CASES OF SUCCESSFUL MALAYSIAN SMALL AND MEDIUM ENTERPRISES (SMEs):
DOES BUSINESS ADVISORY SERVICES HELP?

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EXECUTIVE SUMMARY

Introduction
Small and Medium Enterprises (SMEs) play a significant role in the development of the Malaysian economy. However, their contribution to the national economy is still relatively small. Due to this, the government has made the development of SMEs a high priority area with a string of development agendas. Despite this, SMEs are still facing heaps of challenges and obstacles that deter them from further expanding their businesses. Factors involved include low access in borrowing and small capital investment, low access of needed infrastructure, low level of expert abilities and raw materials, low expertise in management and technical knowledge.

The challenges and obstacles faced are highly related to the developmental stage of the companies and it includes lack of managerial capabilities, shortage in financing and human resources. This increases the need for value creation among SMEs to ensure business sustainability which coexists within an environment of good corporate governance. The lack of human resources in SMEs pushes them to outsource to improve their organisation. This has encouraged the birth of Small and Medium Practices (SMPs) especially after the bad accountability and internal control in SMEs. SMEs have become the niche market for SMPs. Generally SMPs are involved in assisting the SMEs in their compliance to accounting, taxation and other regulatory requirements. The lack of expertise becomes advantageous to SMPs to extend their services into advisory and consulting services to cater for the business needs of the SMEs in the ever changing business environment.

Objectives
The study examines the usage of accounting tools and professional services amongst SMEs. The objectives of the research are to produce case studies from successful SMEs that have benefited from the services provided by accountants or through the usage of management accounting tools. This case study would provide more information to the SMEs on how successful companies had benefited from services provided by accountants in the high value-added areas as well as how management accounting tools helped those successful companies. In addition to this, the study would also try to understand the ways the services were provided and the key attributes of the professional service providers who were engaged by the SMEs.
In summary, the objectives of the research are as follows:

- To identify the type of business advisory services purchased and gauge SMEs’ level of satisfaction on these services.
- To determine how the business advisory services purchased has helped SMEs in achieving competitive advantage/success.
- To identify opportunities in providing business advisory services to SMEs in areas where they lack certain skill sets.

In addition, the research provides ideas and insights to professional business services providers, particularly accountants, in the development of new service areas. Agencies such as SME Corporation Malaysia and SME Bank will also gain insights to better understand the financial assistance or financial services needed to enhance the resilience of SMEs in Malaysia.

**Methodology**

The study used the case method to write up and analyse the cases. The sample of companies was based on two listings: 1) 67 “successful” companies provided by the Malaysian Institute of Accountants (MIA) which were based on awards won by the companies, 2) a list of 20 “successful” companies from SME Corporation Berhad. From the list provided by MIA, 26 companies were selected to be interviewed and from the list of SME Corporation, 13 samples were selected. Out of 26 companies, only 5 responded and out of 13 only one responded which make up a total of 6 companies that participated in this study.
Interviews
In order to gain insights of the issues stipulated in the research objective, interviews were conducted with the owner / chief executive officer / accountant. The duration of the interview was about one to one and a half hours. The interviews were conducted by the team of researchers and were recorded.

Case write up and validation
The recorded interviews were first transcribed before it was written up as a case. After the case was written, it was sent to the respective companies for validation. The final cases in this report are after the validation.

Profile of the Companies Interviewed
Out of the six respondents, 83% of the interviewed companies are in the manufacturing business and the remaining 17% are in trading. In this study, 50% of the companies are in the global enterprise stage and 50% are in the fast growth stage. From the sample, it can be observed that most of the companies in the global enterprise stage have been established for more than 10 years and are larger in size.

Findings
From this study it was found that one of the factors affecting the type of business advisory services purchased is the “developmental stage” of the company, whether it is at the start-up or fast-growth, sustainable stage or it is a global enterprise.

Findings have shown that all the six companies use basic management techniques to manage their business. The most common techniques used are ratio analysis, budgeting, product costing and standard costing.
**Business Advisory Purchased**

The study found that the SMEs in both the “fast growth” and the “global enterprise” categories purchased taxation and secretarial services. These two services are high in demand as the companies need to submit their yearly tax returns and it’s a legal requirement for every company to have at least a company secretary to handle all enquiries and correspondence with the company and interact with the public regarding company matters.

In addition to taxation and secretarial services, the “fast growth companies” also purchased accounting services. This is because for smaller companies in the “fast growth category”, it is more affordable to outsource this activity as they cannot afford to employ and retain permanent accounting personnel.

**Satisfaction and Service Quality**

SMEs’ level of satisfaction on the business advisory services purchased from SMPs depends on the growth stage of the SMEs.

Findings also showed that SMEs that are in the “fast growth” stage are less satisfied with the quality of services received from SMPs. These companies felt that the services given do not commensurate with the level of fees paid as in their opinion, SMPs assigned junior staff of the firm to perform the services. Due to the lack of experience, this junior staffs is not able to help the companies and they are not committed to their work. This may be due to the amount of fees paid to the SMPs that commensurate with the level of services given to them.

Most of the SMEs made the comments that the support services including taxation and secretarial usually comes with a high price tag and they therefore are only able to obtain services in the “lower end” such as accounting services, costing, financial statements preparation” rather than the “higher end” such as business expansion, mergers and acquisitions and exporting of their products. Therefore, their comments might be restricted to the type of services that they obtained.

On the other hand, SMEs in the “global enterprise” stage generally were satisfied with the level of quality services given by SMPs.
Does Business Advisory Help and Does SMPs Provide Value Added Services?

Findings have shown that the business advisory services have not really helped the SMEs in achieving competitive advantage or to succeed in their business. One of the company in the fast growth stage mentioned that the services received from SMPs do not add value to their business.

There are many areas where the SMEs felt that the SMPs can add value to the services provided. For instance, to review company financial performance, strategic planning in view of changing economic policies, corporate exercise, merger and acquisition and to provide tax advisory and tax planning services. SMEs felt that there must be a change in the SMPs’ perception on them as SMPs tend to prioritise bigger companies. SMEs feel that with the change in perception, SMPs will be able to provide more value added services to them.

Business Advisory Services Needed by the SMEs

The critical financial information that is mostly needed by the SMEs to increase their competitiveness or success can be categorized into four groups: (i) taxation, (ii) financial accounting, (iii) management accounting and (iv) strategic planning and these services differ between “fast growth stage” and “global enterprise companies”. Findings also show that, SMEs in both stages of growth faces challenges in tax planning and they need to be equipped with the latest management tool to help improve their business performance.

As for “fast growth” companies, they need assistance in marketing strategy on how to market their products in terms of packaging, branding, and promotion to increase their competitiveness in getting investment or funding to help the growth of their business. Apart from that, the SMEs need assistance in accounting services to help them delve more into their financial strength in order to provide a better understanding of their financial position.
In addition, SMEs need assistance from SMPs in helping them to use the financial tools such as break-even point, budgeting, financial ratios, costing analysis as most of them come from a non-financial background and lack accounting knowledge. They also need help to market their products both locally and globally. Other areas include promotion of the unique features of their products in order to create public awareness regarding them.

According to one of the “fast growth” company, the local market is not so supportive of locally produced products as compared to imported products. In this case, the promotion services can assist the SMEs.

In addition, SMEs also need expertise in market intelligence where they are able to obtain information on the current and future demands, potential threats and opportunities that will help the growth of the company. In addition, the “fast-growth stage” companies need guidance in pricing as they need to ensure that the price they set is competitive.

As for ‘global enterprise” companies, despite the fact that they operate in the niche market and have an excellent network, they need advice on how they can sustain and expand their businesses to meet the local and global economic scenario. The “global enterprise” companies need advice in the areas of mergers and acquisition, joint venture, strategic planning and global marketing.

**Role of Government Agencies and Private Sector**

The SMEs were also of the view that the government agencies and private sector could play a bigger role in assisting them to overcome the obstacles that they are facing. Organisations like SME Bank, Malaysia External Trade Development Corporation (MATRADE), Standard and Industrial Research Institute of Malaysia (SIRIM), SME Corp, Malaysian Technology Development (MTDC), Ministry of Science, Technology and Innovation (MOSTI), Federation of Malaysian Manufacturers (FMM) and Dewan Perniagaan Melayu Malaysia (DPMM) were some of the organisations that they listed that might be able to assist them. They also stated that SME Bank, CIMB and OSK should be able to provide them with the legal advice in addition to providing funding to them.
SIRIM, according to their view could help in standardisation and certification of their products and the help of SME Corp, MTDC and MOSTI are needed for product development. FMM and DPMM will be able to help in terms of business development and networking. There is also a need to have a government agency to offer advice on IT related matters as according to them, at the moment they are quite dependent on commercial IT units. They found it difficult to ascertain whether the advice given is effective and reliable as they do not have the expertise to evaluate them.

According to the “fast growth stage” companies, private sector on the other hand could provide financial assistance and to review the terms and conditions of loan applications as the requirements set are too high and this serves as a major obstacle for them to expand their businesses. Besides that, they also felt that MATRADE could help in export development, market intelligence and tax regulations.

As for “global enterprise” companies, they were of the opinion that the Malaysian Industrial Development Authority (MIDA) could help in providing information on doing business, investment opportunities and Ministry of International Trade and Industry (MITI) on exporting.

**Conclusion and Implications of the Study**

There needs to be a “match” of what the SMEs need and what the SMPs can offer. In conclusion, the SMEs interviewed do not think that business advisory services play a major role towards their success. One of the reasons could be that the amount of fees paid to the SMPs by the “fast growth companies” are only for the basic accounting services to comply with the regulatory requirements and thus the SMEs are not able to see the value added of these services to their companies.
The researchers’ findings and suggestions are:

(1) Financial institutions need to provide more funds to the “fast growth” SMEs so that they can pay the SMPs appropriately for the services needed. Funding is also needed to assist the “fast growth” company to become a “global enterprise” in the long run.

(2) SMPs would also need to be more conscious to the needs of the SMEs. They should consider charging lesser fees to the “fast growth” companies so that in the long run when the “fast growth” companies have finally grown into a “global enterprise” company, the SMPs would be able to obtain more revenue from the services given to the companies as the SMEs would be “ready clients” for them.

(3) “Fast growth” companies are in need of advice on how to manage risks, and obtain funding for expansion so that they continue to remain relevant to their customers in the long run. The services needed are much in line with what the literature has mentioned as they need relevant competencies and skills to manage their business which include accounting skills, taxation and business solving in order to sustain in the long run. (PAIB, 2008)

(4) SMEs were of the opinion that the SMPs only offer the minimal services that they need and are not willing to give more that what they are paid for. They would like to seek SMP’s understanding to sympathise with the problems that they are facing and offer them advice in the areas that they most need such as how to improve their business. More customised services for the SMES depending on their growth stage and needs should be given by SMPs to gain the trust and build a relationship between the SMEs and SMPs.

(5) As for the “global enterprises”, despite the fact that they operate in the niche market and have an excellent network, they need advice on how they can sustain and expand their businesses to meet the local and global economic scenario. The “global enterprise” companies need advice in the areas of mergers and acquisition, joint venture, strategic planning and global marketing.
SMPs should build a relationship with SMEs so that it would be a “win-win” situation for both parties. SMEs lack certain skill sets which are important for the success of the business and this provides opportunities to SMPs to play their role as the external service provider. SMPs need to show that they care about the problems faced by the SMEs and should be willing to ‘grow’ with the SMEs. They might not be duly compensated now but as the SMEs are successful in the long-run, their services will be duly paid. SMPs should market their services to SMEs at affordable “customised” price to their various types of SMEs clients if possible. For the moment, there is no trust and spirit of relationship building” or “co-sharing” amongst the SMPs and SMEs, as relationship building is an important element. Both parties should know that in the long run, to be successful both parties should continue to work together so that their businesses will be able to grow and expand.

Besides financial institutions and SMPs, SMEs felt that government agencies should be able to help them overcome the obstacles they are facing and help them to grow their business. This is because despite the fact that there are many areas which the SMPs are able to help the SMEs the SMPs also face barriers in expanding their services. The barriers are exclusivity in certain services due to legal and licensing rules, lack of avenue to acquire knowledge, skills, competency and lack of capacity (Nik, 2006).

As for the “fast growth stage companies, SIRIM could help in standardisation and certification of their products and the SME Corp, MTDC and MOSTI could help in product development. FMM and DPMM will be able to help in terms of business development and networking. In addition, MATRADE could help in export development, market intelligence and tax regulations.

As for global enterprises, MIDA could help in providing information on doing business, investment opportunities and MITI on exporting.
ABSTRACT

Despite the fact that Small and Medium Enterprises (SMEs) play an important role in the development of Malaysian economy, their contribution to national economy is still relatively small. The Government has made the development of SMEs as a high priority area with a string of development agendas but SMEs still face a lot of challenges and obstacles that deter them from further expanding their business. These obstacles includes lack of managerial capabilities, shortage in financing and human resource and this increases the need for value creation among SMEs to ensure business sustainability which coexists within an environment of good corporate governance.

SMIDEC (2002) and Ting (2004) listed the challenges faced by Malaysian SMEs as follows: human resource constraints, shortage of information on customers and potential markets, lack of access to finance, global competition and limited or inability to adopt the challenges faced are highly related to the developmental stage of the companies. Small and Medium Accounting Practices (SMPs) can assist the SMEs to overcome the obstacles as SMEs are their niche market.

This study examines the usage of accounting tools and professional services amongst SMEs. Objectives of this study are to identify the type of business advisory services purchased and gauge SMEs’ level of satisfaction on these services, to determine how the business advisory services purchased has helped SMEs in achieving competitive advantage or success and to identify opportunities in providing specialized assistance to SMEs in areas where they lack certain skills. Six companies participated in the study.
Findings showed that SMEs that are in the “fast growth” stage are less satisfied with the quality of services received from SMPs and this may be due to the amount of fees paid to the SMPs that commensurate with the level of services given to them. They tend to seek for assistance in marketing strategy on how to market their products in terms of packaging, branding, and promotion to increase their competitiveness in getting investor or funder to help the growth of the business. Apart from that, the SMEs need help in accounting services as to help them delve more into their financial strength in order to provide a better understanding of their financial position.

SMEs in the “global enterprise” stage generally were satisfied with the level of quality services given by SMPs. They tend to need assistance from the SMPs to assist the company to become a public listed company and also to penetrate into the international market. Findings also show that, SMEs in both stages of growth faces challenges in tax planning and they need to be equipped with the latest management tool to help improve their business performance. Findings have shown that all the six companies uses basic management techniques to manage their business. The most common techniques used are ratio analysis, budgeting, product costing and standard costing.

It is suggested that SMPs should build a relationship with SMEs so that it would be a “win-win” situation for both parties. SMEs lack in certain skill sets which is important for the success of the business which provides opportunities to SMPs to play their role as the external service provider. SMPs need to show that they care about the problems faced by the SMEs and should be willing to “grow’ with the SMEs. They might not be duly compensated now but as the SMEs are successful in the long-run, their services will be duly paid. SMPs should market their services to SMEs at affordable “customised” price to the various types of their SMEs clients if possible. For the moment, there is no trust and spirit of relationship building” or “co-sharing” amongst the SMPs and SMEs and relationship building is an important element for a business to work. Both parties should know that in the long run, to be successful they should work together so that their businesses will be able to further grow and expand.
CHAPTER 1
INTRODUCTION

1.1 Background of Issue

The Malaysian Institute of Accountants had released the findings of a research on the unfulfilled needs of Small Medium Enterprises (SMEs) in areas where accountants can provide solutions. It was noted that in addition to compliance related services such as accounting, auditing and tax services, the SMEs views other services such as strategy advisory, internal control enhancement, financial planning and mergers and acquisitions as important for their competitiveness.

Therefore, further understanding of how the services transformed the SMEs into more competitive enterprises would be helpful for this sector. This can only be done if the professional business service providers and policy makers are able to meet the services required by the SMEs.

1.2 Objectives

Objectives of the research are to produce case studies from successful Small Medium Enterprises (SMEs) companies that have benefited from the services provided by accountants or through the usage of management accounting tools. This case study would provide more information to the SMEs on how successful companies had benefited from services provide by accountants in the high value-added areas as well as how management accounting tools helped those successful companies. In addition to this, the study would also try to understand the ways the services were provided and the key attributes of the professional service providers who were engaged by the SMEs.

Besides that, the research would also provide ideas and insights to professional business services providers, particularly accountants, in developing new service areas and able to assist developmental agencies such as SMIDEC\(^1\) and SME Bank in developing financial assistance

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\(^1\) SMIDEC- Small and Medium Industries Development Corporation, now known as Small and Medium Enterprise Corporation Malaysia (SME Corp. Malaysia)
packages to finance services and activities which would enhance the resilience of SMEs in Malaysia.

This research is undertaken to expand the preliminary survey conducted by MIA\textsuperscript{2} in 2008 and focus further on identified respondents on specific areas to achieve the following objectives:

- To identify the type of business advisory services purchased and to determine the level of satisfaction on these services.
- To determine how the business advisory services purchased has helped SMEs in achieving competitive advantage/success.
- To identify opportunities in providing business advisory services to SMEs in areas where they lack certain skill sets.

In summary, the report will examine the needs of the small and medium enterprises and also the services that the small and medium practitioners/auditors can offer. It will determine whether there is a match between the needs of the SMEs and supply of services by the SMPs.

1.3 Overview of the Report

Chapter 1 has given an overview of the study outlining the need for the study to be conducted and also the objectives of the study.

Chapter 2 discusses the literature review on definition of SMEs, barriers and challenges needed by SMEs, services needed by SMEs, definition of SMPs, services offered by SMPs, service quality satisfaction and level of fees offered by SMPs.

Chapter 3 discusses the methodology of the study, highlighting the respondents who have participated in the study, interviews conducted and how the cases have been written.

\textsuperscript{2} MIA - Malaysian Institute of Accountants
Chapter 4 to 9 discusses the history of each of the five companies, the problems that they faced, their needs and their perception of the level of service quality offered by SMPs to date.

Chapter 10 highlights the findings of the study and will identify opportunities available to SMPs for them to serve the needs of the SMEs better. Implications of the study and also suggestions for future research is discussed for a more in depth study to be conducted on the important players in Malaysia to ensure that both SMPs and SMEs can contribute to the success of the New Economic Model.
CHAPTER 2  

LITERATURE REVIEW  

2.1 Small and Medium Enterprises (SMEs)  

SMEs play an important role in the development of Malaysian economy. SMEs are important traders and service providers to primary industries. Furthermore, a large number of SMEs are also producers of finished goods and services. Collectively, these SMEs contributes to the growth of manufacturing, services and agriculture sectors, as well as ICT services, in terms of output, value-added, employment and exports (SME Annual Report, 2006). Their contributions resulted big impacts to the economy as a whole. In year 2005, SMEs contributed to 32 percent to gross domestic products, 56.4 percent to employment opportunities and 19 percent to export (SMIDEC, 2008). However, SMEs in Malaysia only contribute 32 percent GDP\(^3\) over 99.2 percent of total establishment compared to 40 percent GDP in other regional economies such as Thailand, Taiwan and Korea, this suggest that there is a big room for Malaysian SMEs to expand their role (SME Annual Report 2006).

Since SMEs contribution to the national economy is still relatively small, the Government has made the development of SMEs as high priority area. The Government aims by 2010 to increase SMEs contribution to GDP from 32 percent to 37 percent and their total exports to increase from 19 percent to 22 percent and to employ over 6.2 million workers by prioritizing SMEs development (BNM Press Statement, 2007 and SME Annual Report 2006). This is reflected in the national development agendas, namely the Ninth Malaysia Plan (9MP) and the Third Industrial Master Plan (IMP3), in which the key strategies for SMEs development is outlined for the period of 2006-2010 and 2006-2015 respectively (SME Annual Report, 2006). From 9MP, a number of training programs for SMEs were implemented to improve their resource planning, management capability, financial management and human resource development as well as upgrading their marketing and technical skills.

\(^3\) GDP - Gross Domestic Product
The lack of human resources in SMEs pushes them to do outsourcing to improve their organization. This has encouraged the birth of Small and Medium Accounting Practice (SMP) especially after the bad accountability and internal control in SMEs. SMEs become the niche market for SMPs. Generally SMPs are involved in assisting the SMEs in their compliance of accounting, taxation and other regulatory requirements. The lack of expertise becomes advantage to SMP to extend their services into advisory and consulting types of services to cater for business needs of the SMEs in the ever changing business environment.

There are various definitions of SMEs that can be found in the literature but this study will use the definition proposed by SMIDEC as this is the most comprehensive. SMEs can be categorized into three categories: (i) microenterprise, (ii) small enterprises and (iii) medium enterprises. The categories are based on the number of employees and sales turnover. Table 2.1 details the definition of SMEs in Malaysia.

Table 2.1: Definition of SMEs in Malaysia

<table>
<thead>
<tr>
<th>Category</th>
<th>Microenterprises</th>
<th>Small enterprises</th>
<th>Medium Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Manufacturing, Manufacturing related services and Agro-based Industries</td>
<td>Sales turnover of less than RM250,000 OR Full - time employees less than 5.</td>
<td>Sales turnover Between RM250,000 and RM10 million OR full-time employees between 5 to 50.</td>
<td>Sales turnover between RM10 million and RM25 million OR full-time employees between 51 and 150.</td>
</tr>
<tr>
<td>2. Services, Primary Agriculture and Information and Communication Technology (ICT)</td>
<td>Sales turnover of less than RM200,000 OR Full - time employees less than 5.</td>
<td>Sales turnover Between RM200,000 and RM1 million OR full-time Employees between 5 and 19.</td>
<td>Sales turnover between RM1 million and RM 5 million OR full-time employees between 20 and 50.</td>
</tr>
</tbody>
</table>

(Source: http://www.smidec.gov.my/node/33)
2.2 Barriers and Challenges Faced by SMEs

Malaysian SMEs are not exceptional from facing various barriers and challenges which prevents them from further expanding their business. These challenges can come from extensive and liberalized organization, globalization, technological and institutional changes. According to Abdullah (2002), factors that are involved are low access in borrowing and small capital investment, low access of needed infrastructure, low level expert abilities and in raw material and low expertise in management and technical knowledge are the factors involved.

