contracts and litigation                    | 108              | 14% | 65            | 9%  |
| SV_13 | Strategic planning                          | 15               | 2%  | 86            | 11% |
| SV_14 | Marketing/sales                             | 38               | 5%  | 38            | 5%  |
| SV_15 | Management/organization/HRM                 | 78               | 10% | 78            | 10% |
| SV_16 | IT consultancies                            | 22               | 3%  | 22            | 3%  |
| SV_17 | Financial management/budgeting              | 57               | 8%  | 57            | 8%  |
| SV_18 | International business                      | 46               | 6%  | 46            | 6%  |
|       | <i>Total</i>                                | <i>1750</i>      |     | <i>575</i>    |     |
|       | <i>Average per firm</i>                     | <i>2.3</i>       |     | <i>0.76</i>   |     |

#### 4.2 Independent variables. Desirability and feasibility

The “aspiration” of firms and entrepreneurs to grow has long been recognized as a significant variable. A desire for growth challenges the organization to reinvent business rules (Cassar, 2007; Dutta & Thornhill, 2008; Hamel & Prahalad, 1989). Diversification has been recognized as a specific path for achieving growth (Dutta & Thornhill, 2008). In order to test entrepreneurial intention to diversify, we adopted the “value discipline model” developed by Treacy and Wiersema (1993). We focused on the definition of product leadership intention developed by the authors by which firms strive to produce a continuous stream of state-of-the-art solutions for their clients’ problems. Using a self-assessment scale of 1 to 5, respondents were asked to evaluate their intention for keeping a high range of services, for high service complementariness, and for providing innovative customer services. Data were then analyzed through a factor analysis using a Varimax rotation with the total variance explained exceeding 55%. In terms of reliability, Cronbach’s alpha for the components of perceived desirability showed a value of 0.83.

Previous studies have indicated that intangible resources are the most important indicator for the feasibility of diversification (Gooderham et al., 2004; Hoskisson & Hitt, 1990; Wan et al., 2011). A group of five questions was developed in order to test the entrepreneur’s perception of the quality of those intangible resources used for fostering an intention to diversify. Resource tests on the areas dealing with quality of internal human resources; namely, quality in the areas of external human resources (those resources directly connected with the firm), firm ICT system, client and partner relationships and in brand and firm reputation. A five point scale was developed and data were analyzed through usage of factor analysis. Varimax rotation explained 52% of the variance. Cronbach’s alpha showed a value of 0.84. (See Appendix 1 for scale questions and primary statistical data).

### 4.3 Independent variables. Cognitive style: age, gender, education and services already provided

According to Italian law, an authorized chartered accountant must be registered on a specific database managed by the Italian Chartered Accountants Association. Since our questionnaire was not anonymous, we were able to match received against the local database of chartered accountants. From this matching process we gathered the age, gender and education level for each respondent. Age was measured as number of years of the entrepreneur interviewed. Gender was assigned a dummy variable. Education was measured as a dummy variable in order to verify whether the entrepreneur possesses a university degree. The number of services already provided was derived through the questionnaire as described earlier.

## 5. RESULTS

In order to test our hypothesis regarding the association of variables that influence related and unrelated differentiation, we carried out a group of two logistic regression models. The first regression was developed in order to recognize the probability of a firm introducing a mandatory accounting service that could be classified as intention to carry out related diversification. A second regression was developed in order to recognize the probability of a firm introducing a non-mandatory accounting service that could be classified as intention to carry out unrelated diversification. Dependent variables were tested among all these two sets of variables. Correlations were analyzed among the independent variables in order to verify any multi-collinearity. Table 4 indicates there to be little evidence of multi-collinearity as all values were relatively low. The highest correlation was between feasibility and desirability. This result is consistent with diversification literature as intention to diversify is both driven by and drives resource availability (Døving & Gooderham, 2008; Hamel & Prahalad, 1989).

