



A REPORT on CURRENT USAGE PATTERNS of

# BUSINESS and PROFESSIONAL SERVICES among SMEs in the MANUFACTURING and DISTRIBUTIVE TRADE SECTORS



**MALAYSIAN INSTITUTE  
OF ACCOUNTANTS**  
ACCOUNTANTS: MANAGERS OF VALUE

IN COLLABORATION WITH



## FOREWORD

Malaysian SMEs are a vital component in the industrial development of the country. Based on a nationwide Census on Establishments and Enterprises conducted in 2005, 96.6% and 99.4% of enterprises in the manufacturing and services sector, respectively, were SMEs. In 2005, SMEs in the manufacturing sector contributed 29.6% to the total manufacturing output and 25.9 % to the total manufacturing value-added. The SMEs also provided one third of employment in the manufacturing sector. While the distributive trade sector, a major sub-sector in the services sector, contributed RM33.1 billion to gross domestic product (GDP) and created 1.3 million jobs. These statistics indicate that the SMEs are crucial to the economic growth process and play an important role in the country's production network.

The principal SME policy under the Ninth Malaysia Plan: 2006 – 2010 (9MP) is the development of a competitive, innovative and technologically strong SME sector that is able to contribute to the economy and compete globally. Strategies are directed at acquiring technologies to propel SMEs up the value chain via outsourcing, inter-firm linkages, entrepreneurship programmes and knowledge skills. The priority accorded to developing domestic SMEs is further reiterated in the Third Industrial Master Plan: 2006 - 2015 (IMP3) which outlined five clear strategies to support the development of diverse and competitive SMEs as listed below:

- ❖ Competitive Edge – Integration and rationalisation
- ❖ Outward Bound – Armed and prepared in global arena
- ❖ Information and Communication Technology (ICT) – Friend not foe
- ❖ Cohesive and Supportive Framework – Encouraging potential to shine
- ❖ Nurturing the services sector – Towards new areas of growth

With the increased allocation of resources outlined in the 9MP and IMP3, the Government has demonstrated its strong commitment for the development of efficient and competitive SMEs as Malaysia moves towards realizing its objective of becoming a developed nation.

At the Malaysian Institute of Accountants (MIA), we see the necessity to understand the needs of SMEs in areas where accountants could provide solutions. It is vital to assess the challenges that lie ahead and to develop strategies to prepare Small Medium Practitioners (SMPs) and Professional Accountants in Business (PAIBs) in confronting these issues in our endeavor to support nation building.

This survey attempts to identify the support services that will assist SMEs in defining and building competitive advantage while determining the extent of its demand. The study will also look at the level of satisfaction on current services provided by accountants and identify opportunities from untapped markets.



## EXECUTIVE SUMMARY

The findings summarised below are of particular importance.

- ❖ The prospect for external accountants to continue to concentrate on mandatory services is scarcely encouraging. Therefore the potential in this area lies on the accountant's ability to convince SMEs to engage them in the entire value chain as well as diversifying into other business advisory services.
- ❖ SMEs stance on outsourcing services is in line with global development where it appears to be the strategic direction forward with further plans to outsource services throughout 2009 to 2016.
- ❖ Some of the barriers identified that prevented SMEs from purchasing services from external accountants are confidentiality of company's information, fees charged and the accountant's lack of knowledge about clients' needs. There is also a perception that accountants do not have knowledge in other areas apart from accounting services.
- ❖ Matching the supply by accountants and demand from SMEs, there is an obvious opportunity for diversification. Some of the identified areas are customer profitability analysis, financial planning and merger and acquisition.
- ❖ There is clear evidence to show that some of the SMEs bought multiple services within each broad type of services from external accountants. It is encouraging to find that SMEs regard external accountants as possible providers of business consulting services.
- ❖ The main advantage noted for SMEs in outsourcing is the accessibility to specialist services for all of the business and most of the professional services. Correspondingly, the knowledge, skills and expertise of external accountants need to be developed to ensure ready supply to support the needs of SMEs in the future.
- ❖ Apart from mandatory services, other services that external accountants provide include financial due diligence, corporate financial services and business consulting services which indicates their capability of providing more diversified types of services.



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## ABOUT THE SURVEY

This survey is based on the research initiated by MIA and conducted by Universiti Malaya (UM). The research is wholly funded by the Malaysian Accountancy Research and Education Foundation (MAREF). The project commenced in March 2008 where several Focus Group Discussions (FGDs) were conducted to gather information from both the service providers (accountants) and SME owners.