In 2003, findings of a Bank Negara survey, found that competition, inability to gain loan, inability to source skilled labor and lack of government support as major problems that were facing by SMEs. This is further supported by a study conducted by Salleh (1991) who has identified that amongst the important problems faced by SMEs deterring them to expand are the shortage of skilled personnel, poor networking amongst the important players in the market, lack of market access, inadequate finance, unintended impact of policy instruments, competitions from foreign SMEs and technological constraints.

Based on SMIDP, 2001-2005 study report (SMIDEC, 2002), Malaysian SMEs are faced with various challenges globally and domestically. These challenges are competition from other producers, intensified global competition, limited capability to meet the challenges of market globalization and liberalization, low productivity and quality output, limited capacity for knowledge acquisition and technology management, limited access to capital and finance and the infancy of venture funds in initial or mezzanine financing, lack of skills for the new business environment, general shortage of information and knowledge and high cost of infrastructure. Ting (2004) identified 5 key challenges and they are; human resource constraints, shortage of information on customers and potential markets, lack of access to finance, global competition and limited or inability to adopt the technology. Wan (2003) discovered that globalized environment such as shortage in financing, lack of managerial capabilities, low productivity, heavy regulatory burdens, and access to technology and management are amongst many other challenges faced by SMEs.
Table 2.2 show the SME growth stage and four general challenges faced by SMEs are (i) business development – strategy, (ii) management development – leadership, (iii) organisational development – infrastructure and (iv) influencing factors – context.

Table 2.2: SME Growth Framework

<table>
<thead>
<tr>
<th>Challenge Areas</th>
<th>Specific Challenges</th>
<th>Start-up Stage</th>
<th>Fast-growth Stage</th>
<th>Sustainability Stage</th>
<th>Global Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Development</td>
<td>Strategy for Growth</td>
<td>Validation</td>
<td>Growth for Survival</td>
<td>Growth for Profitability</td>
<td>Sustainable Growth</td>
</tr>
<tr>
<td></td>
<td>Managing the Financing Gap</td>
<td>Seed Funding</td>
<td>Financing Growth</td>
<td></td>
<td>Financing Evolution &amp; Change</td>
</tr>
<tr>
<td></td>
<td>Creating Networks &amp; Market Connectivity</td>
<td>Sales</td>
<td>Connections</td>
<td></td>
<td>Mergers &amp; Acquisitions</td>
</tr>
<tr>
<td>Management Development</td>
<td>Upgrading Management Skills &amp; Capabilities</td>
<td>Entrepreneurship</td>
<td>Management</td>
<td>Leadership</td>
<td>Executive Vision</td>
</tr>
<tr>
<td>(Leadership)</td>
<td>Challenging the Leader’s Assumptions</td>
<td>Persistence</td>
<td>Results</td>
<td>Stakeholders</td>
<td>Critical Feedback</td>
</tr>
<tr>
<td></td>
<td>Managing Successions and Exits</td>
<td>Directing</td>
<td>Delegating Leadership</td>
<td>Nurturing Leadership</td>
<td>Stepping Aside</td>
</tr>
<tr>
<td>Organizational Development</td>
<td>Growth &amp; Organizational Change</td>
<td>Managed Chaos</td>
<td>Alignment</td>
<td>Operational Improvement</td>
<td>Re-Engineering</td>
</tr>
<tr>
<td>(Infrastructure)</td>
<td>Professionalizing the Business Infrastructure</td>
<td>Observation &amp; Intuition</td>
<td>Reporting</td>
<td>Controlling</td>
<td>Professional Benchmarking</td>
</tr>
<tr>
<td></td>
<td>Maintaining Organisational Culture &amp; Values</td>
<td>Explicit Definition of Desired Culture</td>
<td>Aligning Culture with Strategy</td>
<td>Monitoring Culture</td>
<td>Aligning Culture with Strategy</td>
</tr>
<tr>
<td>Influencing Factors</td>
<td>Innovation Climate</td>
<td>Product</td>
<td>Customers</td>
<td>Process</td>
<td>Diversification</td>
</tr>
<tr>
<td>(Context)</td>
<td>Government &amp; Public Policy</td>
<td>Incentives</td>
<td>Taxation</td>
<td>Regulation</td>
<td>Macroeconomic Policy</td>
</tr>
<tr>
<td></td>
<td>Financing Availability</td>
<td>Owner Equity / Loan Money</td>
<td>Debt Financing</td>
<td>Private Equity</td>
<td>Public Equity</td>
</tr>
<tr>
<td></td>
<td>Internationalization</td>
<td>Domestic</td>
<td>Opportunistic</td>
<td>Exporting</td>
<td>Multinationality</td>
</tr>
<tr>
<td></td>
<td>Knowledge Strategy</td>
<td>Know-How</td>
<td>Information Flows</td>
<td>Decentralizing Knowledge</td>
<td>Knowledge Management</td>
</tr>
<tr>
<td></td>
<td>Alliances</td>
<td>Customers</td>
<td>Distribution</td>
<td>Operations</td>
<td>Diversification</td>
</tr>
</tbody>
</table>

According to Nik (2006) it is important to appreciate that the SMEs are normally set up and managed by individuals who may not have the skill sets to effectively manage the whole business. The owners may have specific skills such as in production, marketing or product development but lack other important competencies which are critical for the success of their ventures. Such deficiencies create opportunities of external service providers to close the gap.

2.3 Services Needed by SMEs

In a study that was done by Professional Accountants in Business (PAIB) (2004) in a few countries including Malaysia on the role of accountants in the business world revealed that the diversity of roles being played by an accountant such as encompassing enterprise governance, internal control, shareholder communications, strategic support, treasury, and project management. In addition, other roles that are played by accountants includes corporate finance, risk management analysis, information technology and information management.

In Taiwan, taxation services has the highest proportion, this is followed by management advisory, finance and investment advisory and lastly information technology advisory (Chien & Chen, 2005). In Australia, external accountants provide advisory services to the 67% of SMEs on a variety of issues- Corporate finance, financial planning, business restructuring, performance review, benchmarking, information technology resources, risk management practices and control system are some of the subjects advised by the external auditors (Carey, Simnett, & Tanewski, 2005).

The latest study conducted in Malaysia by MIA SME Survey, 2008 indicated that services such as taxation, accounting, secretarial services and business consulting are the key services sought after by the SMEs with taxation service in the top list.
However, the challenges and services need by SMEs depend on the developmental stage and size of the company. According to Nik Hasyudeen (2010), it was noted that SMEs would need to go through four stages of growth before reaching the stage when they could compete globally. The stages are:

1. Start-up stage where the business model applied is validated;
2. Fast-growth stage where the business is growing for survival; revenue starts to grow as products or services receive market acceptance;
3. Sustainable stage where profitability can be sustained and the entity reaches a maturity level with proven business model and leadership;
4. Global enterprise where the entity continues looking for other opportunities to sustain growth.

The funding needs of entities at the different growth stages differ as well. Entities at the start-up stage hunger for seed financing as what drives most of the entrepreneurs at that stage is purely their vision of being successful.

The financing risk at this stage is very high as the entities have yet to prove the validity of the business model adopted. While passion and energy are appreciated, they could not mitigate the risks of selling products with no market or demand for them or with manufacturing outfits that could not produce products at the right quality.

The fast-growth stage, as the name suggests, is when funding is required to support a growing business. This is a critical stage as failure in managing finance could turn an optimistic outlook into an ugly nightmare.

A growing business would require additional funding to support the growth of inventories, receivables as well as to bring in new production capacity. This stage could also inject the false sense of success into the business owners. Some may end up allocating the limited funds to worldly rewards to themselves such as new cars or even life partners.
Once an enterprise reaches the sustainable stage, the financial management capabilities are expected to reach certain maturity in ensuring earnings are retained and returns to the entrepreneurs are maximised. However, if the entrepreneur is not careful, cost could outpace profitability and the risk of declining business remains real.

At the global enterprise stage, the issues are about growing and competing with competitors in different markets. This could be through acquisitions which may require external financing. Establishing cross-border presence could also create new financing challenge as access to finance in the new market abroad may not be as straightforward as it is domestically.

### 2.4 Small and Medium Practices (SMPs)

Despite the fact that it is prevalent amongst accountancy bodies, especially of an international standing, the term SMPs has much less widespread currency than SMEs. Although providing a precise global definition of an SMP is fraught with difficulties, IFAC has chosen to define SMPs as “accounting practices whose clients are mostly SMEs, external sources are used to supplement limited in-house technical resources, and contain a limited number of professional staff. What constitutes an SME differs depending on the country.” (IFAC, 2010). As for China’s CPA Profession, it defines SMPs as firms with an annual fee revenue of less than 40 billion RMB (Chen, 2009)

Bunting (2008) mentioned that an SMPs will demonstrate *one or more* of the following characteristics peculiar to audit practices; i) most of its clients are SMEs ii) it ordinarily does not audit the accounts of listed entities iii) majority of client work may be non-assurance services iv) limited number of professional staff v) has direct, hands-on quality control procedures.

In the past few years, the accountancy industry has undergone dramatic changes in the provision of statutory, compliance work. For example in the UK, the number of registered audit firms has been gradually declining. The overall number of audit firms registered in 2008 was only 8,179. This is 25.7% lower than the number of audit firms registered in 2003 which recorded 11,006 (Professional Oversight Board, 2009). Related to this, in terms of fee income for many accountancy practices, the picture has also changed. Using the UK as an example again, over the past five years, the “Big Four” have experienced a steady increase in the
proportion of fee income from non audit work for non audit clients. In contrast, their fee income from non audit work to audit clients has been falling (IFAC 2010a). According to research done by Lee (2003), it was that 92% or about 1,400 audit firms in Malaysia are classified as small and medium practitioners and their main sources of income are from audit services.

At the 2009 IFAC SMP forum at Beijing, David Chitty a IFAC SMP Committee Member, member of the Institute of Chartered Accountants in England and Wales highlighted SMPs’ support for SMEs in setting up its business, raising finance, management information, planning for profit, tax compliance and planning and advice on buying and selling businesses. At same forum also Stuart Black a IFAC SMP Committee Member, member of the Institute of Chartered Accountants in Australia addressed the main business service lines demanded by SMEs clients are advisory board member, virtual CFO, strategic & business planning, change management, profit improvement plans, inventory costing, activity based costing for overhead control, product & customer profitability analysis, client focus groups, implementing systems and process in the business, due diligence on business purchases & disposal, capital management & treasury, business structuring and tax advice.

2.5 Business Advisory Services

Business Advisory Services sometimes referred to as non-audit services. Non-audit services generally refer to the services above and beyond the related audit services. Some scholars in their studies use different terms for the same relevant issues namely, “Management Advisory Service” (MAS) and “Management Consulting Service” (MCS). Pany and Reckers, 1983 suggested there is no particular restriction for the scope or classification on non-audit services but diverse classification methods have been employed by the researchers. Non-audit service is defined as service rendered by the accounting firm that do not result in the expression of an opinion, negative assurance, a summary of findings or other form of assurance (Gill & Cosserat, 1996). The types of non-assurance services rendered are taxation, secretarial practice, consultation and internal audit review.
Purcell and Lifison (2003) described non-assurance services as traditional job for accountant (including assurance, investment assurance, commerce registration and accounting affairs, and so on). Taxation involves in assisting clients to prepare the tax returns and planning their taxes. Secretarial is to assist clients to prepare the submission of documents to the Companies Commission and consultation involves giving their views on whether a certain exercise by the client would be detrimental to the company and also offering various alternatives to solve problem faced by the client.

Messier (2000) categorized the non-audit services into three types, which are: (a) tax services - audit firm deliver service of preparing and filing tax returns, providing advice on tax and estate planning, providing representation on tax issue, (b) management advisory services - it covers the consulting activities that may involve providing advice and assistance concerning an entity’s organization, personnel, finance, operations, systems, or other activities and (c) accounting and review services - audit firm provides a number of accounting services such as book keeping, payroll processing, and preparing the financial statement.

An analysis done in 2005 on non-audit fees for 675 Canadian largest public companies also showed that NAS fees has dropped by from 29% in 2003 with 108 companies engaged with the service to 21% in 2005, the total from $38,000 in 2003 dropped to $29,000 in 2005. From 21% of the fees in 2005, 14% of the fees were paid for taxation services. (Tabone, 2006). The current study by Audit Analytics (March, 2009), a research firm, found that non audit fee continued to decline from 51.4% in 2002 and reached a low point of 20.02% in 2006. This decline seems to have leveled off at 21.31% of total fees in 2007.
2.6 Service Quality

Services are usually defined as merchandises which cannot be stored (Sasser, Olsen and Wyckoff, 1978). In other words, it described as the business deal which takes place between service provider and customer to achieve expected outcome that satisfies the customer (Ramaswamy, 1996). Service has been defined as a performance that one party can offer to another that is essentially intangible and does not result in the ownership of anything (Kotler and Keller 2006). Moreover, Winder (1993) explained service quality as an on-going process of building and sustaining the relationships by assessing, anticipating and fulfilling stated and implied need.

Service quality can be divided into two categories which are customer perceptions and customer expectation on the service given (Zeithaml, Parasuraman & Berry, 1990). Customer expectation as defined by Ismail, Haron, Ibrahim and Isa (2006) is a reference point that customer have in their mind before experiencing the actual service.

Initially, the service quality defined by Parasuraman, Valarie and Leonard (1985) was included ten dimensions, but after two stages of scale purification, as we mentioned earlier, Parasuraman, Valarie, Zeithaml and Leonard (1988) revised and defined the service quality in five. The model suggested service quality as the gap between customer’s expectations and their perception of the service provider’s performance. Therefore, subtracting customer’s perception score from customer’s expectations score give us the service quality score:

Service Quality = Customer’s Perception – Customer’s Expectation

According to Ziethaml et al. (1990), service quality is a multidimensional concept comprising of five key dimensions. They are: (i) reliability, (ii) responsiveness, (iii) assurance, (iv) empathy and (v) tangibility. Reliability is defined as the ability to deliver the promised service dependably and accurately. Responsiveness can be described as the willingness to help customers and provide prompt service. This dimension stresses service personnel’s attitude to be attentive to customer requests questions and complaints. Assurance is the service quality dimension that focuses on the ability to inspire trust and confidence. Empathy is the service
aspect that stresses the treatment of customers as individuals. Finally, tangibles are the service dimension that focuses on the elements that represent the service physically.

Past research using SERVQUAL model in auditing sector indicates that public listed companies in Malaysia were only satisfied with tangible dimensions and customer loyalty partially mediates the relationship between reliability dimensions and customer satisfaction (Ismail et al. 2006). Furthermore Bongsu (2004) in her study indicate that SMEs were not satisfied with all the SERVQUAL dimensions especially on reliability dimensions, however there was a positive relationships between customer loyalty and service quality. Besides that, Che Din (2008) showed only 3 dimensions of service quality were taken to represent the service quality for both taxation and consultation. For taxation the dimension used were empathy, responsiveness and accessibility and for consultation the dimension used were empathy, responsiveness and reliability.

2.7 Satisfaction

Satisfaction applies to both tangible and intangible goods, which it emphasis in this study on the service quality where the concept has been the subject of investigation in many studies before this. In doing so, many researcher define satisfaction as a relative concept that involves both cognitive and affective components, and it is a consumer-related (rather than product-related), mainly transactional, and incorporating an appraisal of both benefits and sacrifices.

However, Roest and Pieters (1997) stated that satisfaction might become or influence on product attitude, which may be regarded as an aggregated but not relativistic construct involving a readiness to act. Yi, (1990) mentioned that customer satisfaction is influenced by two factors, which are expectations and experience with service performance. But, Fornell (1992) said that customer satisfaction has a direct impact on the organization’s performance and the expectations over time are brought in line with the actual performance. Actually, the satisfied customer tends to maintain their consumption pattern and will consume similar product or services. Thus, customer satisfaction has become the important indicator of quality and revenue in the future (Andreassen, 1994).
Moreover, many authors make it a point to highlight that service quality and satisfaction are distinct constructs (Bitner, 1990; Bitner & Hubbert, 1994). Bitner (1990) uses the expectation-disconfirmation model and attribution theory to explain customer satisfaction from services encountered with lower perception than expectation. In other words, a positive disconfirmation leads to customer satisfaction and a negative disconfirmation leads to customer dissatisfaction. Furthermore, Peter and Olson (1994) said that the amount of dissatisfaction is depends on the extent of disconfirmation and the consumer’s level of involvement with the product and the problem solving process.

But for Oliver (1980) he identified satisfaction and dissatisfaction in terms of the disconfirmation of consumers’ expectation. According to him, satisfaction occurs when the product positively disconfirms consumers’ expectation by performing better than expected. He also claimed that satisfaction could also occur when the product confirms consumers’ favorable pre-purchase expectations. Anyway, for Crosby, Evans and Cowles (1990) they said customer’s past satisfaction may also affect their decision to have continue relationship with the service provider.

Andreassen and Lindestad (1998) claimed that customer satisfaction is the accumulated experience of a customer’s purchase and consumption experiences which are expectations and experienced service performance. Meanwhile Kotler (1996) was saying that satisfaction as the emotional perception of the consumer and a result from the comparison of the person’s perceived functionality of the product with what they expect of the product.

Research done by Che Din (2008) found that service quality on services given either on taxation or consultation indicates that client is satisfied with the service quality given. This is supported by current research conducted by Ganesan (2010) that SMEs are satisfied with service given by SMPs.
2.8 Level of the fees

Level of fees can be define as an average price at which product of service being charged (Wynne, 2008). In modern economic, level of fees were defined as an exercise to setup a specific standard in terms of weight of the work given, distance and value the work carried (Hall, 2002). Malaysian Institute of Accountant (MIA) By-law B1-6 has defined the level of audit fees as any amount of fees charged to the client as long as it does not jeopardized auditor’s professionalism (By-Law, pp 30-39). In this study, the level of fees is defined as customer satisfaction on the service received from their auditor.

Fees were charged at different level based on the size of the client’s company (Palmrose, 1986), companies’ business sector (Besacier & Schatt, 2007) and type of risk to be handle (Simunic, 1980). In economic theory, level of fees was measured by using price index as an indicator (Hall, 2002). Nizam, Haron, and Ahmad (2005) found that auditee’s size has a significant impact in the determination of audit fees for SMEs organizations for both years 2001 and 2002. In Malaysian audit market, MIA By-Law has stated a benchmark of fees to be charged as a guideline auditor on the level of audit fees to be charged. However there is no specific guideline given for non-audit service. As a conclusion, we know that measuring the right level of fees to be charged is very subjective especially in non-audit service where there is no specific guideline to be followed.

However according to Poitras, Young and Talib (1995) there is not much different charged on the audit fees between Singapore audit firm and Malaysia audit firm. Based on the research done by Ismail et al. (2006) on public listed companies in Malaysia found that 98% of the respondents feel that paying high taxation fees is reasonable with the current service provided to them. Research done by Che Din (2008) on 103 SMEs found the appropriate level of non-audit fees to be charged were less than RM1,000 but the current findings on 106 SMEs shows that average amount of fees paid by SMEs for taxation, secretarial, consultation and internal audit review were in the range of RM1,000 to RM3,000 (Ganesan, 2010).
2.9 Quality service and level of the fees

Kotler and Keller (2006), has mentioned product and service quality, customer satisfaction and company profitability are intimately connected. Higher level of product and service quality will result increased customer satisfaction which support higher prices and lower cost.

As mentioned by DeAngelo (1981) and Palmrose (1986), client willing to pay high amount of fees in order to receive a high quality of service. In other words, different quality service will receive different level of fee. Furthermore based on the research done on 103 companies, Haron and Ismail (2010) found that the levels of non-audit fees were determined from the service quality given especially on taxation.

Normally companies with strong corporate governance structures tend to demand high quality of audit services and at the same time willing to pay high fees for the services. (Carcello & Nagy, 2004). However companies whom paid large fees for non-audit service tend to have greater earnings management (Frankel, Johnson & Nelson, 2002). The research done by Ganesan (2010) found that SMEs will pay different level of fee if the SMPs are able to show good skills and technical ability, trustworthiness, politeness, adequate knowledge and good technique.

2.10 Quality Service and Satisfaction

Service quality is produced at the same time as the service supply and consumption. Bolton and Drew (1991), and Boulding, Kalra, Staelin, Zeithaml, Valarie (1993) stated that service quality has a significant relationship to customer satisfaction. Fornell, Johnson, Anderson, Cha, and Bryang (1996) states the satisfaction of customer depends on the way of customer value the quality delivered. In other contexts, by using SERVQUAL model, Sewell (1997) found that patience has a greater importance on reliability dimension. Angelopoulou, Kangis, Babis, (1998) found that quality perception in services has significant influence on customer satisfaction.
In the accounting context, Behn, Carcello, Hermanson and Hermanson (1997) investigated the relationship between audit service quality and client satisfaction. They found that responsiveness, effectiveness, on-going interaction and the appropriate conduct of audit field influence the clients’ satisfaction significantly. This is confirmed by Gao (2003) who found that audit service quality has positive and significant relationship to clients’ satisfaction.