**TABLE 4 – CORRELATION MATRIX**

|                               | 1        | 2        | 3        | 4       | 5        | 6    | 7     | 8       | 9 |
|-------------------------------|----------|----------|----------|---------|----------|------|-------|---------|---|
| 1 NSD not mandatory serv      | 1        |          |          |         |          |      |       |         |   |
| 2 NSD mandatory serv          | 0.54 *** | 1        |          |         |          |      |       |         |   |
| 3 N. nonmandatory serv. prov. | -0.03*** | -0.04    | 1        |         |          |      |       |         |   |
| 4 N. mandatory serv. prov.    | 0.01     | -0.21*** | 0.32***  | 1       |          |      |       |         |   |
| 5 Age                         | -0.15*** | -0.22*** | 0.12***  | 0.18*** | 1        |      |       |         |   |
| 6 Gender                      | 0.06     | 0.03     | -0.10*** | -0.09** | -0.26*** | 1    |       |         |   |
| 7 Education                   | 0.14***  | 0.15**   | -0.09**  | -0.01   | -0.37**  | 0.04 | 1     |         |   |
| 8 Feasibility                 | 0.13***  | 0.05***  | 0.22***  | 0.14*** | -0.02    | 0.02 | -0.01 | 1       |   |
| 9 Desirability                | 0.21***  | 0.11***  | 0.17***  | 0.13*** | -0.08*   | 0.01 | 0.00  | 0.55*** | 1 |

Signif. Codes <: 0.01 '\*\*\*\*' 0.05 '\*\*\*' 0.1 '\*' 0.1

Table 5 reports the main results of our logistic regression. A hierarchical approach allowed for testing two groups of variables separately in order to show improvements in our models. The first group of regressions recognized the probability of introducing a new mandatory accounting service that represents a related diversification move due to communalities of skills required. The second group of regressions measured the probability of a firm declaring intention to introduce a new, non-mandatory, accounting service. This service can be considered unrelated as it requires a different skill set for its development. Table 5 indicates that education plays a significant role in both related and unrelated diversification intention. Interestingly, its impact is higher in related diversification. This would appear to confirm both hypotheses 3a and 3b. Age shows a negative and significant effect for both related and unrelated diversification processes, with a larger impact for related diversification. This confirms both hypotheses 4a and 4b.



Moreover, the data explains the role of prior diversification experience. In non-mandatory diversification, prior experience plays a relevant and significant role. However; the same impact is not measured within intention for related diversification. Since non-mandatory services require higher effort in terms of knowledge acquisition (due to their specificity), previous experience can contribute to better valuate opportunities influencing cognitive perception of the entrepreneurs. This supports hypothesis 5.

The male gender was shown to exhibit a greater influence on intention to execute unrelated diversification. However, the p-values are not strong enough to show statistical significance to support Hypothesis 6.

In terms of desirability and feasibility, desirability assumes a significant role regarding intention in both related and unrelated diversification attempts. Intentions regarding related diversification appear to lack statistical significance. This may be due to the market-driven nature of mandatory accounting services. Therefore, their implementation requires knowledge already well-known within the industry. For each model desirability is a primary factor pushing entrepreneurial intention to create a diversification process. We found statistical significance of feasibility only for the intention to execute acts of unrelated diversification. This partially verifies hypothesis 1 while fully verifying hypothesis 2.

**TABLE 5 –COMPARISON BETWEEN RELATED AND UNRELATED DIVERSIFICATION**

|                              | Related diversification intent |                       | Unrelated diversification intent |                      |
|------------------------------|--------------------------------|-----------------------|----------------------------------|----------------------|
|                              | Model 1                        | Model 2               | Model 1                          | Model 2              |
| Intercept                    | -0.90 <sup>+</sup>             | -0.98 <sup>**</sup>   | -2.14 <sup>***</sup>             | -2.37 <sup>***</sup> |
| Age                          | -0.04 <sup>***</sup>           | -0.045 <sup>***</sup> | -0.02 <sup>***</sup>             | -0.02 <sup>***</sup> |
| Gender                       | -0.17                          | -0.189                | 0.11                             | 0.09                 |
| Education                    | 0.76 <sup>***</sup>            | 0.791 <sup>***</sup>  | 0.59 <sup>***</sup>              | 0.64 <sup>***</sup>  |
| Div. Experience              | 0.003                          | -0.017                | 0.09 <sup>***</sup>              | 0.05 <sup>**</sup>   |
| Feasibility                  |                                | 0.028                 |                                  | 0.10 <sup>+</sup>    |
| Desirability                 |                                | 0.36 <sup>***</sup>   |                                  | 0.50 <sup>***</sup>  |
| <i>Pseudo</i><br>(Cox&Snell) | <i>R</i> 20.12                 | <i>0.16</i>           | <i>0.13</i>                      | <i>0.26</i>          |