Subsequently a questionnaire was designed based on the inputs from the FGDs, literature and public reports. Upon completion of the initial pre-testing and pilot testing, the questionnaires were distributed in various stages among SMEs within the Klang Valley.

The research objectives include:

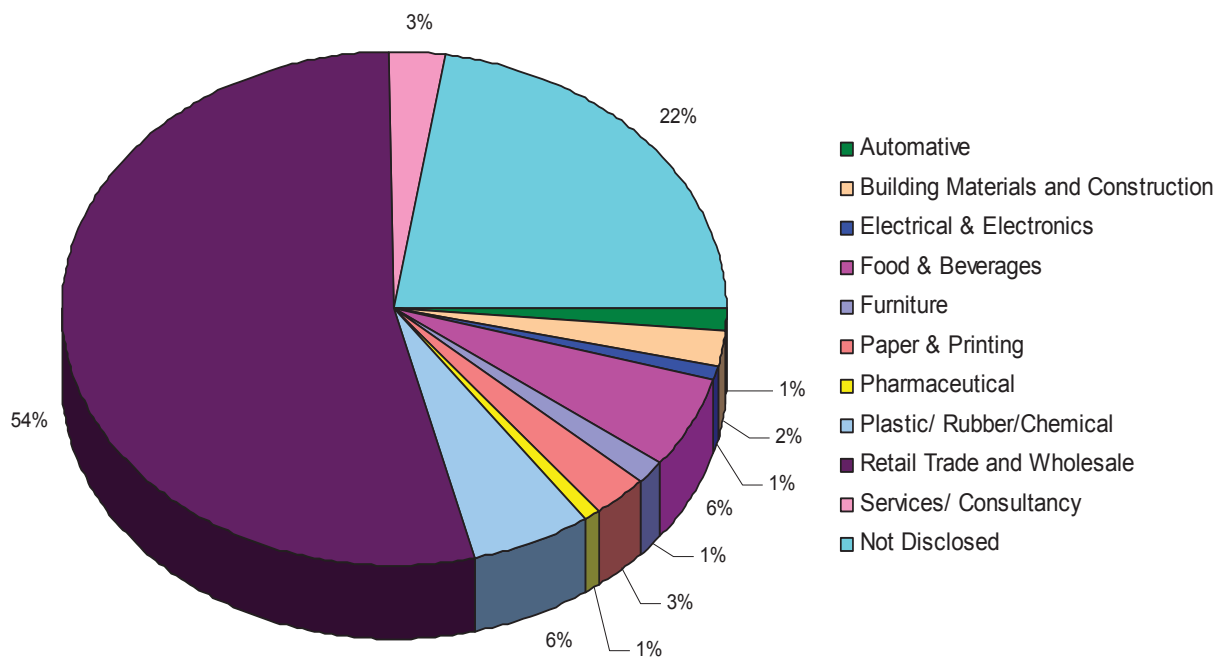
- ❖ To understand the needs of SMEs for business support services.
- ❖ To identify support services (accredited and non-accredited professional services) that will assist SMEs in defining and building competitive advantage.
- ❖ To broadly assess the extent of demand for such services.
- ❖ To identify the types of services and the extent that SMEs currently buy from external accountants.
- ❖ To gauge the level of satisfaction among SMEs regarding the current types and scope of services provided by public accountants.
- ❖ To identify the opportunities that could be tapped by public accountants based on the gap analysis of demand for services and the current level of services provided by public accountants.
- ❖ To forward recommendations to MIA.

The final data analysis was based on 145 useable questionnaires out of 195 that were collected.