Ganesan (2010) found that Tangible, Responsiveness, Reliability and Assurance dimensions have significance relationship with satisfaction. He explain that SMEs are more concerned about tangibility which implies anything that the client see and hear will affect their perception includes physical facilities, equipment and appearance of firm members, SMPs need quickly responds to the issues face by SMEs. This finding enhances Ting’s (2004) study which found that SMPs need to be quick to respond to new demands and needs of their customers in order to sustain the business.

The listed companies in Malaysia expect audit firms to perform the services dependably and accurately. In other words, big companies are more concerned about the Reliability and Assurance dimensions. Tangible dimension are not given concern by large companies. To large companies, the appearance of audit firm’s physical infrastructure is not that important when delivering the audit task as they are already well equipped and using the latest technology (Ismail et al., 2006). Therefore, the Tangible dimension will not affect the satisfaction of a large company.

2.11 Satisfaction and Level of Fees

The issue of relationship between satisfaction and level of fee extensively investigated in service marketing field. Kotler and Keller (2006) also found that if client is satisfied with the service received, they would not mind to pay at any price for the services.
For instance, Ennew and Binks (1999) investigated over 1,200 small firms to investigate the impact of satisfaction on customer retention. They concluded that small firms in UK tend to have paid higher fee behaviour after receiving satisfaction as the form of customer retention. In Malaysia context, Ali, Sahdan, Rasit, Sulaiman, Khairudin, and Rusly (2006) found the relationship between satisfaction and level of audit fee in Malaysia companies after investigating KLSE listed companies over the period 1999-2002. The research on 106 SMEs found that satisfaction is significantly and positively related to the level of fee paid. (Ganesan, 2010). This is confirmed by several studies such as Fornell et al (1996) and Hallowell (1996) that clearly describes how satisfaction level significantly associated with the level of fee.

2.12 Summary

From the above literature review, it was found that SMEs face various challenges in sustaining their business and also to achieve competitive advantages. Challenges faced differ depending on the growth stage of the business. Services needed by the SMEs from the SMPs vary depending on the growth stage of the business. This chapter has also discussed the definition of SMEs and SMPs, relationship between quality service, satisfaction and level of fee.
CHAPTER 3
METHODOLOGY

3.1 Introduction

The study uses the case method to write up and analyse the case. Our sample of companies was based on two listings: 1) 67 “successful” companies provided by MIA which were based on awards won by the companies, 2) a list of 20 “successful” companies from SME Corporation Berhad.

From the list provided by MIA, 26 companies were selected to be interviewed and from the list of SME Corporation, 13 samples were selected. Out of 26 companies, only 5 responded and out of 13 only one responded which made up a total of 6 companies that have participated in this study. Sample of letter is as shown in the Appendix B.

The companies participated in the research are as follows:

1. AJ Food Industries (M) Sdn Bhd
3. Shamawar Sdn. Bhd
4. Excellent Sdn. Bhd.⁴
5. Top Glove Sdn. Bhd.

3.2 Interviews

In order to gain insights of the issues stipulated in the research objective, interviews were conducted with owner / chief executive officer / accountant. The duration of the interview was about one to one a half hours. The interview was conducted by the team of researchers. The interviews were recorded. Sample of the interview questions is attached in the Appendix C. Objective of the interview questions is to understand the background of the company, development process of the company and type of business advisory services purchased and its service quality. These questions is to help to understand the challenges faced by the SMEs and also the services that they require in the future

⁴The name has been disguised as requested by the company.
In addition to the interview questions, the respondents were also asked to answer a set of additional questions. This set of additional questions is to further understand the obstacles faced by the SMEs, to gain insights on how these SMEs manage and run the business and also to indentify other organizations or government bodies which will be able to help them. The additional questions can be found in Appendix D.

3.3. Case write up and validation

The recorded interviews were first transcribed before it was written up as a case. After the case was written up, it was sent to the respective companies for validation. The final case in the report is after the validation. For the first five companies which are AJ Food, Shamawar, Top Glove and CAPE, the case write up was sent to them on 22 June 2010 and as for Dazzle Food it was sent on 26 July 2010. Companies that participated in the study returned the write up beginning 19 July 2010 and the first company that submitted it was CAPE, followed by AJ Food’s on 21 July 2010 Shamawar on 11 August 2010, Dazzle Food on 16 August 2010, Top Glove’s on 23 August 2010 and Excellent Sdn. Bhd. on 28 September 2010. In general, most of the companies did some amendments to the write up and the final copy of the write up is as in chapter 4 to 9 for all the six companies. In principle, the companies agreed with the write-up and recommended changes on certain issues which appears to be sensitive and confidential to be published.

3.4 Respondent’s Profile

The first respondent interviewed was Encik Ainual Azhar bin Haji Jasmi, the Managing Director and Puan Juriah bt Haji Jasmi, the Director of AJ Food Industries (M) Sdn. Bhd. The interview took place on 17 February 2010 at the company’s location at No. 103, Jalan Teruntum 5, Batu 5 ½, Jalan Meru, 41050 Klang, Selangor Darul Ehsan for a duration of two hours and twelve minutes. Encik Ainual, is a graduate from Universiti Putra Malaysia (UPM) with a Diploma in Agriculture and a Bachelor in Food Technology, has ten years experience working as a Food Technologist in several food specialties companies. His sister, Puan Juriah, is a chartered insurer with qualification from UK and a Certificate in Insurance from Institut Teknologi MARA (ITM); she has twenty years of experience in the insurance industry. Their company, AJ Food Industries (M) Sdn. Bhd. was established on 5 September 1998 and is one of
the pioneer Bumiputra companies producing local salad mayonnaise as well as manufacturing sauces under their own brand name ‘JASMA’.

Cape Technology Sdn. Bhd.’s Managing Director, Mr. Lu Eng Shean was interviewed for one hour on 18 March 2010 at the company’s premise at Plot 25, Bayan Lepas Industrial Estate, Non FTZ, 11900 Penang. Mr. Lu is a technologist graduate from USM in 1994 under the Polymer Technology School. He has experience working as a molding engineer and a process engineer in National Semiconductor (now known as Fairchild Semiconductor) as well as a senior molding engineer in ASE Semiconductor. Currently, he is an active member in the Malaysia Export Rubber Council and a non active member in the Trade Association.

The third respondent interviewed was Datin Ani Mawar Abdullah, the Chief Executive Officer of Shamawar Sdn. Bhd. The interview was conducted on 29 March 2010 at the company’s premise at No. 30, Jalan Pekaka 8/4, Seksyen 8, Kota Damansara, 47810 Petaling Jaya, Selangor for an hour and fifty eight minutes. Datin Ani, an ACCA accounting graduate from the University of Nottingham, Britain has experience working in Petronas. The company, Shamawar Sdn. Bhd. was established in 1994 as a trading company that distributes licensed products and Maxlane Sdn. Bhd., their related company’s products. Shamawar Sdn. Bhd. also has other related companies namely, Shamawar Medicare Sdn. Bhd., Shamawar Alam Tani Sdn. Bhd. and Hannah Hanis Sdn. Bhd.

The next two respondents were Excellent Sdn. Bhd.’s Account Manager and the Export Manager and the interview session took about one hour and thirty eight minutes. The interview was carried out on 30 March 2010 at the company’s premise. The Account Manager joined Excellent in September 2008 and she is in charge of the full set of accounts, the audit plus some admin job like the salary payment. Before joining ESB, she was an accountant in one of the local bank. On the other hand, the Export Manager is in charge of the sales and export under the Sales and Marketing Department. Prior to joining ESB in 2003, he worked in a consultancy company.
The fifth company interviewed was Top Glove Sdn. Bhd. The interview was done on 30 March 2010 at the company’s headquarters which is situated at Lot 4969, Jalan Teratai, Batu 6, Off Jalan Meru, 41050 Klang, Selangor. Mr. Jeremy Liew, the Financial Controller and Ms. Chan Siew Lan, the Senior Accountant were both interviewed for one hour and twenty three minutes. Mr. Jeremy Liew, an accounts graduate from USA, is responsible on the operation side, the financial of the company, the products costing and liaising with auditors’ and lawyers. There are few accountants in The Group. One of them is Ms. Chan Siew Lan, who is a chartered accountant under MIA.

The sixth company interviewed was Dazzle Food Sdn. Bhd. The interview was taken placed on 16th July 2010 at the company’s premise which was located at No. 5A, Jalan Langat Ceria 4, Taman Langat Ceria, 43100 Hulu Langat, Selangor Darul Ehsan. The interviewee was one of company’s directors, Pn. Siti Ropiah binti Hambali. The interview session lasted for 1 hour and 12 minutes. Initially, Pn. Siti Ropiah was only operating as a small family based business from her home producing Raya cookies to be sold to close friends and relatives. As she was nearing her retirement age, Pn. Siti Ropiah took up courses on entrepreneurship and chocolate producing. With the knowledge obtained, she started producing and selling chocolates as well. Pn. Siti Ropiah has 25 years of experience in baking cakes, pastries and biscuits. Previously, Pn. Siti Ropiah was working as a government servant for 30 years at Institut Kemahiran Belia Negara Dusun Tua, Selangor.

3.5 Summary

This chapter explained specifically the nature of this study, the research design and research instruments used. The sample and data collection was also discussed. The respondents’ profile were also stated in this chapter.
Chapter 4 to 9 will discuss the six cases of the study. The cases were written up and analysed to meet the objectives of the study.

AJ FOOD INDUSTRIES (M) SDN. BHD.

“Sometimes, my expectation is that when I engage you, it’s not just preparing our accounts, that’s it. But I always want it to be something that is value-added. You give us advice that you have discovered in our accounts that have weaknesses [SO THAT WE CAN IMPROVE].”

Pn. Juriah bt Haji Jasmi, director of AJ Food Industries on the services expected from assurance services

The company

AJ Food Industries (M) Sdn. Bhd. (thereafter referred as AJ Food) is one of the pioneer Bumiputra companies producing local salad mayonnaise. Besides producing mayonnaise as their first product under their own brand name Mayo Bites, the company’s core business activities also include manufacturing sauces under their own brand name ‘JASMA’. They include the local favourite chilli sauce and the more contemporary Malaysian flavours pizza sauce, pasta sauce and barbeque sauce. Presently, JASMA is one of the leading HALAL mayonnaise and sauce products in Malaysia. They cater for both household users as well as bulk buyers. AJ Food has also penetrated the international market, with its products currently sold in Dubai, Ireland and Singapore.

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5 All the quotation has been rephrased and words in brackets are those of the authors to make the meanings clearer.
AJ Food Industries now owns two factories which are located at Klang and Gombak. The Klang factory is the present factory producing all the company’s products whereas the new factory in Gombak will only be producing mayonnaise. These two factories have got GMP certification which the company obtained in January 2009 from the Ministry of Health. AJ Food is among the first Bumiputra companies in Selangor that obtained GMP.

All of JASMA products are manufactured using quality ingredients and the latest technology, making them convenient, versatile and healthy to consume. They come in diverse packaging, in easy-to-use squeezer bottles, and economical refill packs of various sizes. All of their products have been endorsed with the HALAL certification except for the new products, pasta sauce and barbeque sauce which are in the process of being registered with Jabatan Kemajuan Islam (JAKIM). Their products’ tagline is ‘Simply Delicious’, meaning their range of delicious products is suitable for both Western and Asian food lovers anytime and anywhere.

The company’s financial position has been improving from operating at a loss in the early years to gaining profit in 2008, all attributable to their growth in sales. The company managed to reduce their losses from RM100,000 to RM30,000 and eventually gain some profit in 2008. Initial sales of RM100,000 increased to RM1.2 million in 2008. The company targeted sales of RM1.5 million in 2009 due to their improvement in marketing. According to the company director, even though their sales increased, their cost of production had also increased due to rising prices in the raw materials and packaging materials.

The early years: Being a pioneer HALAL mayonnaise producer, coming up with a successful product of R&D and market survey, competing with existing brands

AJ Food Industries (M) Sdn. Bhd. was set up on September 5, 1998 by Encik Ainual Azhar bin Haji Jasmi and his elder sister, Puan Juriah bt Haji Jasmi, who decided to venture into the mayonnaise business and came out with the brand name ‘JASMA’ which is a combination of their parents’ names, Jasmi and Asma. The company name, ‘AJ’, represents the two owners’ names, Ainual and Juriah. Encik Ainual who graduated from Universiti Putra Malaysia (UPM) with a Diploma in Agriculture and a Bachelor in Food Technology has ten years of experience as a food technologist working in several food specialties companies. On the other hand, Puan
Juriah has twenty years of experience in the insurance industry with a Certificate in Insurance from Institut Teknologi MARA (ITM). She is also a chartered insurer with qualifications from UK. AJ Food was formed because of the evolution of the local taste due to the influence of an international variety of flavours. Thus, the company produces new flavours of their own to cater to the new demand market.

En. Ainual first had the idea of being a pioneer producer in the local mayonnaise market when he saw potential in the business as there was still no such producer in the market during that time. Moreover, he was already interested in being an entrepreneur since his school days. He said:

“Previously, I worked as a food technologist with a few food specialties companies. During my service with my last employer for whom I worked for six years, I suggested that they don’t concentrate so much on their chilli sauce. Instead, I asked them to venture into another product like mayonnaise because during that time, Ramli was also trying to make mayonnaise. I asked them to segregate the market. However, the management was not interested to venture into this business, so I looked for someone else. In the process, my sister Pn. Juriah became interested in starting the mayonnaise business.”

As En. Ainual was looking for someone to start his mayonnaise business, Pn. Juriah stepped in as an investor. She decided to join her brother because she needed flexible time to look after her children and at the same time earn some income as her husband had just passed away. Besides she also wanted to answer the call of the government for more Bumiputra entrepreneurs.

The company was set up with an authorized capital of RM500,000 and a paid-up capital of RM250,000 by both En. Ainual and Pn. Juriah. In terms of share holdings, Pn. Juriah holds 60% and En. Ainual holds 40%. The company is run by En. Ainual who is the Managing Director and Pn. Juriah, the Director.
Although the company was registered on September 5, 1998, they only started manufacturing their products in January 2000. JASMA first entered the market in 2000, operating as a family-based business with home-made recipes and developing to manufacture a range of quality sauces for mass consumers. The company’s pioneer product, salad mayonnaise, was produced after more than a year of intensive R&D and market survey as revealed by En. Ainual:

“Making mayonnaise in the early years requires advanced knowledge or technology. I approached PORIM now known as MPOB and MRB. However, they did not have the experience in making mayonnaise. So we had a discussion with our staff and together with our other entrepreneurs conducted studies on the ways to venture into the market. For example, getting the idea from the results of our survey, we talked to the burger kids at night and asked them how they got their mayonnaise supply. It’s important to do a market survey before we venture into any business. That’s the approach we used in the initial stage which was mostly our own and one that came from our own reading. Entrepreneurs must not forget to read.”

The company later expanded their range of products to include pasta sauce, barbeque sauce and chilli sauce.

When they first started, they only had marketing and production as one department as well as two to three employees, including Mr. Ainual and Pn. Juriah. Pn. Juriah initially worked part time, coming to the factory once a week and helping her brother during exhibitions. Later, when all her kids had graduated, she became a full-time employee. All the marketing was done and handled by Pn. Juriah and En. Ainual, right from the beginning until today.

When AJ Food first entered the market, besides imported products, their only local competitor was Lady’s Choice. Penetrating the local market was tough for AJ Food because many thought that their products were from Lady’s Choice. People had the impression that they purchased the mayonnaise from Lady’s Choice, repacked it and then sold it back to the market. To make matters worse, many Malay potential buyers were very skeptical as to whether AJ Food was capable of producing mayonnaise. In 2001 when the market was good, Lady’s Choice
wanted to compete with AJ Food to get a bigger share of the market. However, with En Ainual’s 10 years of experience and knowledge as a food technologist as well as their strong marketing strategy, AJ Food managed to create a niche in the mayonnaise market for their brand JASMA and sustain it in the market. After that, their business started to pick up. At this present moment, AJ Food is categorized as a fast-growth stage company by its director where the business is growing for survival; revenue starts to grow as products and services receive market acceptance.

**Getting sales: Overcoming obstacles and venturing into hypermarkets**

Just when AJ Food was experiencing growth in their sales, they were hit with another letdown. From 2003 to 2004, they encountered a problem with their mayonnaise packaging. That incident affected the company so badly that it nearly closed down. However, with their commitment and perseverance, they managed to pull through and return to the market in 2006. When they returned, they managed to achieve another success which was venturing into the hypermarket sector. Thus, it took AJ Food eight years before their products could finally be put on the shelves of hypermarkets.

With their quality and consistent supply, AJ Food received the Best Supplier Award from Mydin in 2007. In 2009, they also received several awards, among which are Good Manufacturing Practices (GMP) Award from the Ministry of Health, Usahawan Swasta Jaya from the Ministry of Agriculture, Second Highest Sales in Selangor Award by the Ministry of Agriculture (MOA) and JICA Award in Human Resource as appreciation from SMIDEC.

AJ Food may be a small SME, but it is not too small to recognize the importance of Corporate Social Responsibility. Since 2008 they have accepted students from universities and community colleges to undergo their practical training in their factory. AJ Food has provided a platform for students to practise what they have learnt in the classroom. Besides that, En. Ainual himself has also been involved as an advisor in setting the modules for the Community College. He helped to design the course syllabus, ensuring that it is appropriate for the students. He also shared his experience as an entrepreneur in the food industry. At the same time, he could also promote the AJ Food brand. Moreover, sometimes when the company budget was tight and the company faced the problem of insufficient personnel, accepting these students proved to be an advantage to them. The students helped the new factory with the factory layout, machines, etc.
AJ Food has even received enquiries from foreign engineering students from France requesting practical training at their company. The company had a very good experience with the first batch of students from the Kolej Komuniti Sabak Bernam whom they received in 2008. However, the recruitment of the second batch of students had not been successful because there were not enough students who enrolled for the Diploma in Food Technology course.

**To the new factory: Expansion and Growth**

Only in the last year AJ Food managed to venture into the export market. Presently, their products are exported to Singapore, Ireland and Dubai. The company has had a hard time going into the Singapore market because they had to fulfil a lot of parameters, stringent requirements and high standards. As for the local market, currently JASMA’s distribution network is mainly through their stockists and marketing agents comprising 113 mini market outlets, 54 stockists including frozen food stockists like RAMLY Mart, 2 bakeries, 28 Giant Hypermarket outlets, 21 Tesco outlets, 7 Mydin Holdings outlets and 14 Carrefour outlets. Since last year, their sales trend has covered more on the supermarket. Therefore, out of their RM1.2 million sales last year, only 42% came from the hypermarket sector compared to a higher percentage of 52% in 2008. The remaining sales volume was spread over their other market segments as well as the exhibitions in which they had participated.

Later in August this year, the company will open another new factory in Mukim Batu, Gombak, Selangor because they have been selected to participate in the HALAL Business Incubators by MARA. The new venue will be a bonded warehouse where they have many food entrepreneurs from eighteen companies which were chosen by MARA. AJ Food was chosen because MARA has seen that their product is unique and has potential. However, the company is only allowed to produce mayonnaise in the new factory. MARA has plans to turn the venue in Batu Caves into a HALAL international hub. Hence, whenever there are visitors coming from overseas, MARA will bring them to the venue to do business matching with the companies there.
With all the expansion and growth, AJ Food is advancing towards achieving its vision of being a successful Bumiputra enterprise in the production of quality ‘HALAL’ mayonnaise product and also practicing GMP, in addition to making ‘JASMA’ a household name and a well-known quality sauce producer in the fast food industry, locally and internationally. Up till now, the company is operating its business based on its five company objectives which are as follows:

- To increase the economy of Bumiputra people
- To produce ‘HALAL’ and high quality products for consumers
- To increase the number of quality Bumiputra entrepreneurs
- To prove that local Bumiputra companies are also able to develop and produce homogeneous and quality food products
- To build JASMA as a leading brand in Malaysia

However, lately there have been many brands that have penetrated the mayonnaise market such as Deli Mayo, Long Soon and Swiss Bear which made the competition stiffer.

**The organizational structure**

AJ Food’s organizational structure consists of two persons on the board of directors, namely En. Ainual and Pn. Juriah as well as ten staff under them. Out of the ten staff, five are in production, three are in marketing and, on and off, two in administration. One of their production staff is from Bangladesh. The production staff in the company also multitask. If any of the administrative staff suddenly quits, the production staff have to temporarily do the administrative job as well. The company is taking this approach because they want to cut cost.

**Finance and Accounting Functions**

AJ Food does not have an accounts department nor an internal accountant. Instead, it outsourced its accounts on a yearly basis to the company which is in charge of its secretarial service firm. AJ Food has administrative staff to keep records and handle filing based on the instructions given by the firm. That company advises AJ Food on how it should document its accounts, what are the things and special files it needs. Other than that, AJ Food does its own budgeting, forecasting and product costing based on previous data. There are team building
sessions to get input and to discuss with the staff on the company’s performance, target and what they should do.

In 2007, when AJ Food felt that the yearly accounting service provided by the firm was too risky, not practical and hard for them to monitor their documentation, they outsourced their accounts to another auditor. When they changed to this new auditor, they changed their accounting software as well, from 3A Accounting to UBS because they found that UBS is more effective.

AJ Food also has two appointed bankers which are RHB Bank Berhad and Malayan Banking Berhad. Today they are still using the services of the same company for their secretarial needs but they have appointed a new SMP as auditor.