Signif. codes: 0 '\*\*\*' 0.001 '\*\*' 0.01 '\*' 0.05 '.' 0.1 ' ' 1

## 6. CONCLUSION

Our study has extended the research in regards to the role of product relatedness on entrepreneurial intention to diversify. By utilizing a sample of 750 Small and Medium Accounting Practices (SMPs) in Northeast Italy, we found that diversification relatedness has different causes. The roles of desirability and feasibility as well as age, education, and prior diversification experience all impact entrepreneurial intention. However; the sign and intensity of the impact depends on the level of relatedness. The literature indicates that intangible resources are the most important indicator for the feasibility of diversification. We found statistical significance of feasibility only for the intention to execute acts of unrelated diversification. Table 6 shows each hypothesis developed in the study and its results.

A limitation of our study is that it represents a single industry which operates in a limited geographical area. While these factors do allow for a degree of standardization, one should exercise caution in extrapolating the results. Future research needs to construct both a longitudinal as well as a more cross-sectional methodology. It should also be noted that intention to diversify does not actually indicate that diversification will occur. Thus, the rationale for a longer study which matches desires and intentions with reality.

For practitioners, the implications must be tempered by the nature of the firms studied. To generalize omits the uniqueness of each firm. This type of analysis requires a more 'fine-grained' approach. At this level we could then more closely study the individual as the unit of analysis.

**TABLE 6 - SUMMARY OF HYPOTHESES AND RESULTS**

| Hp.Description   | Supported?          | Comments   |
|--|---------------------|--|
| 1 Related diversification intentions influenced by desirability                                      | Partially Supported | Desirability is positive and significant<br>Feasibility is closed to 0 but not significant |
| 2 Unrelated diversification intentions influenced by feasibility and desirability                    | Supported           | Positive and significant   |
| 3a Education is positively related to entrepreneurial intention                                      | Supported           | Positive and significant   |
| 3b Education will be more positively related to entrepreneurial intention in related diversification | Supported           | Positive and significant   |
| 4a Age is negatively related to entrepreneurial intention  | Supported           | Negative and significant   |
| 4b Age will be more negatively related to entrepreneurial intention in related diversification       | Supported           | Negative and significant   |
| 5 Previous diversification experience positively influence related diversification                   | Supported           | Positive and significant   |
| 6 Male gender has a higher impact on unrelated diversification                                       | Not Supported       | Positive for unrelated, negative for unrelated but not significant                         |

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#### APPENDIX - EXCERPT FROM QUESTIONNAIRE

| Variable   | Scale                | Definition. construction. coding and date of survey   |
|--|----------------------|---|
| Age  | Year                 | Current Year minus year of born   |
| Gender   | Dichotomy            | Male = 1; Female 0  |
| Education - University Degree                                  | Dichotomy            | University Degree = 1; High school degree = 0   |
| Number of Services Provided and that will be introduced as NSD |                      | 0-1 on a list of 18 services + 1 residual recognized by previous studies and from a preliminary interview with experts. |
|  | Dichotomy            | 0 Not provided  |
|  |                      | 1 Provided  |
|  |                      | 0 Will not be introduced  |
|  |                      | 1 Will be introduced  |
| <b>Feasibility</b>   |                      |   |
| <i>Please, rate the quality of the following resources</i>     |                      |   |
|  | Cronbach Alpha: 0.84 | Rotation applied: Varimax   |

|  |     |                       |
|--|-----|-----------------------|
| - Competences of associated authorized chartered accountants     | 1-5 | Factor Loadings: 0.58 |
| - Competences of not associated authorized chartered accountants | 1-5 | Factor Loadings: 0.66 |
| - ICT technology   | 1-5 | Factor Loadings: 0.82 |
| - Close relationship with clients and others                     | 1-5 | Factor Loadings: 0.84 |
| - Brand and reputation   | 1-5 | Factor Loadings: 0.70 |

### Desirability

|   |                                |                                  |
|---|--------------------------------|----------------------------------|
| <i>Please indicate the extent to which the following items describe your entrepreneurial desire</i> | <i>Cronbach Alpha:</i><br>0.83 | <i>Rotation applied: Varimax</i> |
| - Having high service range   | 1-5                            | Factor Loadings: 0.71            |
| - Having high service complementariness   | 1-5                            | Factor Loadings: 0.77            |
| - Providing innovative services   | 1-5                            | Factor Loadings: 0.66            |
| - Keeping high firm dimension   | 1-5                            | Factor Loadings: 0.54            |

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