**Factors for Success: Effective marketing strategy, product rebranding and government support**

There are a few factors that have contributed to the success that AJ Food is enjoying today. One of the internal factors is their effective marketing strategy of going into hypermarkets. Through hypermarkets, JASMA’s products will be more widely distributed. Hence, more consumers will be aware of their products. Moreover, if the company were to concentrate more on the smaller shops instead, they will incur a higher cost when they deliver one by one. By focusing on the hypermarkets, the company centralizes the orders. AJ Food just needs to deliver to one place only, one DC. From there, the hypermarkets will do the distribution to all the other outlets but with a fee.

Besides that, AJ Food is also good at product rebranding which eventually has become one of their success factors. Two years after the production of their mayonnaise, the company started to produce chilli sauce, followed by pizza sauce. In the last two years, they changed to pasta sauce instead of pizza sauce as a result of rebranding. Along the way, they still continue with their R&D. In order to penetrate the hypermarkets, AJ Food created new and unique products which were not in the market yet. When the market was filled with mayonnaise products, they changed the mayonnaise bottle so that the sauce can be squeezed out from the bottle and they also started to produce pasta and BBQ sauce to remain competitive in the
market. In addition, Pn. Juriah personally went to the exhibitions to meet the customers to get feedback from them.

AJ Food’s successful penetration into the hypermarket chains was also due to the support from the government. Previously, before the government interfered, these hypermarkets would undertake a payment credit term of two to three months. This would definitely become a burden to the SMEs. Therefore, in order to support the SMEs, the government instructed that the credit term be shortened.

Another external success factor of AJ Food is that although the company has not been not so aggressive in their promotion, they still have a sales advantage when their competitor, Lady’s Choice, has a promotion to encourage the local consumers to try mayonnaise. So, when these consumers want to buy mayonnaise, they will also see JASMA’s products next to Lady’s Choice products. This will then allow the consumers to have another brand to choose from and some would end up purchasing JASMA’s brand instead.

In addition, when AJ Food participated in exhibitions, they managed to meet people from the media who requested for an interview with them. The company agreed to take the opportunity as it was a free promotion for them. As a result, their appearance on the media helped boost their sales.

Challenges Ahead

Like any businesses, AJ Food too has had its fair share of ups and downs in its business venture. In 2002, it started facing problems with the product quality issue. As mayonnaise is a very sensitive product because it does not require cooking, the risk of spoilage is high if not handled well. Moreover, the company also had problems when they first started exporting, as their products did not have a shelf life of more than a year which was an export requirement. Therefore, they worked closely with a Japanese company called Nagasi and managed to overcome the issue.
Another challenge was getting their products on to hypermarket shelves and that took them eight years. This was due to the strict requirements and criteria set by the hypermarkets. Before their products could be sold in the hypermarkets, the company must have high capital to ensure the smoothness of their business. Their product packaging must also be standardized with nutritional information and bar code. The company must meet the hypermarket’s research and development specifications as well as not encounter any problem that may cause them to be blacklisted by the hypermarket. Moreover, in order to penetrate the hypermarket sector, AJ Food had to give rebates like free products to the hypermarkets whenever they opened a new order.

The company also faced the challenge of difficulties in getting funds to finance their business. At the time when they first started their business, grants provided by the government were not clearly communicated to all SMEs. Hence, as a new SME in the market, they were not aware of the grants that were available to help them. Realising that the grants allocated for SMEs were limited, their competitors who knew about it would not tell them. As a result, due to their limited budget, they could not carry out continuous promotions. Some of the promotions, fairs and road shows that they had participated in were attributed to the assistance given by FAMA and the government.

Furthermore, it was also very difficult for them to obtain bank loans as banks were very strict in providing loans to SMEs. The banks required a lot of supporting documentations and collateral to back up the loan. Therefore, it was indeed a very big challenge for SMEs like AJ Food to obtain funds to start and finance their operations. When they first started, the company only managed to obtain loans to buy their machinery. Therefore, Pn. Juriah had to mortgage her house in order to borrow the working capital from RHB Bank. Even now, they still face difficulties in obtaining loans to expand their business. Hence most of the time, AJ Food has to finance its own operation or expansion with the help of family members and close friends. In fact, they have a new product which they wanted to launch last year but due to insufficient funds, they had to put that plan on hold. The limited fund resources that the company has have to be divided between maintaining their current products and creating new products with R&D. That is why the company is planning to slowly drop two of their current products to make way for their new value-added mayonnaise product.
The company’s tight cash flow also caused them to lose out on potential businesses; they have had enquiries before from potential customers from Mauritius, Dubai, Brunei as well as contract manufacturing from local hypermarket. They could not commit and accept these offers because they must first bear all the initial cost before getting the payment from the customers within two to three months. Therefore, the company is planning to change their current marketing model from credit term to cash term. However, this has proved to be a challenge for them because most of the markets are going on credit terms.

On top of that, AJ Food is also having difficulty in ensuring the smooth operation of their marketing strategy, which includes forming a logistic team, monitoring their credit control, production, promotion and product awareness. Now, they are only successful in undertaking part of the strategy as they are facing problems with their marketing agents because these agents tend to compare AJ Food’s promotion with Lady’s Choice’s. Some of the agents even walked out halfway. AJ Food hope to be able to get a marketing team which is not too costly but effective. They want a group of qualified work force who are willing to grow and are faithful to the company.

Another challenge faced by AJ Food is that the company cannot compete in the Middle East market because there are already competitors from Thailand, Indonesia and Philippines who sell similar products at a cheaper price as their cost of production is lower due to cheap labour and mass production. In addition to having to bear a high production cost, AJ Food also has to face the challenge of being dictated by their supplier. Normally, when the company wants to order their sauce bottles, they have to pay their supplier in full first before the bottles will be manufactured. Therefore, to overcome the high manufacturing cost, Pn. Juriah is now using the approach of giving the recipes to her customers during exhibitions. For example, she will teach the customers to mix their mayonnaise with chilli sauce to get thousand island sauce.
Future Plans and Role of Accounting and Assurance Services

To AJ Food, the main reason they changed and recruited a new accounting firm was because they wanted a more comprehensive service and professional advice from their external advisor besides the compulsory SSM auditing report. They hoped that the firm could help them delve more into their financial strength in order to provide them a better understanding of their financial position as well as constructive ideas on how to be more competitive in the market. Their previous accounting firm failed in delivering that service. They did not give AJ Food that kind of positive feedback and they were not proactive in offering additional improvement advice and support. Therefore, when AJ Food changed their accounting firm to Small SMP, their accounting service was changed from yearly to monthly basis so that they can control their accounting report better, have better judgment when making decisions and have better documentations when applying for loans and grants or when seeking investors. They told the firm that they expected more than just accounts reporting from them. They wanted value-added services like the evaluation of their company especially on their weaknesses and potential, feedback on how the company can expand as well as input from the accounting findings so that they could take the appropriate actions.

So far, with the services of small SMPs, AJ Food has managed to improve and finish on time the presentation of their audit account. It also has better control of its credit because it can now monitor its up-to-date debtors’ accounts. However, the firm’s service is still not up to AJ Food’s expectations because the firm is quite slow when it comes to delivering additional services such as preparing forecast reports, diligence tests, gearing ratios and liquidity ratios. AJ Food has even approached small SMPs and informed them to speed up the reports because they are needed urgently in order to seek investors to support the company during this economic recession. In their opinion, financial information needed to increase the competitiveness of the company are financial statement and ratio analysis, productivity analysis, business planning, costing analysis, cashflow and monthly management account. As the directors come from a non-financial field, they hope that there will be more training in the using of financial tools organized which are affordable so that they will able to learn other useful tools.
Being in an increasingly competitive market, AJ Food has forthcoming plans to gear up for new products with the aim of sustaining in the mayonnaise producing industry. As many companies have already tapped into the mayonnaise market, AJ Food will be concentrating on that market and focusing on producing more value added mayonnaise. Its aspiration is to widen its range of products and services. In the near future, the company will be expanding its range of sauces to include Halal Seasoning Sauce, Tartar Sauce, Thousand Island, Mustard, Ketchup and Cheesy Mayonnaise. It is also able to contract manufacturers for parties who are interested in doing so.

Apart from that, the company also has plans to expand its export markets. Therefore, it is now working towards obtaining the HACCP and ISO 9002 certification in order to penetrate the European market. Its new factory in Batu Caves will have the approach of gearing towards the export market and concentrating solely on mayonnaise based products to cater to the domestic and international market so that its products can be expanded further in the market. The company is hoping to capture 20 to 50 percent of the export market thus they hope there will be easily available logistic facilities.

The company is also looking for potential investors who are interested to invest in its mayonnaise business. It is hoped that with the funds it will receive, the company can depend on those funds as backup for further development of the company. In the future, it also has plans to form a subsidiary company. At present, the company has already formed its marketing arms: Jasma Marketing and Jasma Agrofarm. It hopes to tap into the country’s northern region market this year.
CHAPTER 5
FINDINGS OF THE STUDY: CASE 2

SHAMAWAR SDN. BHD.
STRAVING TO BE A PROMINENT CONSENSUS ORGANIZATION FOR ASSURING TOTAL SOLUTIONS FOR THE POWER INDUSTRY

“In this kind of business, in order to grow we have to look into other markets. When we are entering a new market, we need the relevant information (business intelligence) to help us in our decision making. I am very grateful if the accounting firm could provide this nature of service”

Datin Ani Mawar Abdullah, managing director of Shamawar on the potential areas needed for assurance services

The Company


Shamawar Sdn. Bhd. was established with a share capital of RM1.5 million. The company was set up in conjunction with government efforts to produce more entrepreneurs at a professional level towards achieving Vision 2020. The company strives to provide ingenious electrical and power solutions to meet its client’s requirements. The company’s objective is to penetrate the lucrative premium market by having strategic alliances with suppliers and corporate sectors as well as forming agreements with both local and foreign manufacturers to
ensure the smooth supply of the products. It has a vision to be the prominent consensus organization for assuring total solutions for the power industry. The company also has a mission to enhance the value of the power industry services through the development and dissemination of consensus standards, guidelines, and best practices. The company is at a fast-growth stage where the business and revenue starts to grow.

Besides gearing towards achieving the 5S Certification, Shamawar has already been awarded the Certificate of Merit under the National Award for Management Accounting (NA/MA) 2009. Shamawar is currently gearing towards having MS 1500 for Islamic management in order to unite the staff under Islamic values.

**The early years: from consumable products to engineering products**

Presently, there are only six employees in Shamawar Sdn. Bhd. as it is a trading company. The six include the two directors, Dato’ Hj Shakir Husein bin Kalid as the Managing Director and Datin Ani Mawar Abdullah as the CEO. Before Shamawar, Datin Ani Mawar worked as an employee in Petronas. Overall, the employee turnover for Shamawar is quite high.

The directors are Dato’ Hj Shakir Husein, who is a graduate in Islamic Studies while Datin Ani Mawar is an ACCA accounting graduate from the University of Nottingham, Britain. During her university days in London, she worked while waiting for her ACCA results, and there was where she had the opportunity to meet some of the people who were involved in the field of electrical industry. On returning to Malaysia, Dato’ Hj Shakir and Datin Ani Mawar started to seek out things that they were familiar with. However, even in a particular field, there were so many products and services that they had to actually understand before they could determine the one of which they had the capability to enter. During that period, Dato’ Hj Shakir and Datin Ani Mawar were not so active because they were still searching for the right products and market to actually venture in.
In 1997, they finally managed to understand the products which they thought they could handle and started to zoom in on those products. Although they had the accounting knowledge, they were not familiar with the business world so they decided on products that were consumable rather than engineering products. As Datin Ani Mawar stated:

“In the business world, aspects like people (competency) and market matter a lot. I am not an engineer, and if I were to venture into the engineering field I will be depending too much on other people. That is why I decided to focus on the products that are easy for me to grab”.

Dato’ Hj Shakir and Datin Ani Mawar started Shamawar, a trading company, by applying for the entrepreneurship scheme under the Ministry of Entrepreneur and Cooperative Development (MeCD). In 2000, when they had gained enough experience about the business and the products, they applied for vendor status. In order to obtain the status, they had to go through a lot of stages. They began by studying the tenders required by Tenaga Nasional Berhad (TNB) to know about the products, demand, competitors and pricing trends. Then they had to decide whether they wanted to sell directly to TNB, to its contractors, to other suppliers or to other utilities companies like SESB and SESCO. Next, they identified a few products that they thought they could produce and set up their own system to produce them. They were required to have their own factory and to carry out various testing on their products because they were related to safety subjects. The testing was to enable their products to obtain approval and certification so that they had a selling point. As the cost of product testing was high, Dato’ Hj Shakir and Datin Ani Mawar turned to SMiDEC (now known as SME Corp.) for assistance.

They also sought assistance from MARA, SME Bank, PNB and other institutions. Before they could get any assistance, they had to first show their proposal on how they can sell their products. Moreover, they had also to compete with traders who offered products from China and India at a cheaper cost because these traders were not stuck with product testing. Dato’ Hj Shakir and Datin Ani Mawar had to think of a way to provide value on top of their costlier products so that the customers would give preference to them. So, they came up with the idea of having an engineering service team which offered assistance compared to the other traders who just sold products. Due to this idea, they managed to convince TNB to choose them as its preferred supplier. Eventually in late 2004, they managed to obtain vendor status.
In addition, Shamawar also continues to venture into other areas of opportunities that will bring greater synergy to the existing business. With new technological products and solutions in hand, Shamawar is geared to enter the education and oil and gas market apart from the current electrical market.

**Shamawar: Managing People**

In Shamawar, Datin Ani Mawar is the director responsible for managing the accounting and financial issues with the help of an account executive who has an accounting degree. Under the company’s internal system, each year the Accounts and Finance Department with the help of others, organizes the Year End Stock Take. They will have strategic planning for the next year which includes discussions on the company’s present year performance, SWOT Matrix, SWOT analysis, budget review, financial planning, probability analysis, risk management, HR consulting, control system, next year’s strategies for each department as well as future plans and activities. Bookkeeping is done by the staff but the product costing is mostly done by the engineers instead of the accountants. The formal management and fund raising are also done internally instead of outsourcing. In fact, tax compliance is also done by the company itself because the tax services students merely fill in the forms and then submit those forms. Shamawar would give the students the figures which have already been segregated because it knows what items are eligible for allowance. Then the students will check for accuracy and submit the forms.

Shamawar has its monthly performance review (MPR) on a monthly basis. Every second Thursday of the month, it has its meeting with its manager whereas every first Thursday of the month, the company fixes a few operational meetings. On the second Thursday of the month, the company has its sales meeting while every second Wednesday of the month, it has the technical committee meeting (TCM) and all those things to accommodate for the MPR. Besides that, every six months the company will go through its management review meeting (MRM) to review its trend in order to be in line with the ISO requirements. After the company has summarized everything, it will have its annual briefings on the work program budget to inform all their employees where they are moving towards. Shamawar also has the Productivity Linked-Wage System (PLWS) where it informs its workers that if they can achieve their target, they
will get a full bonus. If not, the bonus which the workers are supposed to get will be added into a pool where other employees can share and enjoy. In reasoning this out Datin Ani Mawar said:

“If a particular staff did not perform, there must be somebody else that performed on his or her behalf in order for the company to actually meet the target. So definitely the other person can share in the rewards too”.

The success of Shamawar Sdn. Bhd. is mostly attributed to the good internal management of the directors especially in the management accounting area. Its resourceful thinking of adding value on top of its products in order to get customers’ preference is also another of their success factor. Even though it has competition in pricing from outside markets like China, it can still sustain its business with TNB because it always considers TNB’s system and makes sure that its products’ specifications follow the system. That aspect enables the company to have the upper hand where other competitors are concerned.

**Shamawar and accounting firms: the expectation gap**

Shamawar engaged in the accounting firm services for the sole purpose of fulfilling the mandatory statutory requirements for accounting, tax and secretarial. As Datin Ani Mawar has an accounting background, there is no need to seek outside assistance. Shamawar also seeks advice from academicians on technical matters because it works a lot with universities especially on its products. The company goes to the R&D and Pencipta to get their advice. In addition, it is also a member of the Malaysia Manufacturer Federation (FMM).

To Shamawar, external advice like those from its audit firm only contributes 20 percent towards the company’s success because it is used for compliance purposes. In fact, Shamawar expects the firm to help with at least 50 percent on the business side. Throughout its years of operation, Shamawar has changed its auditor three times because the audit firms were small and not professional enough. One of them stopped halfway through the audit because it could not complete the audit process because of incomplete records from Shamawar when the company was first incorporated. Another firm was irresponsible; when Shamawar’s documents were lost in the mail when they were sent back, the audit firm did not follow up on the matter.
Another reason why Shamawar was not satisfied with the external services of the audit firms was because of the quality of the staff that was sent by the accounting firms. According to Datin Ani Mawar:

“The firm will only send the junior staffs to the SME. They will send the seniors to the bigger companies and MNCs because bigger companies with higher turnover will provide higher revenue to the firm. So when the juniors came, they just do vouching only. They cannot really audit and give advice to the clients”.

With regards to the competency of the accounting firm staff, Datin Ani Mawar feels that most accountants in the audit firms are quite competent when it comes to accounting standards and compliance issues but not consultancy advisory. Smaller SMPs do not have such department and even if they have, she feels that the staff is not exposed to such services. When it comes to consultancy advisory services, only the manager will be able to provide such services but then the fees charged will be much higher.

Datin Ani Mawar’s additional remarks on her perception of the accounting firm’s staff is that they are new and inexperienced. She does not have confidence in them and she finds that they do not understand basic things and the business. They just did what was routine based in the checklist. Junior staffs that was sent to them concentrated more on the accounts payable, accounts receivable and operational accounting instead of what Shamawar need such as strategic aspect and applying the real accounting knowledge to provide information to assist in their client’s decision making. When it comes to the actual implementation, Shamawar feel that they still lack the real business side of it and most of them just learned about the double entries and then start to do the accounting task. On top of that, Shamawar also feel that the internal audit done by its own staff was more thorough than theirs.
Regarding taxation, Shamawar prefer to attend tax seminars instead of getting advice from the accounting firm as the accounting firm does not understand the business. For example, at the time of starting a business, when they do tax planning and they start planning from zero. However, sometimes when a business starts, there are some reasons that cause them to start the business instead of planning first and when they want to sort out those things, they have to actually recount from A to Z why certain things are like this and that and they feel that is why it is hard to correct back”.

For secretarial service, if Shamawar can maintain a company secretary in the company, it would not get the external service. It needs the secretarial service for continuity reasons only as it is more on paper work.

Shamawar also does not benefit from external advice given by other institutions such as MARA because the advice given concentrated more on the products instead of the business itself. Sometimes when Datin Ani Mawar attends programs on SME, she leaves halfway through the talk because she feels that the ‘wave length’ is different and she could not accept the advice given.

In Datin Ani Mawar’s perception, accounting firms can only play a role in management but not in marketing. This is because management needs systematic things and accountants are very good at that especially in the reporting, the monitoring and things like that. But as for marketing, it is not just compliance things. Instead it has a lot of creative things that need the person to get out of the norm. Those in the marketing field always have to find alternative ways to do something else if certain ways failed. For accountants somehow, their mentality is not so creative. If the business involves selling directly to the customer, maybe one can actually see the trend. But in a business like Shamawar’s, it might be difficult because there are other things other than the pricing or costing that matters especially when tendering is involved.
Moving forward: how accounting firms may help the company grow

On the other hand, Shamawar still needs additional assistance and other services by external parties even though the company already has an expert accountant like Datin Ani Mawar. She specifically mentioned that “we still need the extra services for accounting like tax planning because it is something that is constantly changing.” Therefore, the company needs somebody who is actually an expert in that field.

Besides that, the company also requires IT services from external parties because IT, like tax planning, is also always changing. It cannot have its own IT staff because the IT people need to venture outside to grow and get the latest information. In addition, market intelligence is also something that they cannot do on their own and external support is needed from those who know. They need to be equipped with information on current demand, future demand, potential threats and opportunities. Knowledge management is another service that Shamawar needs from external parties. As information availability increases today, the company needs somebody to screen the information and let them know which one to rely on. It needs someone to distinguish for the company which information is important and which is redundant.

Besides all of the above, Datin Ani Mawar also needs academicians to contribute GST training to SME firms like hers. For Shamawar, one of its problems is costly external training. The cheapest course that they have attended is by HRDF which charged RM980 per person. With a high staff turnover, the company thinks twice before spending such a huge amount of money. However, if the Government can subsidize part of the training cost, that would help a lot. This is because eventually, the staff will end up in some other companies which will ultimately contribute back to the country. The Government will not lose anything because the country as a whole will still gain something from the training subsidy.

To get to where it is today, Shamawar had to face many challenges along the way. In terms of finance, it is matching the demand and the support from the financiers. All the financiers have very stringent loan requirements. They will only want to see everything is in place before giving out loans whereas when Shamawar wants to obtain a particular project, the company has to show that it is ready with all the financing support to take out the project. That is one of the challenges. The second challenge is political in nature because Shamawar does not
sell to the consumer. Sometimes the requirements that the company has already agreed to, like having certain certifications and testing on certain products, will be waived when it goes to the tender stage. This is due to the existence of lobbies. With the waiver, anybody can submit their tenders and those traders who do not have to go through all the earlier mentioned requirements and testing would certainly have more competitive pricing than Shamawar’s.

Another challenge is understanding the market and future trends. One example is how everybody is talking about the green renewable energy. So, Shamawar has to start taking into consideration what will happen to the lamps that it supplies when people start to change to solar. As people today are already talking about the grants, Shamawar is worried about how the company would be affected and what kinds of products that would be affected if people start taking up new technology. However, the company has to be aware of the possibility of certain IDPs who may still be using some of their products even though the Government is gearing towards solar use for residences which may affect its business.

In terms of challenges with the financiers, currently Shamawar has managed to get support from them because it has already strongly convinced the financiers. Shamawar has to actually tell this and that and buy time so that it can get all those things on time in order for everything to go smoothly. Furthermore, it once managed to obtain a bigger factory through the “Kompleks Kilang SME” Scheme offered by Bank SME; the company has already proven itself and that made it easier for it to approach MATRADE and SME Corp for further assistance.

Shamawar has also met the challenge of competing with traders by thinking of a way to offer additional value to its products so that customers will choose its products over other traders’ products even though the pricing of Shamawar’s products is higher than the traders’. As for overcoming the challenge of understanding the market and future trends, currently Shamawar participates in many seminars organized by FMM and MATRADE because these institutions have current updates on the market. Shamawar will include its staff in the seminars but in matters regarding policies, the directors themselves will go. Besides that, Shamawar also has freelancers in its group; people who have previously worked with TNB and who know the whole system. These people will provide information to Shamawar so that the company will know where and how the trend is moving.
Moreover, the company is currently facing the challenge of going overseas. It has made efforts but it is extremely difficult. Shamawar is being selected by MATRADE under the BN talk programme to penetrate the market overseas. However, the company has to go through a different kind of testing because other countries have different specifications. This year alone, Shamawar has done testing which involves very high costs; about RM300,000 to RM400,000 for each product testing. Since the products that the company has now depend a lot on tough structures, the company needs to understand the politics of other countries because there are players that do not allow it to go on its own. So the company has to team up with people in other countries.

Shamawar also faces challenges in pricing. The price is fixed during the signing of contract and it is hard to ensure that the price will remain sustainable and competitive during the period of contract as there will be possibility that the prices of raw material will increase within that period of time. Besides that, Shamawar is facing challenges in its cash flow management as their plans and budgets are exposed to changes in customers’ plan which is the power utility and cash flow standing which are the contractors.

Another challenge Shamawar is constantly facing is managing its people. Normally, those who come to work for Shamawar only see the SME as a stepping stone for them to fill up their resumes and to acquire extensive knowledge because they will have the experience of multi tasking in the SME. After that, they will leave the company. Another challenge is having to manage and bear with less qualified people who are not the cream of the crop.

In future, Shamawar wishes to have business restructuring services from external parties because it is not easy to manage change in business restructuring, and accordingly, it needs somebody who is independent. If the boss gives suggestions, others will think that the boss has a different agenda. So, Shamawar actually needs a third party to inform the company which is the best way to ensure the survival and growth of the company.
In Shamawar’s opinion, organizations like SME Bank, MATRADE, SIRIM, SME Corp, Malaysian Technology Development (MTDC), Ministry of Science, Technology and Innovation (MOSTI), Federation of Malaysian Manufacturers (FMM) and Dewan Perniagaan Melayu Malaysia (DPMM) will be able to help the company to grow and to overcome its obstacles. Shamawar hope that SME Bank will be able to provide them with legal advice and MATRADE could help in export development, market intelligence and tax regulations. Besides that, Shamawar feels that SIRIM could help in standardization and certification of their products and the help of SME Corp, MTDC and MOSTI for product development. Shamawar also needs a reliable body for IT advice as at the moment they are dependent on commercial IT units and they do not have the expertise to evaluate whether the current advice is effective and reliable. Lastly, the help of FMM and DPMM are needed to help Shamawar in terms of business development and networking.
“When the time comes for public listing or future growth, the company would need advice from the external parties such as seeking the service of a financial consultant to give them more thorough advice on financial accounting and to reorganize their system financially. They would like to have advice on how to meet the requirement of getting public listed and how to maintain their profitable income up till the listing itself. When they come to that stage, they will have to go on a more proper way.”

Export Manager

on the potential areas needed for non assurance services

From a challenging start

Excellent Sdn. Bhd.\(^6\) (ESB) is Malaysia’s leading medical furniture manufacturer. ESB aims to be a successful and recognized manufacturer in providing specialised equipment for today’s healthcare sector. The company’s vision is to be an innovative leader in the healthcare industry committed to delivering the exceeding expectations of their customers, employees, business partners and stakeholders with their safe, effective and durable medical equipment. Their mission is to build on their scientific, technical and commercial expertise, being responsible in providing innovative, durable medical equipment and services to create an everlasting value to their customers, employees, business partners and stakeholders through the following:

- Leading the healthcare industry by designing, manufacturing and distributing value-added products and services with user-friendly solutions
- Keeping abreast with the modern state-of-the-art manufacturing technology
- Lining up new product innovations that foster creativity, teamwork and achievement

\(^6\) The name has been disguised as requested by the company.
The company was first started on a partnership basis in 1978 by the Managing Director and his partner. After the partner left ten years later, the Managing Director started his own business on a small scale in Seri Kembangan. He focused more on the business in private hospitals, medical centres and clinics. During the early 1990s, the Managing Director changed his company’s name and registered it as Excellent Sdn. Bhd. Three years later, the company started to increase the human resources to fifty employees and increased their ability to design and develop new products because they already had more machinery and a bigger market share. They kept on improving their products from very basic manual medical furniture then slowly to the hydraulic to electrical hydraulic system and then electrical motorized medical furniture. By the late 1990s, ESB started to have the electrical medical furniture and increased more employees.

In ESB, there is a Chairman, Managing Director and Executive Director. Under the Managing Director, there are the Sales and Marketing Department Manager, the QA/QC Department Head, the R&D Department the Manufacturing Department, HR & Administration Department, the Accounting Department and the IT Department.

Currently, ESB has one hundred employees including those at the warehouse. Out of that number, more than thirty are office workers and the rest are production workers. Of the thirty office workers, ten are in managerial positions. Under the Sales and Marketing Department, the Export Manager is in charge of the sales and export. In that department, they have administrative and sales support. Before joining ESB in 2003, the Export Manager was working in SQC Management, a consultancy company for ISO 9000, ISO 14000 and TS19649. Besides that, he also attended ISO training because there was always a new version coming up, for example ISO 3045 for which he had not yet been. On top of ISO training, he also went for training on efficiency by the MPC, the shipping inter-code training, etc.
The accounting department

In the Accounting Department, the Account Manager is in charge of the audit as well as the full accounting work which includes bookkeeping, checking on all the accounts, payments, accounts payable and accounts receivable until submission to audit. In addition, she also has administrative duties like attending to salary payment. She reports to the Managing Director and normally also to another Executive Director.

Within the accounting department, there are two sections, which are the accounts receivable and the accounts payable. Each section has two staff members under them. The accounting system that the department uses is the ERP (Enterprise Resource Planning) System under Microsoft Dynamic.

The Certifications

Excellent Sdn. Bhd. earned the trust and confidence of healthcare providers, because it had proven itself when it achieved many awards and certifications. The company is the first in the Malaysian industry to be awarded the ISO 9001:2000 and ISO 13485:2003 certification by the world renowned German body, TUV. These ISO 9001:2000 and ISO 13485:2003 awards are testament to the company’s tireless pursuit of quality. In addition, they also have the CE mark and ISO 9001:2008 on top of numerous awards like:

- Golden Bull Award 2004 for The 2nd Malaysia’s 100 Outstanding SMEs
- Keris Award 2004 for The 3rd Asia Pacific International Honesty Enterprise
- SMI Recognition Award Series 2004 for SMI – Maybank Rising Star
- Enterprise 50 Award 2006 for Among Top 10 - Ranked 6
- SMB Recognition Award Series 2005 for SMB Emerging Business Award
- MMEBA Platinum Brand Award 2007 for 2007 Platinum Award
- MMEBA Corporate Branding Export Market Gold Award 2007 for 2007 Gold Award
- Golden Bull Award 2007 for The 5th Malaysia’s 100 Outstanding SMEs
- SME Recognition Award Series 2007 for Women Entrepreneur Award 2007
- MPC Productivity Award 2007
- Anugerah Majikan Berdaya Saing (IKS) 2009 from the Prime Minister, Dato’ Seri Mohd. Najib bin Tun Haji Abdul Razak
Factors contributing to its success

Many factors have contributed to the success that they have today. These factors are both internal and external. The main internal factor is the Managing Director himself. The Managing Director has a very good vision and mission in the company as well as the wisdom expected of a managing director. In addition, he is also a very dedicated and committed person.

Besides that, ESB has skilled personnel; it also has the latest technology in manufacturing processes that meets with the strict German certification board guidelines that places it among the ranks of internationally-acclaimed manufacturers recognized for their superior quality systems. The company is also the first hospital furniture manufacturer in the local industry to use advanced robotic welding systems. Presently, they are utilizing computer-aided machinery in almost all of their manufacturing processes starting from the design level with the Auto-CAD to the fabrication level with computer programmed punching, CNC bending and cutting machines. Furthermore, they have technologies from their business alliances and linkages with world class manufacturers which enable them to further enhance their ability to deliver superior quality products that surpass international standards. Moreover, they are always gathering their customers’ feedback on their products to enable them to improve their existing products as well as create new solutions. The same goes for the company’s research and development team of qualified and experienced engineers who design and engineer their products to meet customers’ requirements. Another internal success factor is that their quality and technologies are much better than their local competitors.

Furthermore, ESB’s success is also contributed by external factors. ESB’s products are manufactured in Malaysia and due to the good reputation which other local furniture products have received overseas for their excellent quality; ESB has no problem selling their products overseas as the customers abroad have trust and confidence in Malaysian-made products. Other than that, through the NAM meeting, the governments of Islamic countries will try to help each other out by giving priority to buying from one another. Therefore, they still have some room to survive.
**Accounting and tax services**

For tax compliance, auditor and secretarial services, ESB engaged an accounting firm. When they came to ESB, they discussed and gave some advice to the company regarding tax matters unlike their previous engaged accounting firm where they did not give any advice on branding, budgeting, forecasting and so forth. However, as a client ESB expect more from the current engaged accounting firm. The company did not need external service for quality management because it continuously recruited more qualified personnel who were able to measure the KPI (Key Performance Indicator), the efficiency, the productivity, etc. After that, they obtained the data to analyze and make improvements.

In other words, ESB needs the services and assistance from external parties to help them with the R&D. They want assistance in getting feedback from the end users, inventing some new products, acquiring lots of input for their R&D as well as doing some clinical studies for references or new ideas.

**Moving forward**

As for the challenges, the company is facing them in terms of maintaining their product quality. They have to constantly improve their products and enhance their quality. They also face a challenge when it comes to the prices of raw materials especially the imported ones. On top of that, ESB is also facing the challenge of insufficient foreign labours as well as high local workers’ turnover. This is a challenge for the company as they need to train the workers until they have the necessary knowledge in many aspects.

In today’s ever-changing medical surroundings, healthcare providers face many new challenges including enhancing the overall quality of patient care. Not only must they focus on saving and prolonging human lives, but also on ensuring that the manner in which it is done is safe, pleasant and comfortable. The future expansion plans for the company include public listing it in three or five years’ time.
The company’s sales growth has also increased a lot from the days of their early operations. Their most notable achievements include producing Malaysia’s first fully electric ward bed, first foot-pedal controlled electric delivery bed and first advanced “5th wheel” technology patient transport trolley. As all of their products are of outstanding quality and come with excellent after-sales service plus prompt response to customers’ requests, their customers have great faith in them.

ESB’s customer base includes both local and international markets. The company sells 60% to 70% of their products locally and the remaining products are exported. They have furnished numerous medical institutions throughout Malaysia, both from the government and private sector, including the prestigious Hospital Putrajaya. In the international market, ESB’s products can be found at various hospitals throughout:

- Asia – Japan, Hong Kong, Singapore, Brunei, Vietnam, Laos, Thailand, Philippines, Indonesia, Tajikistan, Cambodia
- South Asia – Bangladesh, Sri Lanka, India, Pakistan, Maldives, Mauritius
- Middle East – Kuwait, Iraq, Saudi Arabia, Yemen, United Arab Emirates, Jordan, Bahrain, Oman
- Oceania – Papua New Guinea, Australia
- Europe – Switzerland, Germany, Finland, Poland, United Kingdom
- Africa – Zambia, Kenya, Botswana, Ghana, Sudan
- North America – Mexico

In the beginning, the company managed to successfully manufacture their first hydraulic furniture in late 1990s and then supply the first batch to a local private hospital. Up until 2006, they had supplied more than 7,000 units. Two years later, the company successfully manufactured their first electric furniture and supplied the first batch to Columbia Pacific Healthcare Hospital. Up until 2006 they had supplied more than 2,500 units. In 2000, ESB was successful in being awarded their first government hospital project. In the year 2000 also, ESB signed their first O.E.M. contract with a Japanese. The company then started to penetrate the overseas market.
By early 2000s, ESB started their first international exhibition trade fair, Hospice Medica Singapore, and after which it went to the Arab Health Care Show. A year later, the company actively participated in international and local trade fairs. This led to the company acquiring new customers from Switzerland, Iraq, Kuwait, Saudi Arabia and Bangladesh as well as signing the second O.E.M. contract with a Switzerland based company. Then in 2004 onwards, they started to look for new contracts and new sales to come in from overseas by holding a lot of exhibitions and participated in the Medica Germany exhibition followed by the Dubai Health Care Show, Medica India, Australia and Vietnam. In fact, before this, the company had actually slowly started selling their products abroad to countries like Singapore and Brunei much earlier from 1998 to 2003. By the mid 2000s, ESB actually managed to secure 14 hospitals out of the 18 hospitals that the government built under The Eight Malaysian Plan.

As for now, the local market for medical furniture is more for replacement purposes for government hospitals and expansion purposes for private hospitals. As the government is now having fewer projects for building new hospitals, the sales growth for the sector is very slow. On the more positive side is the expanding market of the private hospitals.

As for ESB’s export market, the competition is very stiff because they have to compete in the global market. Their main competitors in the export market are the hundred over manufacturers from China because of the price factor. When it comes to standard, the European products are very good but their prices are also very high. Therefore, for standard, ESB has CIMA and thus they can venture into the European market.

To some people, the medical furniture industry is a recession-proof industry because it is in the medical line whereby the demand is always there despite the state of the economy. To ESB, their continuous improvement philosophy with customers in mind has allowed them to set numerous industry benchmarks in terms of quality, innovation and customer satisfaction. At ESB, they believe that customers always come first.
CHAPTER 7
FINDINGS OF THE STUDY: CASE 4

CAPE TECHNOLOGY SDN BHD
EXPANDING THE HORIZONS TO BE A PUBLIC LISTED COMPANY

“Anything that can contribute to the development of the company, minimizes wastage, and increases our efficiency, I welcome. I’m very open to these new management tools and concepts. So anything that you can do to help us in these three areas, you are most welcome”

Mr. Lu Eng Shean, managing director of Cape Technology on the potential areas needed for assurance services

The company
CAPE Technology Sdn. Bhd., a company involved in developing and producing industrial rubber compounding and polymer related products, is located at the Bayan Lepas Industrial Non-Free Trade Zone in Penang, in the heart of the Malaysian Silicon Valley. CAPE Technology is the only polymer product producer in Malaysia and in South East Asia. Almost 90% of semiconductor companies in Malaysia are CAPE’s customers. The company’s products are exported to the Europe, China, Taiwan, Thailand, Indonesia and Singapore. The export segment constitutes 30% of sales while the rest are sold locally.

CAPE formulates their products by mixing the raw materials to produce a specialized advanced polymer material and industrial rubber compounding products which are then sold to semiconductor customers as mold cleaning and conditioning materials. Their products which are of better performance and lower cost are created to replace the usage of similar existing polymer products, which have already been available since the 1970s. Even though the existing products are cheaper, CAPE’s products are more cost effective from the standpoint of productivity and cost savings.
CAPE is in a good financial position and has grown over the years. The company’s annual turnover is now RM15 million, an increase of RM4 million from last year’s (2009) RM11 million annual turnover. This year (2010), their expected annual turnover is RM18 million. Thus, it is not surprising that CAPE had managed to attract potential investors to buy the company. On 1st March 2010, CAPE Technology was taken over by Techfast Holdings Bhd., a public listed company (PLC) on the MESDAQ. The PLC bought 60% of CAPE’s shares. Mr. Lu Eng Shean, the current managing director, and the only remaining founder of the company, currently owns 40% of CAPE’s shares.

The early years: Funding from private investors, operating from a rented shop lot and a successful product development

CAPE Technology was established on 16th December 1996 by two former employees of National Semiconductor (now known as Fairchild Semiconductor). The two partners were Mr. Lu, formerly a moulding and process engineer from National Semiconductor, also a Polymer Technology graduate from Universiti Sains Malaysia and another partner, a graduate from Universiti Kebangsaan Malaysia. Mr. Lu had worked for two years in National Semiconductor before moving to become a senior moulding engineer at ASE Electronics (M) Sdn. Bhd. and later resigned in order to set up CAPE Technology.

CAPE’s paid up capital of RM500,000 was obtained from two private investors who were sleeping partners in the company, i.e. non-active directors of the company. Thus, funding was obtained from the private investors and not from outside financial institutions. The two sleeping partners later sold off their shares in CAPE. Mr. Lu is the only existing founder in CAPE now since his partner left CAPE Technology in 2004 to open another new trading company which is also a semiconductor industry.
CAPE started with only three employees in a rented shop lot at Diamond Valley Industrial Park in Batu Maung, Penang. Mr. Lu was in charge of research and development and operations while the other partner was in charge of marketing the products. They employed one person to take care of administrative matters. Mr. Lu was granted the use of National Semiconductor and ASE Electronics (M) Sdn. Bhd, his former employers and also potential customers’ mold machine, to test the product. As explained by Mr. Lu:

“We made the products with the help of only 1 employee, [that was me]... So, it seemed inconceivable! When we started the factory, in the morning, we wore shorts and singlet. Then in the afternoon when we were to develop a formulation, we took a bath before we went back to the factory to test out the formulation. We were lucky because when I worked in NS and ASE, the boss treated us well. In addition, the boss gave us a lot of opportunities. In running a business, a very important criterion is opportunity. Given time and opportunity we succeeded”.

During the development stage, CAPE already had potential customers for their product. The challenge was the uncertainty of whether the customers could accept the product and also in developing the product so that it could satisfy the customers’ requirement. As reflected by Mr. Lu:

“We didn’t know whether the customers could accept the concept, but one thing for sure was the potential was there...then again, it also depended on the product performance. What I could say is the risk was still there, but the potential was also there. No risk, no gain! So that’s how we started this up with the availability of opportunities and potential customers”.

It took one year of research, development, testing and retesting the product to finally make it work. In 1997, Mr. Lu successfully invented the polymer product and managed to sell the product to his former employers. In the same year, CAPE had been granted a 'Pioneer Status' company from The Ministry of International Trade and Industry Malaysia which resulted in tax exemption for the company.
Getting sales: Moving to three shop lots and increased in employees

During the two years of establishment, the company was mainly doing testing, selling and developing the product at the same time. With the product successfully developed and with steady sales growth, the company later expanded to three shop lots producing Rubclean and Elastowet in 1997. From 1997 to 1999, CAPE’s customer base mostly consisted of semiconductor MNCs as CAPE only targeted three customers which were the National Semiconductor Penang, National Semiconductor Malacca and AIC Semiconductor. Later, Intel became one of their customers.

With good sales coming in, CAPE started to increase their number of employees between 1997 and 1998. During the peak in 2002 at Diamond Valley, they had seventy eight workers altogether. Three years after the company was established, CAPE managed to gain profit in 1999 with sales turnover of RM2 million to RM3 million. In 2001, The Royal Custom Malaysia had qualified Cape as a Licensed Manufacturing Warehouse (LMW) which resulted in tax exemption – for their import of materials and machineries. Thus, the tax exemption from their pioneer status and LMW contributed to their profit. The company had enjoyed tax exemptions on their profit as well as for the purchase of imported materials and machineries. The tax exemption lasted till year 2007 when their pioneer status expired.

In 2002, CAPE established another subsidiary company, Oriem, which focuses mainly in LED business. Oriem produces LED epoxy as well as dealing with polymer compounding using the same formulation as Cape’s. Oriem has also been given a pioneer status by the government and is presently enjoying the second year of tax exemption.

During the peak when their three shop lots could no longer accommodate the large number of employees hired, CAPE moved to their current manufacturing plant in Bayan Lepas. With the tax free profit gained, CAPE managed to buy their plant. Currently, Oriem occupies one section of Cape’s building.
To Penang Silicon Valley: Expansions and Growth

CAPE moved to their current location in 2002. Currently, the company has over seventy employees and Oriem has five. CAPE did not employ foreign workers as all their employees are Malaysians. The company employees’ turnover rate is quite low. With the expansion, CAPE is progressing towards achieving its vision of being a leading research, development (R&D) and manufacturing company in the polymer industry. To this end, CAPE has formulated its Quality Policy to excel in delivering innovative and quality products to meet and exceed customers' expectations. Their quality management system is certified to the MS ISO 9001:1994 Quality System by Certification Panel of SIRIM QAS Sdn. Bhd.

The organisational structure

CAPE Technology’s organization structure consists of Mr. Lu as the Managing Director, and his executive secretary/trainer. CAPE has nine departments, i.e., HR, Finance, Procurement, Marketing, Sales and Technical Services, Product, Epoxy, Manufacturing and Engineering.
Finance Department

CAPE has only a small finance department which consists of one manager and two executives. The manager of the finance department is one of the first employees of CAPE, who has been with the company since the early years. Her responsibility then was to take charge of the company’s book keeping since both the active directors are not from the accounting field. She later married the head of manufacturing, who is Mr. Lu’s brother. Now, she is responsible for business development and finance. One of the executives has an accounting diploma and currently doing an accounting degree.

The finance team is responsible for book keeping, budgeting and managing the accounting systems. The finance team is also responsible to check the exchange rate every three months. This is because the price quoted to some of the MNC customers in Malaysia is in USD, with regard to the MNC policy. However, the payment is in the Malaysian Ringgit. The rate will then be reviewed after three months. When the USD is high, it gives a positive impact on CAPE, i.e. the more ringgit that they will receive from the customers as noted by Mr. Lu:

With currency conversion … sometimes we may be at a loss, at other time we may gain.
There was once, sometime last year that we gained quite a substantial amount from the USD as it rose to a very good rate.

The finance team is also responsible for detailing out the cost for each shipment since the company has different shipment terms based on the customer requirements, either CIF, FOB, etc. However, financial management, planning, forecasting and the exchange rate management were not actively undertaken by the finance team. With higher sales and increasing in growth, the company has advanced from using the services of a small accounting firm to a bigger firm to take care of internal auditing.
Factors for Success: Operating in a niche market, tax exemption, low gearing ratio

There are several reasons for CAPE’s success. First and foremost, the company is operating in a niche market. As CAPE’s products are made from a formulation different from others, they are quite unique. Secondly, CAPE’s technological advantage formulation has allowed the company to increase the capacity of machineries. The main components of their cost are materials which are mainly imported. The most expensive machinery cost about RM100,000.

“For others, in order to increase capacity, they need an increase in technology. They need to buy better machines which may cost millions of ringgit. For us, we got a better deal since we were only changing the formulation and we didn’t need to buy expensive machines”.

Furthermore, CAPE is a non-heavy capital investment company with a low gearing ratio. The tax exemption given to CAPE had helped the company tremendously. When CAPE received the tax incentive, its net profit margin was very high (above 40%). Nevertheless, with low operating costs, even without the tax incentive, CAPE could still maintain a net profit margin of 35%. With low capital investment and high net profit margin, the company did not need money to be pumped into the company. Thus, the company had attracted a Malaysian public listed company to invest in it.

In addition, Mr. Lu believed that the company must remain dynamic in its R&D if it was to compete in the market. CAPE owed its success to its strong partnership on research and development with Universiti Sains Malaysia, Mr. Lu’s alma mater. The company has research collaboration with the Polymer School and Chemistry School. CAPE managed to leverage its relationship with USM further by providing funds for researchers to conduct research in the factory. CAPE also employed industrial trainees as well as graduates with a Master’s degree from USM. Therefore, the company could maintain a small R&D group because they outsourced it to USM. Through this research collaboration, the company was able to make improvements.
The strategy adopted in R&D and costing had allowed the company to weather the economic crisis. Even though the 2009 economic crisis gave a major impact, the company did not make any loss. Cost reduction is part of the reasons for success. To overcome cost challenge, CAPE had been working very hard on internal efficiency from productivity to yield control, scrap control and other cost control within the last ten years. They had been trying to minimize overhead and increase the efficiency of manpower. Therefore, after thirteen years of operation, they still retain their manpower even though sales have increased. They invested more in machinery upgrading from manual to automation.

External factors for success: Seize the Opportunity, Excellent Network

There are also several external factors for CAPE’s success. Mr. Lu and his partner’s excellent business network and contacts especially with those in the semiconductor industry had helped the company during the start-up stage and in maintaining its position. In the beginning, Mr. Lu obtained the help of multinational corporations (MNCs) to do the product testing in their laboratory and later they became his first customers.

Mr. Lu managed to seize the opportunity from the potential of the product even when he was working with the MNCs. Mr. Lu formulated the product because he saw the potential and the initial picture of how the product would work. Thus, he started off with potential customers plus opportunity. He was fortunate because his former bosses from National Semiconductor and ASE gave him the chance to test his product at their factories, and if successful, they would buy the product from him. So, at the time of start-up, CAPE already had a potential captured market. Although they had potential customers, they did not know whether the customers would accept their concept because the polymer product created was produced from a new formulation during which other factories already had products providing the same function. In contrast with the same kind of products produced by others, CAPE had come up with a new technology offering better performance at a lower cost. The potential depended on their product’s performance. With the added advantage of their product, Mr. Lu and his partner managed to seize and capitalize on the opportunity provided to them to ensure the sustainability of the company.
Marketing through internet is also another contributing factor to success because it helps the company in promoting their products. CAPE has a company website registered with asiaEP.com. When customers do an internet search for rubber sheet, CAPE will appear as the result. Intel got to know CAPE through the internet. In the beginning, Intel helped CAPE a lot by training their people because Intel wanted to make sure that their supplier could deliver quality products. They even worked together using the SME funds so as to provide CAPE with RosettaNet, an application to help achieve better control over their supplied chain management. Moreover, Intel sponsored CAPE’s entire QA team to train in their plants. For the first few years of their operations, CAPE invited quite a big number of MNCs to their plants to do auditing. Through auditing, CAPE managed to get a lot of ideas for improvements which eventually led to the company’s expansion in terms of a better system.

Challenges Ahead

In order for CAPE to get to where they are now, they had to overcome many challenges along the way. One of the main challenges faced was the competition from Korea. CAPE had to compete in two aspects, namely the pace of their own R&D in coming out with new products and also the technology of the competitor. Another main challenge for CAPE was cost. Cost had always been a pressure for SMEs. Previously, CAPE had been getting tax exemption due to their pioneer status but the exemption had expired since year 2007. This has left a big impact on them.

Moreover, their materials consist of imported and local Malaysian rubber plus a special type of imported chemical. As the imported raw materials made up a large part of the product cost, any changes in the exchange rates would affect their profit. Therefore, changes in the US Dollars exchange rate would affect the company because they had sold and are still selling a lot of their products in US Dollars to local firms and also to MNCs, but receiving payment in Ringgit Malaysia.
Apart from the above, CAPE is also presently facing challenges from the lower range of the market segment. CAPE’s products are categorized in the middle range of the market segment. In the lower range of the market segment, products which are being distributed may represent future challenges for CAPE if these companies manage to improve their products through R&D. Likewise, CAPE has to emphasize on R&D in their products to differentiate themselves from the rest.

**Future Plans and Role of Accounting and Assurance Services**

CAPE Technology has been very successful since its operation started. The company has expanded from operating in one shop lot with one employee to its position now of having an expected turnover of nearly RM18 million in revenue. Mr. Lu’s forthcoming expansion plans for the company include preparing the company for merger and acquisition. He had invited PLC to CAPE because they needed somebody with a corporate mind. As mentioned, a public listed company has already invested in CAPE. However, Mr. Lu still maintains control over the management.

CAPE has the operational technology but not the experience in corporate work whereas PLC has influential people to help them with the merger and acquisition to make the company bigger. Besides that, CAPE is also planning to have horizontal expansion by trying to source for outside competitors to work together. For example, they want competitors from Korea or any local company running business of the same nature, but dealing with different product range like epoxy, not LED. The company does not need to invest anymore in building expansion because they still have an unused area of 10,000sq feet in their plant.
CAPE did not demand a lot from both their internal and external accountants. Due to its low gearing ratio, CAPE earlier engaged the service of a small accounting firm for internal auditing. Only after the expansion in operations and with the expiration of its tax exemption status, CAPE is now employing the service of a larger accounting firm especially for their tax, audit and secretarial services. However, CAPE still needs the smaller accounting firm for their secretarial services. Moreover, CAPE was going for public listing and demanded the services of more professional accountants. In 2008 with the help of the accounting firm, CAPE was already prepared to be listed, but due to the 2009 economic crisis, they decided to pull back.

To CAPE, the professional services given by the outsource firms have been very helpful because the company depends very much on their external accountants for advice on planning for R&D, capitalization and others. The company also accepts any services that can contribute to its development in terms of resources, minimize wastage and increase efficiency. Anything that can help, CAPE would greatly value. For example, they have been using the “software HR 2000” till to-date. Mr. Lu is very open and can accept a lot of new concepts because they have experienced the process of starting up with a new concept which has been accepted.

One of the accounting services for CAPE is the foreign exchange rate management. It seems that the internal accounting functioning in CAPE was not well developed. As mentioned, the foreign exchange rate management has not been taken up by either CAPE’s internal nor external accountants. CAPE quoting its prices in USD and getting paid in equivalent amount in ringgit actually posed a potential risk for the company. The company’s gain or loss from the exchange rate depends on the movement of USD but so far, CAPE has not suffered major foreign exchange loss. However, such position is precarious in view of past experiences during the 1997/1998 crisis. Hence, one avenue of services for CAPE is on its risk management. Additionally, improvement in services related to minimising costs and increasing efficiency and productivity are required in CAPE since the company has not been exposed to new management improvement techniques as yet.
CHAPTER 8
FINDINGS OF THE STUDY: CASE 5

TOP GLOVE SDN BHD
CONQUERING THE WORLD

“Our auditors, Ernst & Young will provide advice on compliance of new accounting standards and new tax laws. Every year, they will give new and better procedures on the areas to improve and will be implemented.”

(Top Glove Financial controller on the value of services given and future services required from accounting firms)

The company

Top Glove Sdn. Bhd (hereafter referred as Top Glove), a subsidiary of Top Glove Corporation Bhd, is a company engaged in the manufacturing and trading of gloves. The company was founded in 1991 by Tan Sri Dato' Sri Lim Wee Chai, who is also the Chairman of the company. Top Glove is the world’s largest rubber glove manufacturer and the most comprehensive “One-Stop Glove Sourcing Centre” which manufactures a wide range of top quality gloves for a variety of industries throughout the world. Top Glove is the preferred OEM glove manufacturer for premium quality gloves.

Initially, the company started out as a latex gloves supplier producing gloves under their customers’ brand. As industry demands and specifications become more sophisticated, with higher standards and stricter requirement, Top Glove invested into more advance technology in their production lines in order to meet the standard and to capture greater market share in the glove industry. Presently, their products include powdered and powder free latex examination gloves, nitrile examination gloves, coloured and flavoured mint gloves, surgical gloves, soft nitrile gloves, household gloves, vinyl gloves, stretchy vinyl gloves, polyethylene (PE) gloves, polyethylene (PE) aprons and clean room gloves.
As an export-oriented company, Top Glove presently exports its products via trade shows and direct marketing, to more than 900 customers in the medical, food and services, dental, automotive, electronics and laboratory sectors in over 180 countries worldwide, namely countries in the North America, Latin America, Europe, Middle East, Africa, Asia and Oceania. Their largest customers are from the Europe which made up of 34%, followed by North America at 28% and Latin America at 21%. The rest are spread over the 180 countries. Currently, they account for about 23% of the world market share for gloves industry. The company is confident of capturing a bigger market share by 2012.

Top Glove’ Group has grown from strength to strength with a current output capacity of 33 billion pieces of gloves per annum produced from 371 technologically advanced production lines in 17 gloves factories in Malaysia, Thailand and China. Top Glove is currently constructing three new factories in Malaysia as well as putting up 88 additional production lines in existing plants in Malaysia and Thailand. This will raise the company's annual production capacity by 25 percent to 41.25 billion pieces of gloves by May 2011 coming from a total of 20 glove factories with 459 lines.

The company’s financial position is very strong. Top Glove, equipped with net cash of 300 million ringgit currently with zero borrowings. For the last three years, the company did not utilise any external funds since they have sufficient cash.

The company is a member of MARGMA, MRPMA, AMMI, FMM and all other associations related to manufacturing. Top Glove has obtained numerous accolades and awards over the years. The company was bestowed with Enterprise 50 Award for eight years in a row from 1998 to 2005 and in 2007. In the same year, Tan Sri Dato' Sri Lim was awarded the SME Platinum Award 2007; the company is also a Winner of the Industry Excellence Award 2008 under the Certificate of Excellence for Export (Merchandise).
The early years

The founder, Tan Sri Dato' Sri Lim graduated with a Bachelor of Science Degree with Honours in Physics in 1982 from University Malaya and a Master of Business Administration in 1985 from Sul Ross State University in Texas, USA. Before establishing Top Glove, Tan Sri Lim was the Sales Manager of a subsidiary company of OYL Industries Bhd, where he gained experience in the marketing of consumer products.

After quitting his job, he started Top Glove, a glove manufacturing and trading business in 1991 with one rented factory supported by three production lines. He started to supply only to a few customers.

The company started off with producing latex gloves to meet the demand of the US market. At that time, there was a lot of demand for gloves but the supply was limited. Due to the expansion of the US market, many companies in Malaysia have set up glove producing companies under MARGMA, the Rubber Association to supply gloves overseas. The great demand for and the availability of raw materials in Malaysia, Indonesia and Thailand has resulted in establishment of a number of suppliers with nearly 200 registered companies. Over the years due to stiff competition, a lot of companies had to be closed down or acquired by their competitors. Top Glove has weathered this competitive environment and managed to acquire some the competitors.

The Expansion to become the world’s largest growth manufacturer

From operating in just one rented factory in 1991, Top Glove has grown tremendously, having twenty factories, of which fourteen are in Malaysia, two are in China, two glove manufacturing factories, and two latex concentrate factories in Thailand. Majority of the factories in Malaysia are in Klang except one in Ipoh and another in Banting. Through the years, Top Glove has become and remained a top player in the rubber glove industries via expansions and strategic international alliances. Over the years, through continuous improvements and innovations, Top Glove is able to meet consistently the higher healthcare and safety demands with its top quality gloves at efficient low costs. Their focus on R&D is also to meet the customers’ growing demands as customer satisfaction is their main aim. Due to that, they can
become the largest rubber gloves supplier and sustain their survival in the market of 90 suppliers from 200 plus suppliers in the whole of Malaysia.

Top Glove’s products are accredited with the ISO 13485, MS ISO 9001:2000 and SIRIM ISO 9002 standards coupled with other international quality accreditations, such as the CE Mark of Europe, the SMG (Standard Malaysian Glove) of Malaysia, the TUV of Germany, the NF Mark of France, the TSE of Turkey, the ADA of USA and the necessary 510k from the Food and Drug Administration (FDA) to market its gloves to the USA. Top Glove also has the CGSB of Canada and TGA of Australia accreditations for export to these countries.

The structure

There are more than ten departments in Top Glove namely, the Human Resource, Production, QA, Warehouse, Accounts, Lab, Packing, Documentation, Marketing, Purchasing Department and R&D.

Since last year, Top Glove is aggressive in recruiting fresh graduates with good results to work in the company. This year, they are targeting another 200 fresh graduates from all fields, ranging from engineers to scientists and accountants. The company employs fresh graduates from the engineering and mechanical fields with good technical skills to come up with new ideas in respect of upgrading, improvement and automation of the production line. The new chemists to do new compounding formulation that produce quality gloves with efficient low cost.

The Accounting and Finance Function

The accounting and finance function in Top Glove Group is well established with one finance executive director, one financial controller and few accountants. They have a finance manager in one of the subsidiaries, Medi-Flex Limited, which is listed in Singapore and operating their factory in Banting. In Thailand, each factory will also have one finance manager who does accounting functions.
The executive director is responsible for the overall function of finance and accounts department including investor relations and treasury as well as handling the corporate exercise of the Group. Thus, he is in charge of risk management, hedging and managing the foreign exchange losses.

Mr. Jeremy Liew, an accounts graduate from USA, is the financial controller of Top Glove. He is responsible for the operation, i.e., the financial of the company, the products costing and liaises with auditors’ and lawyer.

Each of the accountants is responsible for overseeing a few factories. Each factory will have its own accounts departments that report to the accountant in charge. The accountant will in turn report to Mr. Jeremy Liew who will go down to see the accounts staff to understand the problems better. The accountant will consolidate the individual factory accounts and reviewed by the Executive Director and Mr. Jeremy Liew.

Mr. Liew also does the product costing for the Group. Every week, a standard costing report is done based on that week’s latex price. In addition special costing will be done based on the customer specification upon request by the Marketers.

With a number of accountants in the accounting and finance department, most of the financial management and accounting functions are done in-house including those related to financial statement compliance, budgeting, forecasting, customer profitability analysis, financial planning, product costing and performance management. IT consulting advisory is also done internally because they have an IT department to handle the accounting ERP System. HR consulting and secretary are also done in-house. All those departments mentioned above are not under Mr. Liew’s department but he needs to liaise with them.
Top Glove used the services of independent internal auditors responsible for internal control and risk management. Besides internal auditors, the company has a tax department responsible for tax compliance, tax planning and tax incentive application. The tax department has to liaise with government bodies, interpret new tax laws, check into the accounts with regards to what is allowed and disallowed, and have the schedule tied back with what they want at the year end.

**Factors for Success**

Top Glove’s successful growth is mainly contributed by various factors. One of the external factors is the ongoing demand for glove by the healthcare and other industries. Healthcare standards and best practices have improved creating even higher demand for better hygiene, cleanliness and more advanced safety requirements. The high demand from the traditional medical markets driven by strict regulatory standards, aging population and emergence of health threats like A (H1N1) influenza, SARS, bird flu and others resulted in Top Glove achieving increasing growth rate annually to meet global demand. For example, their ended 2009 financial year with a tremendous demand for gloves due to the emergence of A (H1N1) influenza. In addition, the emphasis on hygiene by non-medical sectors especially within the food and services industries has increased the use of gloves and increased the demand for Top Glove’s products.

Since the company is operating in a fairly recession proof market because their products are necessities, particularly in the healthcare and food services industry, their products demand is anticipated to stay resilient despite slow down in major consuming economies. Even when the prices of raw materials increased, the demand for gloves is still there. The outbreak of new diseases, sales tends to exceed greatly than what have been forecasted. Last year due to H1N1, the company’s sales actually grew tremendously and they managed to record a higher profit than anticipated.
Top Glove’s success was also due to innovation in its products. For example, they have been successful in producing quality gloves at efficient low cost. Top Glove is the pioneer glove producer to reduce the weight of its gloves. As a result, Top Glove can now offer their customers a wider choice of either thick gloves or thinner gloves depending on the customer requirement. Top Glove also produced flavoured glove such as mint flavour gloves that has mint smell from the gloves will make the end customers, such as the dentist’s patients, feel good instead of smelling the latex.

The success of Top Glove was also due to their effort of conducting regular internal and external training for their staff to keep them abreast of the latest innovations, technologies and processes in the industry. Top Glove recognises employees as its greatest assets and rewarded them accordingly. As such, the company organised regular recreational activities to foster strong teamwork among the staff. Employees’ health considers an important aspect and the company does not recruit smokers. Therefore, KPI is linked to their body mass index (BMI) to ensure the employees will take care about their health. They always encouraged their staff to join the fitness club and where the company will subsidize 50% of the fees. On top of subsidizing fitness training for the staff, the company will encourage staff to read books on healthy living and on management skills. Professional development of the key management staff is inculcated by ensuring them to read the two books, relating to health and management every month.

Their constant progressive drive for R&D into product and marketing, capturing good students, improving products quality, productivity and cost management to compete with the world market also contributes to their success. Pricing to customer is based on the latest latex price so when the latex is high, the glove selling price will be higher and vice versa. Thus price fluctuations, the company will not be affected as they can pass the increase in the latex price to the customers. Furthermore, their highly efficient energy cost saving measures such as implementing biomass facilities in their factories in Malaysia, Thailand and their new factories also help strengthen the company’s competitiveness.
In order to achieve a competitive position as a world class cost efficient rubber glove manufacturer, Top Glove invests in modern and advanced glove manufacturing machineries that can produce good quality gloves. These advance machineries are manned by competent personnel and regularly checked and maintained by qualified experts to ensure the smooth running in production and ensuring the consistency in the glove quality. On-line quality control measures have been instituted throughout the manufacturing processes to ensure the highest quality products. Stringent quality control procedures in line with ISO 9001 and in strict compliance with ASTM and EN455 Standards are also practiced in Top Glove to ensure product quality. Adhering strictly to good manufacturing practices (GMP) and Total Quality Management (TQM) concept, each stage of the entire manufacturing process, from the receiving of the raw materials, production process, and product quality control, pre-shipment quality inspection until the loading of the finished goods into the container is carefully monitored.

Moreover, Top Glove also collaborates with the Rubber Institute to be ahead in the development of rubber research technology. The collaboration was for R&D purposes. Both parties conduct a lot of studies, and cooperate in R&D to come up with new and keep each other updated on the latest development. Top Glove does most of the R&D themselves because it is more glove-related. For the R&D activities, they have actually allocated a budget of about 1% of their annual turnover.

Through R&D, regular testing of the products in the manufacturing process and maintaining the strictest quality control, Top Glove guarantees product satisfaction and consistent quality at all times. In addition, the company is also re-engineering their manufacturing processes to capitalize on economies of scale.

Top Glove also carries out continuous effort of aggressive marketing strategies including participating in various exhibitions and trade shows worldwide. They have a team of marketers to liaise with the customer and to get their feedback.
Living up to one of the company’s key taglines like, ‘The World is Our Market’, they work for their customers and their customers always come first. Top Glove’s friendly and customer oriented marketing team is well equipped to respond to its customer at the fastest turnaround time. The company will participate in many trade shows so that they attend to their customers’ enquiries. They listen to the customers’ complaints and suggestions and continue improve from there. Every year, Top Glove attends Medica Fair for the existing customers to visit them and for new customers to make enquiries.

In addition to all of the above, Top Glove’s success factor is also due to them adopting a two-prong growth strategy. The two-prong growth strategy consists of the vertical growth strategy which moves downstream to get closer to their customers via setting up of more overseas marketing offices and the horizontal growth strategy in product range expansion by increasing their sales in value added products such as the enhanced and much improved version of powder free latex examination, soft nitrile, vinyl, clean room and surgical gloves to capture a bigger market share.

The company’s manufacturing presence in China also enables them to tap into opportunities that synergize with their distribution channel. Furthermore, in order for the latex supply to be consistent, Top Glove is controlling it by setting up two latex concentrated plants in Thailand to supply the latex to their factories in Klang. Overall, the ability of Top Glove to grow from strength to strength over the years has mainly been attributed by various internal and external factors.

**Challenges and Future Plan**

The company faces several challenges ahead in the quest to maintain their position. The first and foremost relates to the supply of latex in Malaysia due to the conversion of rubber plantations to palm plantations. As such, Top Glove has set up two latex concentrate plants in Thailand ensuring the availability and consistent supply of latex to Klang factories. To further secure the supply of raw materials, the company is aggressively looking for rubber plantations in Malaysia and abroad.
Beside the security of supply of latex, another challenge for Top Glove is the fluctuation of latex prices, i.e., the main raw material. As the latex prices are volatile due to weather impact and speculation, the company has to closely monitor the prices as well as the foreign exchange rate as 96% of their gloves produced are sold overseas in USD. Whenever the Ringgit Malaysia gets stronger, there will be some forex losses.

Top Glove is also looking into biomass energy because of the limited natural gas supplied and again the government will be withdrawing the subsidies for natural gas. In order to overcome that challenge, Top Glove has turned to biomass energy for new factories like factory 19 and 20. Besides, their Ipoh factory and Thailand factories are also using biomass. By using biomass energy, they can apply for carbon credit.

Top Glove is expecting the gloves demand to continue to pick up momentum. Therefore, they are all set and well positioned to continue with their successful strategy of being the world’s largest preferred OEM gloves manufacturer through further expansions in their production capacity to derive better economics of scale for the benefits of their customers worldwide. As mentioned, the company target of gaining 30% worldwide market share by 2012. To cater for the increase in sales, the company managed their production schedule by having ample capacity to cater. Every year, they set up two new factories. So there is some slack as the plants are also running at 80%. They will power ahead to maintain their vision of being the world’s No.1 rubber gloves manufacturer with Excellent quality glove products and services that enriched and protect human lives.

The Need for External Accounting Service: Tax Advice

Top Glove seeks advice from external sources like, their external auditors regarding tax planning and statutory compliance.

Besides, Top Glove’s corporation also seek advice from auditors’ on corporate exercise such as shares split, bonus issues and merger & acquisition.
CHAPTER 9
FINDINGS OF THE STUDY: CASE 6

DAZZLE FOOD SDN. BHD.

“Now, many people are talking about how to export things, what do they need? Courses on exports, this is what we need the most.”

Pn. Siti Ropiah Hambali, Director of Dazzle Food Sdn. Bhd.

on the potential areas needed for non assurance services

The company
Dazzle Food Sdn. Bhd. (thereafter referred as Dazzle) is a homemade chocolate manufacturing company located in Hulu Langat, Selangor. It is the pioneer company in producing local handmade chocolates which are sold under the brand named ‘Dazzle’. Besides producing fine homemade chocolates as their main products, the company also produces cookies during the Hari Raya festival. Dazzle products are all produced using quality ingredients and they have been endorsed with the HALAL certification from Jabatan Kemajuan Islam Malaysia (JAKIM). Presently, Dazzle’s products can be found at weddings, small shops and kiosks, as well as in the corporate world where they are exchanged as gifts and hampers.

Though the company is relatively new and is still in the start-up stage, their sales and financial growth has already shown steady uptrend as reflected by the increased in their annual turnover from RM230,000 in year 2007 to RM275,000 in year 2008. Their pioneer status that enables the company to be tax-free for the first five years of operations helped in achieving an annual profit which exceeds RM170,000. Dazzle Food is at a stage where the business is growing for survival as revenue starts to grow as products and services receive market acceptance.
The early years: Being a pioneer handmade chocolate producer, from an Enterprise company to a Private Limited (Sdn. Bhd.) company

Dazzle Food Sdn. Bhd. was established by Pn. Siti Ropiah Hambali in 2005 with a vision to be one of the largest Malaysian chocolate manufacturers in Malaysia. The company was set up with an authorised capital of RM100,000 and a paid up capital of RM100,000. In the beginning, the company was registered under the name Dazzle Food Enterprise. It was only after a year later that they started to manufacture their products on a small scale basis. Due to the high demand from local market, they expanded from enterprise to private limited company and also shifted to their current premise. After changing their company’s name to Dazzle Food Sdn. Bhd., only they start to develop their products for the mass consumers.

Initially, Pn. Siti Ropiah was only operating as a small family based business from her home producing Raya cookies to be sold to close friends and relatives. As she was nearing her retirement age, Pn. Siti Ropiah took up courses on entrepreneurship and chocolate producing. With the knowledge obtained, she started producing and selling chocolates as well. As the demand for her products increased, her daughter, Cik Noor Dina Binti Mohd Tajudin, who was working with CIMB Bank as a credit executive at that time, decided to realized her interest in chocolates by quitting her job and joining her mother full time. Cik Noor Dina is a BBA (Hons) in Entrepreneur Development graduate from UNITEN while Pn. Siti Ropiah has 25 years of experience in baking cakes, pastries and biscuits. Previously, Pn. Siti Ropiah was working as a government servant for 30 years at Institut Kemahiran Belia Negara Dusun Tua, Selangor.

As Dazzle is the pioneer in making handmade chocolates during that time, the company had full support especially from the government agencies which helped them in promoting their products. Among the agencies which provided assistance and guidance to them were the Malaysian Cocoa Board (MCB), RISDA, SME Corp, MARA and Ministry of Rural and Regional Development. The company also received support from SIRIM in a form of package called Groom Big, where it provides the HALAL certification and assistance in marketing, and from the Agriculture Department where they provided some equipment. As a result of those promotions, Dazzle’s products received good response which led to their business expansion.
Consistent improvements and rapid progress, Dazzle Food was awarded with several awards and recognitions like the Cocoa Industry Award 2008 for SMI, the Cocoa Industry Award 2008 for Chocolate Entrepreneur Category and the Farmer and Successful Cocoa Entrepreneur Award 2008, all by the Malaysian Cocoa Board. In the same year, they also received the Commodity Industry Award 2008 in the Best SME Category from the Ministry of Plantation Industries and Commodities.

Getting sales: Organizing exhibitions, creating chocolate awareness and cultivating chocolate consumption among Malaysians, R&D with Malaysian Cocoa Board (MCB)

As chocolate is still not considered as staple food in Malaysia, Dazzle has been getting help from the Malaysian Cocoa Board (MCB) to promote and educate the consumers on the facts and knowledge of chocolates. Besides helping Dazzle with the marketing area, MCB also liaises with them on R&D. They will guide as well as monitor and control Dazzle’s products and quality. If the company faces any problems regarding chocolates, they will seek advice from MCB. Besides that, MCB will also furnish Dazzle with the latest updates on chocolates. On top of that, Dazzle is also a member of the Malaysian Handmade Chocolate Entrepreneur Association.

In order to boost the sales of Dazzle’s products, the company actively participated in Produk Perdagangan Malaysia and numerous exhibitions organized by Malaysian Agriculture, Horticulture & Agrotourism (MAHA) and Malaysian International Halal Showcase (MIHAS) in which the government will occasionally subsidize part of the exhibit space rental. At the moment, Dazzle is trying to expand their business by marketing in more supermarkets and even schools. The company now has also expanded their range of products from a humble beginning of one chocolate flavour to the current thirteen varieties of fruity chocolate flavours.

Progressing forward: Advancement and Growth

Dazzle is currently planning to carry out a research on high oxidant technology through Techno Fund to produce enhanced anti oxidants chocolates. They are now applying to buy extra oxidant from Malaysian Cocoa Board’s bio technology. Besides that, the company also has the intention to venture into a bigger scope of production stage like cocoa powder refinery with the aim to save cost. As of now, they are in the process of requesting for the permission to upgrade
to manufacturing their own chocolate blocks from their current Phase 3 of chocolate production. Apart from that, the company is in the middle of creating new packaging for their new products so that it will be par with the imported chocolates.

The organizational structure

Dazzle Food Sdn. Bhd.’s organizational structure consists of two directors, namely Pn. Siti Ropiah Hambali and Cik Noor Dina as well as three staffs who work under them. The three staffs are all Malaysians who are in charge of production. All of them had been working under Pn. Siti Ropiah from the days that she started producing Raya cookies at her house. The remaining tasks like scouting for raw materials, creating their own designs up to packaging and delivering the goods were all done by the two directors themselves with the aim to save budget.

Finance and Accounting Functions

Dazzle Food does not have its own accounting department as it is expensive to employ and retain permanent accounting personnel. They outsource their accounts together with audit and tax services on a yearly basis to an audit company through their company secretary. Dazzle has been engaging the same company secretary and auditor since the beginning of their incorporation and they are unsure of their external audit firm’s name as it is all handled by their company secretary. However, book keeping, budgetary control and budgeting, standard costing and marketing are all done by the two directors as they find the services provided by SMPs are too expensive. Dazzle Food feels that the SMPs can add value in terms of reviewing of company financial performance. Dazzle Food also feels that the break even analysis is the critical financial information needed to increase their competitiveness.

Factors for Success: Strong family support, intense learning interest, effective cost saving strategy

Dazzle’s prominent position in the chocolate market today is mainly attributed by two main factors. The two identified factors are strong family support and deep passion for chocolates that drives Pn. Siti Ropiah to venture into chocolate producing business. The company was set up with the missions of providing high quality products for the pleasure of chocolate consumptions, exploring new market with wide range of distribution channels as well as enhancing their services by educating the societies on chocolate making.
Besides that, the aggressiveness of the director to learn and explore new things with the aim of reducing the company’s operating cost and bringing the company to greater heights in the business also contribute to the company’s success. She proactively took courses on entrepreneurship as well as attended various seminars regarding business issues. According to her:

“I took up courses on entrepreneurship; basic entrepreneurship and advanced entrepreneurship, and from there I learned how to set up a company, how to do paper work. That really helps a lot.”

Pn. Siti Ropiah’s idea of taking in practical students to reduce the cost of hiring permanent staffs also benefited the company financially. Normally, the company has accepted students before from the Community College and IPKN. This coming August, they will be taking entrepreneurship diploma students to focus on audit section.

**External factors for success: Strong support and assistance from government agencies**

Dazzle’s success today is mostly due to the sufficient guidance and technical advice provided by the government agencies especially by the Malaysian Cocoa Board. In addition, other agencies such as SME Corp, Agriculture Department, RISDA and MARA which helped in the form of funds and equipments also gives Dazzle an advantageous position for its financial management and production.

**Challenges Ahead**

One of the major challenges faced by most SMEs is the difficulties in obtaining funds. This is no exception for Dazzle. The company faced the same challenge in financing their business especially when they were still an enterprise company because the banks will only give out loans to Sendirian Berhad companies. Moreover, the applicant must be at least a Sendirian Berhad company of three years. That proved impossible for new startup companies to apply for the loans. Regarding funds that are offered by government to encourage people to start their own business, Pn. Siti Ropiah stresses that it is not as easy as it is seems to be and it involves bureaucracy.
“Those are just sweet on paper only (Nice to read on the paper only). When you do and apply for it, you will never get it.”

The company had to forgo potential overseas businesses as they are tight in cash flow and inadequate of equipments and facilities. They even missed out on the opportunity to market their products at Tesco as they can’t cope and commit to the agreement to supply a constant large amount of chocolates at a stipulated period of time. Besides that, they are also unable to sell to hypermarkets as their production cost is high.

The gradual increasing price of cocoa on top of the current increased price of sugar and fuel makes it more difficult for Dazzle to compete and sell their products at a lower price. These forces them to increase the price of their products to cover the hiking raw materials cost. This further puts pressure on Dazzle’s high end praline chocolates which have been facing the constraint in selling extensively due to its high cost. Therefore, the company is just limited to supplying them to a shop at the airport. Besides that, Dazzle must also compete with other local and imported brands. They must overcome the negative stigma that locally produced chocolates are not as delicious and are of lower quality than imported ones.

Another challenge is that the company felt the incompetence of their outsourced auditor and company secretary. To cope with the shortcomings, the directors have to learn up the traits and trend themselves.

Overall, the company is facing five main problems which are financial, product quality control, local-global market, public awareness and raw materials. Dazzle Food needs a supply of fund which will help their business to expand. This has to come with a good quality control of product to assure the products produced are of its best quality so that it can be market globally. At the moment, Dazzle Food is handling its marketing on their own, thus they need help from certain agencies to help them market their product only in the local market but also internationally. Directors of Dazzle Food hopes that the government will help to increase public awareness on locally produced chocolates. Besides that, they are also facing problem in the price inconsistencies of the raw material as it always increases.
In Dazzle Food’s opinion, government agencies and private sector could lend a hand in helping them to overcome their problems. Dazzle Food feel that government agencies should assist SMEs to survive in the obstacle filled market. Private sectors on the other hand could provide financial assistant and to review the terms and conditions of loan applications as the requirements set are too high and this appear to be an obstacle for small SMEs like theirs. Overall, Dazzle Food feels that the government agencies are more helpful compared to the private sectors.

**Future Plans and Role of Accounting and Assurance Services**

Regarding to the service quality provided by the external audit and secretary firms, Pn. Siti Ropiah rates them only 50% out of 100% because their auditor does not provide them with any comment, recommendation or advice regarding the business and how they can overcome their current obstacles or how to further enhance the business. Besides helping Dazzle food with the pioneer status application, neither once that their company secretary nor auditor went to the business premise to offer advice to them. According to Pn. Siti Ropiah on their secretary:

“*Did not even come. Did not come before. I just took my things, my bills to give to them. Maybe I am still a newbie.*”

That is why she feels that those services did not add value to her company’s business at all as she did most of the things by her own. On top of that, their auditor also did not go to Dazzle’s place to do the stock take as required and can’t even produce a solution to the finance problem that Dazzle is currently facing. Even though Dazzle had already prepare and provide all the necessary information to them, the auditors still can’t come up with a proper answer. Dazzle is not adequately equiped with knowledge and current updates. Example, Dazzle is facing some difficulties in filling up the application forms for a fund from a government body and their auditor couldn’t help as they are not knowledgeable even though auditors are supposed to be well-versed in this aspect. As a result, Dazzle had to engaged the service of another company to solve the problem.
Dazzle also finds that the service fees charged by the outsourcing companies are quite expensive and it appears to be a burden for SMEs like theirs which does not have a guaranteed constant sales. She feels that the fees does not commensurate with the service quality given. On top of that, Pn. Siti Ropiah also feels that auditing is not necessary. As for the updates on the latest tax regulations, Pn. Siti Ropiah prefers to attend seminars and exhibitions conducted by government agencies instead of attending the ones conducted by SMPs as the fees charged are too expensive.

Besides needing good finance services, Dazzle also needs services on the production section. The company needs a service which can analyze and advise them on how to improve their production. They want advice regarding on how to control their business and cost as well as other advices that is beneficial to the company. On top of that, Dazzle also need seminar on exports to gain detailed information on the requirements needed in order to export their products.

In the future, the company hopes to have their own internal accounts department in the company as well as to penetrate into the overseas market. Dazzle also hopes that the government will offer more assistance to companies like them regarding the accessibility to obtain funds and equipments in order to remain competitive in the market. For Pn. Siti Ropiah, her main aim is for Dazzle to follow the footsteps of Nestle, her idol company to produce a wide range of products under her company’s name.
CHAPTER 10
RECOMMENDATIONS AND CONCLUSIONS

10.1 Introduction

Six successful SMEs were analysed to meet the objectives of the cases. Some of the quotations have been rephrased and words in brackets are those of the authors to make the meanings clearer.

Discussion of this chapter will be made in accordance to the objectives of the study as stated below:
1. To identify the type of business advisory services purchased and gauge SMEs’ level of satisfaction on these services.
2. To determine how the business advisory services purchased has helped SMEs in achieving competitive advantage.
3. To identify opportunities in providing specialized assistance to SMEs in areas where they lack certain skill sets.

10.2 Profile of the Companies Interviewed

Table 10.1 indicates that 83% of the interviewed companies are in the manufacturing business. In accordance to Nik (2010), fast-growth stage is where the business is growing for survival; revenue starts to grow as products or services receive market acceptance whereas global enterprise where the entity continues looking for other opportunities to sustain growth. In this study, Dazzle Food, Shamawar and AJ Food are categorized to be in the fast growth stage while Top Glove, ESB and CAPE are in the stage of global enterprise. 50% of the companies are in global enterprise stage and 50% of the companies are in the fast growth stage.
From the sample, it can be observed that most of the companies that are in the global enterprise stage have been established for more than 10 years and are larger in size.

Table 10.1

Profile of SMEs

<table>
<thead>
<tr>
<th>Nature of Business</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading</td>
<td>17</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>83</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Years of establishment</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year – 5 years</td>
<td>17</td>
</tr>
<tr>
<td>6 years – 10 years</td>
<td>17</td>
</tr>
<tr>
<td>11 years – 15 years</td>
<td>33</td>
</tr>
<tr>
<td>16 years – 20 years</td>
<td>33</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 – 9 employees</td>
<td>50</td>
</tr>
<tr>
<td>20 – 50 employees</td>
<td>0</td>
</tr>
<tr>
<td>51 – 150 employees</td>
<td>33</td>
</tr>
<tr>
<td>More than 150 employees</td>
<td>17</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage of the company</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fast-growth:</td>
<td></td>
</tr>
<tr>
<td>Shamawar</td>
<td>50</td>
</tr>
<tr>
<td>AJ Food industries</td>
<td></td>
</tr>
<tr>
<td>Dazzle Food</td>
<td></td>
</tr>
<tr>
<td>Global enterprise:</td>
<td></td>
</tr>
<tr>
<td>Cape Technology</td>
<td>50</td>
</tr>
<tr>
<td>Top Glove</td>
<td></td>
</tr>
<tr>
<td>ESB</td>
<td></td>
</tr>
</tbody>
</table>
10.3 Discussion of Research Objectives

Discussion will be made in accordance to the three research objectives of the study.

10.3.1 Research Objective 1: To identify the type of business advisory services purchased and gauge SMEs’ level of satisfaction on these services.

One of the factors affecting the type of business advisory services purchased is the developmental stage of the company, whether it is at the start-up or fast-growth, sustainable stage or it is a global enterprise. The studies found that the SMEs in both the “Fast Growth” - Shamawar, AJ Food and Dazzle Food, and the “Global Enterprise”- Cape Technology, Top Glove and ESB categories purchases the taxation and secretarial services. These two services are high in demand as the companies need to submit their yearly tax return and it’s a legal requirement for every company to have at least a company secretary to handle all enquiries and correspondence with the company and interact with the public regarding company matters. In addition to taxation and secretarial services, the “fast growth companies” also purchased accounting services. This is because for smaller companies like Dazzle Food, in the “fast growth category”, it is more affordable to outsource this activity as cannot afford to employ and retain permanent accounting personnel unlike the “Global Enterprise” companies.

SMEs’ level of satisfaction on the business advisory services purchased from SMPs depends on the growth stage of the SMEs. Global enterprise SMEs are satisfied with the services provided by the SMPs but fast growth stage companies are not satisfied with the purchased business advisory services. Fast growth companies felt that the services given do not commensurate with the level of fee paid as in their opinion, SMPs assigned junior staffs of the company to perform the services. Due to the lack of experience, these junior staffs are not able to help the companies and they are not committed to their work.

However, in the opinion of the researchers, the services delivered were in accordance to the amount of fees paid. As admitted by one of the respondents, “The services are based on the fee that we are capable of paying...We pay for items that are affordable and thus the advices received are superficial in nature and not comprehensive enough to be beneficial to the company.”
As for the “global enterprise” companies, they are satisfied with the services given. This could be due to the fact that the amount of fees paid to the SMPs is much higher as compared to what the “fast growth” companies can afford. According to the “global enterprise” companies, the SMPs able to provide a more comprehensive advice on how their businesses can be further expanded.

10.3.2 Research Objective 2: To determine how the business advisory services purchased has helped SMEs in achieving competitive advantage or success.

Most of the SMEs made the comments that the support services including taxation and secretarial usually comes with a high price tag and therefore they are only able to obtain services in the “lower end” such as accounting services, costing, financial statement preparation” rather than the “higher end” such as business expansion, mergers and acquisitions and exporting of their products. Therefore, their comments might be restricted to the type of services that they obtained.

Findings have shown that the business advisory services have not really helped the SMEs in achieving competitive advantage or to succeed in their business. One of the company in the fast growth stage mentioned that the services received from SMPs to not value add to their business as quoted, “Sometimes, my expectation is that when I engage the auditors, I would want it to be something that is value-added like advising on weaknesses discovered in the accounts, however it does not seem so.”

Shamawar one of the fast growth company mentioned that the business advisory services are more for regulatory compliance and thus does not contribute much to the business success. AJ Food felt that marketing strategy contributes to the success of the business rather than the business advisory services.

Dazzle attributes its success to good leadership and family support and also sufficient guidance and technical advice provided by the government agencies especially by the Malaysian Cocoa Board. In addition, other agencies such as SME Corp, Agriculture Department, RISDA and MARA which helped in the form of funds and equipments also gave Dazzle an advantageous position for its financial management and production.
As for global enterprise companies, CAPE felt that the professional services given by the outsourced firms have been very helpful because the company depends very much on their external accountants for advice on planning for R&D, capitalization and others.

ESB attributes its success to good and committed leadership, skilled personnel, latest technology and government support. As for Top Glove, its success is contributed by various factors and one of the external factors is the ongoing demand for glove by the healthcare and other industries’ healthcare standards and best practices have improved creating even higher demand for better hygiene, cleanliness and more advanced safety requirements.

Overall, SMEs’ funds are internally generated and in some cases supplemented by banks or government grant. Shamawar’s management feels that it is more effective to seek the fund on their own rather than with the help of the SMPs as they are more knowledgeable about their own products.

10.3.3 Research Objective 3: To identify opportunities in providing business advisory services to SMEs in areas where they lack certain skill sets.

There are many areas where the SMEs felt that the SMPs can add value to the services provided. For instance, AJ Food mentioned that “Financial information is crucial in making decision therefore there are many ways. Obviously, there must be a change in attitude of SMPs to really help plus a review of their fees to make it affordable to SMEs”. Besides that, other areas suggested by the SMEs are to review company financial performance (Dazzle Food), strategic planning in view of changing economic policies (Shamawar), corporate exercise (Top Glove), merging and acquisition (Top Glove) and to provide tax advisory and tax planning (Shamawar and Top Glove). SMEs feel that there must be a change in SMPs’ perception on them as SMPs tend to prioritize bigger companies. SMEs feel that with the change in perception, SMPs will be able to provide more value added services to them.
SMEs need assistance from SMPs in helping them to use the financial tools such as breakeven analyse, budgeting, financial ratios, costing analysis as most of them come from a non-financial background and lacks in accounting knowledge. They also need help to market their products both locally and globally. Other areas include promotion of the unique features of their products in order to create public awareness regarding them. According to Dazzle Food, in his opinion, the local market is not so supportive of locally produced products as compared to imported products. In this case, the promotion services can assist the SMEs.

According to Shamawar, SMEs also need expertise in market intelligence where they are able to obtain information on the current and future demand, potential threats and opportunities that will help the growth of the company. In addition, the “fast-growth stage” SMEs like Shamawar and Dazzle Food need guidance in pricing as they need to ensure that the price that they charged is competitive.

The critical financial information that is mostly needed by the SMEs to increase their competitiveness or success can be categorized into four groups: (i) taxation, (ii) financial accounting, (iii) management accounting and (iv) strategic planning and these services differ between “fast growth stage” and “global enterprise companies”.

In general, “fast growth” companies are in the growth for survival stage and need more advice in terms of financing and networking (Nik, 2006). From the information gathered, the services that they need are costing, profit determination, budgeting and break even analysis.

“Global enterprise” companies are in the sustainable growth stage and need advice on how they can expand their businesses. Therefore, from the research, it was found that they would need information with regards to mergers and acquisition, joint venture, strategic planning and global marketing.
The SMEs were also of the view that the government agencies and private sector could play a bigger role in assisting them to overcome the obstacles that they faced. Organizations like SME Bank, MATRADE, SIRIM, SME Corp, Malaysian Technology Development (MTDC), Ministry of Science, Technology and Innovation (MOSTI), Federation of Malaysian Manufacturers (FMM) and Dewan Perniagaan Melayu Malaysia (DPMM) were some of the organizations that they listed that might be able to assist them.

They also listed SME Bank, CIMB and OSK that in according to them will be able to provide them with the legal advice in addition to providing funding to them.

SIRIM, according to their views could help in standardization and certification of their products and the help of SME Corp, MTDC and MOSTI is needed for product development. FMM and DPMM will be able to help in term of business development and networking. There is also a need to have a government agency to offer advice on IT related matters as according to them, at the moment they are quite dependent on commercial IT units. They found it difficult to ascertain whether the advice given is effective and reliable as they do not have the expertise to evaluate them.

According to the “fast growth stage” companies, private sectors on the other hand could provide financial assistance to review the terms and conditions of loan applications as the requirements set are too high and this in according to their opinion serves as a major obstacle for them to expand their businesses. Besides that, they felt that that MATRADE could help in export development, market intelligence and tax regulations.

As for “global enterprise” companies, they were of the opinion Malaysian Industrial Development Authority (MIDA) could help in providing information on doing business, investment opportunities and Ministry of International Trade and Industry (MITI) on exporting.
10.4 Conclusions and Implications of the Study

There needs to be a “match” of what the SMEs need and what the SMPs can offer. In conclusion, the SMEs interviewed do not think that business advisory services play a major role towards their success. One of the reasons could be that the amount of fees paid to the SMPs by the “fast growth companies” are only for the basic compliance accounting services that are in compliance with the regulatory requirements and thus the SMPs are not able to see the value added of these services to their companies.

Following are the researchers’ findings and suggestions:

(1) Financial institutions need to provide more funds to the “fast growth” SMEs so that they can pay the SMPs appropriately for the services needed. Funding is also needed to assist the “fast growth” company to become a “global enterprise” in the long run.

(2) SMPs would also need to be more conscious to the needs of the SMEs. They should consider charging lesser fees to the “fast growth” companies so that in the long run when the “fast growth” companies has finally grown into a “global enterprise” company, the SMPs would be able to obtain more revenue from the services given to the companies as the SMEs would be “ready clients” for them.

(3) “Fast growth” companies are in need of advice on how to manage risks, and obtain funding for expansion so that they continue to remain relevant to their customers in the long run. The services needed are much in line with what the literature has mentioned as their needs relevant competencies and skills to manage their business which include accounting skills, taxation and business solving in order to sustain in the long run. (PAIB, 2008)
(4) SMEs were of the opinion that the SMPs only offer the minimal services that they need and are not willing to give more that what they are paid for. They would like to seek SMP’s understanding to sympathise with the problems that they are facing and offer them advice in the areas that they most need such as on how to improve the business. More customized services for the SMEs depending on their growth stage and needs should be given by SMPs to gain the trust and build a relationship between the SMEs and SMPs.

(5) As for the “global enterprise”, despite the fact that they operate in the niche market and have excellent network, they need advice on how they can sustain and expand their businesses to meet the local and global economic scenario. The “global enterprise” companies need advice in the areas of mergers and acquisition, joint venture, strategic planning and global marketing.

(6) SMPs should build a relationship with SMEs so that it would be a “win-win” situation for both parties. SMEs lack in certain skill sets which is important for the success of the business which provides opportunities to SMPs to play their role as the external service provider. SMPs need to show that they care about the problems faced by the SMEs and should be willing to “grow” with the SMEs. They might not be duly compensated now but as the SMEs are successful in the long-run, their services will be duly paid. SMPs should market their services to SMEs at affordable “customized” price to the various types of their SMEs clients if possible. For the moment, there is no trust and spirit of relationship building” or “co-sharing” amongst the SMPs and SMEs, relationship building is an important element. Both parties should know that in the long run, to be successful both parties should continue to work together so that their businesses will be able to grow and expand.
Besides financial institutions and SMPs, SMEs felt that government agencies should be able to help them overcome the obstacles that are faced and help them to grow the business. This is because despite the fact that there are many areas which the SMPs are able to help the SMEs but SMPs also faces barrier in expanding their services. The barriers are exclusivity in certain services due to legal and licensing, lack of avenue to acquire knowledge, skills and competency, lack of capacity (Nik, 2006).

As for fast growth stage, SIRIM could help in standardization and certification of their products and the help of SME Corp, MTDC and MOSTI for product development. FMM and DPMM will be able to help in term of business development and networking. In addition, MATRADE could help in export development, market intelligence and tax regulations.

As for global enterprises, Malaysian Industrial Development Authority (MIDA) could help in providing information on doing business, investment opportunities and Ministry of International Trade and Industry (MITI) on exporting.

10.5 Limitations of the study

Due to the small sample size, findings might not be generalisable to the whole population. However, it can be said that the findings of the cases are much in line with that in the literature.

Another limitation would be that some of the SMEs interviewed have no knowledge of accounting and have outsource the services and thus would not be in a position to answer if the accounting services meet their needs and whether they would need more services of this nature in the future.

As the SMEs are at different growth stages and also because of the differing nature and industry, findings gathered might not be able to give a true picture of the problems faced by different types of SMEs and different growth stages.
10.6 Suggestions for future research

For future research, it is suggested to include more cases in the different stages of growth and more SMEs in the different categories for example manufacturing and non-manufacturing related so as to give a better insight of issues. Future studies can also focus on SMPs, that is to find out whether they can offer the services that’s needed by SMEs as found in this study. Issues of fees for the different type of business advisory services given by them can also be discussed. Interviews can also be made with the funding body, regulators and government to examine how the needs of the SMEs can be better served.
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APPENDIX A

Population for the research

1. Adabi Consumer Industries Hto Sdn Bhd
2. Aexio Software Sdn Bhd
3. Aimwood Furniture Industries Sdn Bhd
4. AJ Food Industries (M) Sdn Bhd
5. Ajensi Riaz Sdn Bhd
6. Al – Fatyyah
7. Amisan Products (M) Sdn Bhd
8. Anita Fragrance Cosmetic Laboratory
9. Assess Products (M) Sdn Bhd
10. Attractive Venture (KL) Sdn Bhd
11. Avialite Sdn Bhd
12. Brightyield Sdn Bhd
13. Cabinet Industries Sdn Bhd
15. Care Food Industries Sdn Bhd
16. Cast-Tek Industries (M) Sdn Bhd
17. Chiptronics (M) Sdn Bhd
18. Clear Insight Technology Sdn Bhd
19. Coraza Systems Malaysia Sdn Bhd
20. CS Metal Industries (M) Sdn Bhd
21. Dazzle Food Sdn Bhd
22. De Rasa Timur Services
23. Delphax Sdn Bhd
24. Dewina Food Industries Sdn Bhd
25. Doana Frozen Food Enterprise
26. DPI Sdn Bhd
27. Durachem Sdn Bhd
28. Excellent Sdn Bhd
29. Farmasi Abdullah Sasee
30. Fella Design Sdn Bhd
31. Flexline Furniture Industries Sdn Bhd
32. Focal Manufacturing Sdn Bhd
33. Fu Frozen Enterprise (M) Sdn Bhd
34. Fumakilla Malaysia Berhad
35. Greatpac Sdn Bhd
36. Hafifah Borang Sdn Bhd
37. Hartalega Sdn Bhd
38. Homestay Kuala Medang
39. Imaspro Resources Sdn Bhd
40. Intra-Mold Holdings Sdn Bhd
41. Ita Produk Sdn Bhd
42. J Foong Technologies Sdn Bhd
43. J.M Permata Sdn Bhd
44. Jadi Imaging Technologies Sdn Bhd
45. Jeeling Wheels Industries Asia Sdn Bhd
46. Jeenhuat Foodstuff Industries Sdn Bhd
47. Jepara Marketing
48. JF Beauty Group Sdn Bhd
49. Kian Sdn Bhd
50. Krisplus Sdn Bhd
51. KY Food Industries Sdn Bhd
52. Les’ Copaque Production Sdn Bhd
53. Light Metals Industries Sdn Bhd
54. Light Style Sdn Bhd
55. Linaco Manufacturing (M) Sdn Bhd
56. Madura Industries Sdn Bhd
57. Masterfoam Industries Sdn Bhd
59. Meta-Alliance Industries Sdn Bhd
60. Multi-B Sdn Bhd
61. Mydin Mohamed Holdings Bhd
62. Nan Thong Import and Export Sdn Bhd
63. Nitsujaya Sdn Bhd
64. Pacestar Industries (Selangor) Sdn Bhd
65. Pantech Steel Industries Sdn Bhd
66. Pecca Leather Sdn Bhd
67. Pestech Sdn Bhd
68. Pharmaserv Alliances Sdn Bhd
69. Rabiah Amit Cakehouse
70. Reka Setia Playground Sdn Bhd
71. Senheng Electric Sdn Bhd
72. Seong Hin Precision Engineering Sdn Bhd
73. Shamawar Sdn Bhd
74. Soon Hup Edible Oil Sdn Bhd
75. Sri Johani Sdn Bhd
76. Syncoates (M) Sdn Bhd
77. Tacara Sdn Bhd
78. TC Electronics Sdn Bhd
79. Telemas Corporation Sdn Bhd
80. Time Era Sdn Bhd
81. Top Glove Sdn Bhd
82. Vast Manufacturing Sdn Bhd
83. Venus Tooling Corporation Sdn Bhd
84. Woodlandor Wood Products Sdn Bhd
85. WSA Group of Companies
86. Yahaya Mahmud Enterprise
87. Yong Fong Rubber Industries Sdn Bhd
Dear Sir / Madam,

REQUEST FOR RESEARCH INTERVIEW ON “THE USAGE OF ACCOUNTING TOOLS AND PROFESSIONAL SERVICES AMONGST SMALL MEDIUM ENTERPRISES”

With reference to the matter above, we are a research team from University Science Malaysia (USM) and Malaysian Institute of Accountants (MIA) and we are currently conducting a research entitled above. A brief background of our research together with the research objectives is enclosed with this letter.

To enable us to achieve better insights of business advisory services that you have received from the accountants and to document the development of your company from establishment to its current achievements, we would need to conduct interviews with the relevant persons in charge in your organisation.

We hope that you would be so kind as to allow us to conduct our interview at your organisation. We hope that we can schedule the interview at your company on the 2nd week of xxx 2010.

Your valuable insight and opinions is much appreciated and would be willing to share with you a copy the report if you are interested in it. Please include your business card if you are interested for us to mail you the report. The findings of the research would be able to assist the professional accountants on how to serve the needs of the SMEs.

I thank you in advance for your kind assistance. If you need additional information regarding this research, please feel free to contact or email me at hhasnah@usm.my or my team member Mr. Yuvaraj at 012-4683386 / y_raj79@yahoo.com.

Thank you.

Yours Faithfully,

________________________________________
PROFESSOR DATIN HASNAH HJ. HARON
PROJECT LEADER
Dean
Research Title: The Usage of Accounting Tools and Professional Services among SMEs.

Introduction

The small and medium enterprises (SMEs) are backbone for Malaysia’s economy. According to Finance Minister II Datuk Seri Ahmad Husni Mohamad Hanadzlah, SMEs comprises 99.2 percent of the total registered business establishments in the country and contribute 56.4 percent to employment, they only contribute about 32 percent to gross domestic product (GDP) and 19 percent to total exports for the year 2005. The Government has formulated many policies and development plans to assist the SMEs by Ninth Malaysia Plan (9MP) 2006 - 2010 and the Third Industrial Masterplan (IMP3) 2006 – 2020. Despite this success of SMEs, we also know that SMEs are subject to increasing pressures which have intensified with the challenges in current economic crisis. There is an increased need for value creation among SMEs to ensure business sustainability which coexists within an environment of good corporate governance. In such a situation, the roles of accountants are considered to be extremely crucial. MIA feels that it would do well for accountants in providing relevant expertise and consultation, particularly those in the Small and Medium Practitioners category, as well as Professional Accountants in Business in accordance to the needs of SMEs.

Research objectives

- To document the development of SME from establishment to its current achievements.

- To gather more information on how SMEs had benefited from the business advisory services provided by accountants.

- To document the challenges and success factor of SMEs.

Methodology

A case study on 10 successful SMEs would be interviewed. Interviews would be conducted with owner / chief executive officer in order to gain insights of the issues as stipulated in the research objectives. Interview is expected to be around 1 to 1½ hours.

Research Outcomes

The research findings will give a better understanding of the needs of SMEs and will assist accountants to improve their services. In addition, the professional service providers will also be aware of the various untapped opportunities and business potentials within the SME market.
APPENDIX C

Interview Questions

The interview questions consist of 5 sections. These questions will help to further understand the challenges faced by the SMEs and also the services that they require.

The first section consists of 6 questions regarding the company’s background:

1. How long has the company been established?
2. The growth stage of the company? How the company has expanded their business?
3. Who are the Owners or managers?
4. No. of employees?
5. Type of people employed, it is degree holders, professional?
   Do you have professional accountants.
   a. If yes, Job function of accounts department
   b. If no, are you outsourcing it?
6. How many times employees are hired. Why do you need to engage them?

Section 2 consist of 5 questions which are related to the start up stage, the success of the company and also types of external professional services purchased.

1. Start up stage – no employee, share capital, engage register
2. What are the key important factors that contribute to the success of your company?
   a. Internal – management, marketing
   b. External factors
3. Do you receive any kind of advice from external parties?
   a. Academician
   b. Trade Association
   c. Consultation firm
   d. No expert

4. If external advice was obtained, which types of professional services were purchased?

<table>
<thead>
<tr>
<th>Accounting services:</th>
<th>Taxation services:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Book keeping</td>
<td>Tax Compliance</td>
</tr>
<tr>
<td>Financial Statement Compliance</td>
<td>Tax Planning</td>
</tr>
<tr>
<td>Budgeting / Forecasting</td>
<td>Tax Dispute Resolution</td>
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<tr>
<td>Product / Services Costing</td>
<td>Tax Incentives Application</td>
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<tr>
<td>Customer Profitability Analysis</td>
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<tr>
<td>Financial Planning</td>
<td>Corporate services:</td>
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<td></td>
<td>Company Secretarial Services</td>
</tr>
<tr>
<td>Assurance services:</td>
<td>Mergers &amp; Acquisitions</td>
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<tr>
<td>Financial Audit</td>
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<tr>
<td>Internal Audit</td>
<td>Business Consulting services:</td>
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<tr>
<td></td>
<td>Business Strategy &amp; Planning</td>
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<tr>
<td>Internal Control Review</td>
<td>Performance Management</td>
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<td>Financial Due Diligence</td>
<td>IT Consulting Advisory</td>
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<td></td>
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<tr>
<td>Corporate Finance services:</td>
<td>Business Restructuring</td>
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<tr>
<td>Fund Raising</td>
<td>Insolvency &amp; Receivership</td>
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<tr>
<td>Financial Management Services</td>
<td>HR Consulting</td>
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<tr>
<td></td>
<td>Risk Management</td>
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<td></td>
<td>Control System (Internal control)</td>
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</tbody>
</table>
5. Where do you obtain the services?
   a. If obtain the services, How do you know about the services?
   b. If do not obtain the services, Are you aware about the services offered by outsiders?

In section 3, there are two questions which are related to the service quality.
   1. Are the advice/services given in managing your company helpful?
   2. Looking back, what type of services do you require that will help you.

Section 4 consists of questions regarding the challenges that have been faced or are currently facing the company.

   1. Major challenges faced by the company to come to where it is now? How do they overcome the challenges? What are the challenges currently faced by the company.
   2. What type of advise/services do you need in the future.
   3. What are the expansion plans that you have for your company in the future.

The last section consists of 3 questions regarding the financial information of the company.
   1. Financial growth
   2. Sales growth
   3. Financial Statements
APPENDIX D

ADDITIONAL QUESTIONS

1. Where are your sources of fund from? How SMPs may help you to obtain the fund?

2. Do you use financial management techniques to manage your business?

Below is a list of activities that may have been carried in your organization during the review period. Please tick (✓) the box that best describe the frequency of utilisation of techniques in your company.

<table>
<thead>
<tr>
<th>AREAS</th>
<th>Frequency of Utilisation</th>
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<tbody>
<tr>
<td></td>
<td>Always</td>
</tr>
<tr>
<td>1 Financial Statement and Ratio Analysis</td>
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<tr>
<td>2 Budgetary Control and Budgeting</td>
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<tr>
<td>3 Standard Costing</td>
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<td>4 Cost Benefit Analysis</td>
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<td>5 Cost Volume Profit (CVP) Analysis</td>
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<tr>
<td>6 Relevant Costing and Cost Management</td>
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<td>7 Cost Control and Cost Management</td>
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<tr>
<td>8 Statistical Analysis</td>
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<tr>
<td>9 Economic Order Quantity (EOQ) and Inventory Modeling</td>
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<tr>
<td>10 Economic Value Added (EVA)</td>
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<tr>
<td>11 Quality Improvement Activities:</td>
<td></td>
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<tr>
<td>• Quality Control Circle</td>
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<tr>
<td>• Cost of Quality</td>
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<tr>
<td>• Total Quality Management (TQM)</td>
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<tr>
<td>• ISO Certification</td>
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<tr>
<td>12 Strategic Cost Management</td>
<td></td>
</tr>
<tr>
<td>13 Just In Time (JIT)</td>
<td></td>
</tr>
<tr>
<td>14 Target Costing and Value Engineering</td>
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</tr>
</tbody>
</table>
3. What is the critical financial information needed to increase your competitiveness.

4. Overall, are you satisfied with the quality of service provided by SMPs (audit firm, tax firm etc)? Are the fees you paid for the service received from SMPs worth it?

5. In what areas do you think SMPs can add value?

6. Demographic profile of your company.

   • How long established?

   • Nature of business?

   • How many employees?

   • Sales turnover?

   • Profitability?
• Stage of the company

☐ **Start-up stage** where the business model applied is validated;

☐ **Fast-growth stage** where the business is growing for survival; revenue starts to grow as products or services receive market acceptance;

☐ **Sustainable stage** where profitability can be sustained and the entity reaches a maturity level with proven business model and leadership;

☐ **Global enterprise** where the entity continues looking for other opportunities to sustain growth.

7. Please list out 5 main problems of your company, and in which areas that you need help the most.

8. In your opinion which organisation can assist you to solve the problems? How can they help and name the organisations?

9. Have you tried approaching any organisation to solve your problems? Are you facing problems when doing so?