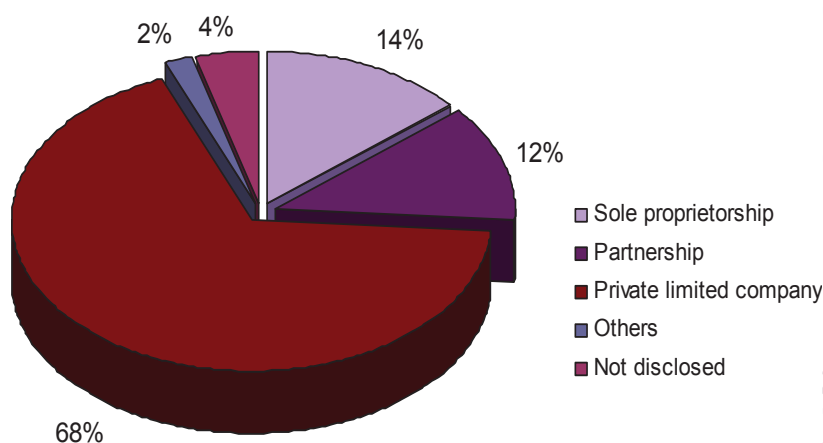
## C ore Business

Approximately half of the sampled firms 21% were operating in the manufacturing sector, 54% from the retail trade and wholesale, 3% were in services sector while the remaining were in various industry sectors.



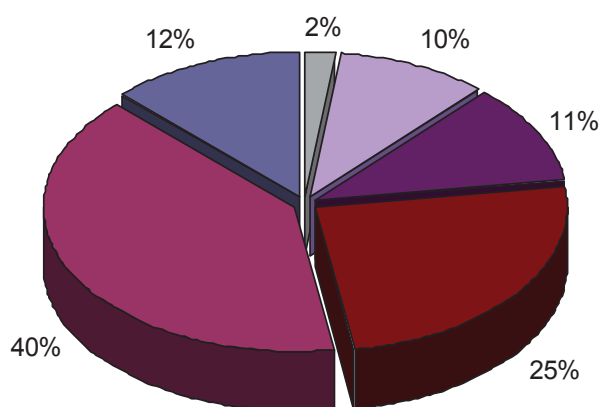
## Organisation Structure

The majority 98 of the SMEs were private limited companies, 20 were sole proprietorship, and 18 were partnerships.



## Year Established

Most of the SMEs surveyed were established over the last decade with 65% having started their business between 1991 till present. Two percent were more than 30 years old while 11% were aged between 17 to 27 years old. Eighteen companies did not disclose the year the business was set up.

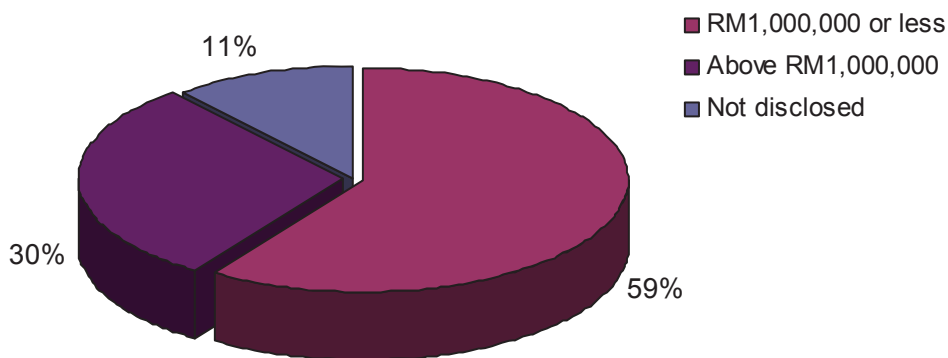


- Before 1970
- 1971-1980
- 1981-1990
- 1991-2000
- 2001-2008
- Not disclosed



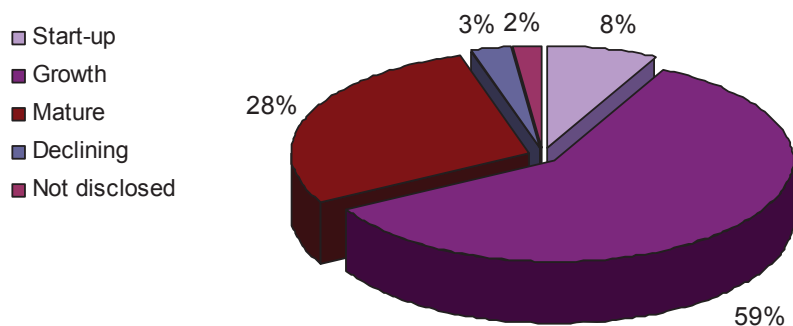
## T otal Assets

About 59% of the respondent companies had assets of RM1 million or less. Almost 30% had assets of more than RM1 million while 11% did not disclose the value of their assets.



## G rowth Stage

When asked about the rate of growth of their business in the last three years, about 59% said they were in the growth stage, 28% reported maturity, and eleven described their business as start-ups while only 4 companies reported a decline.

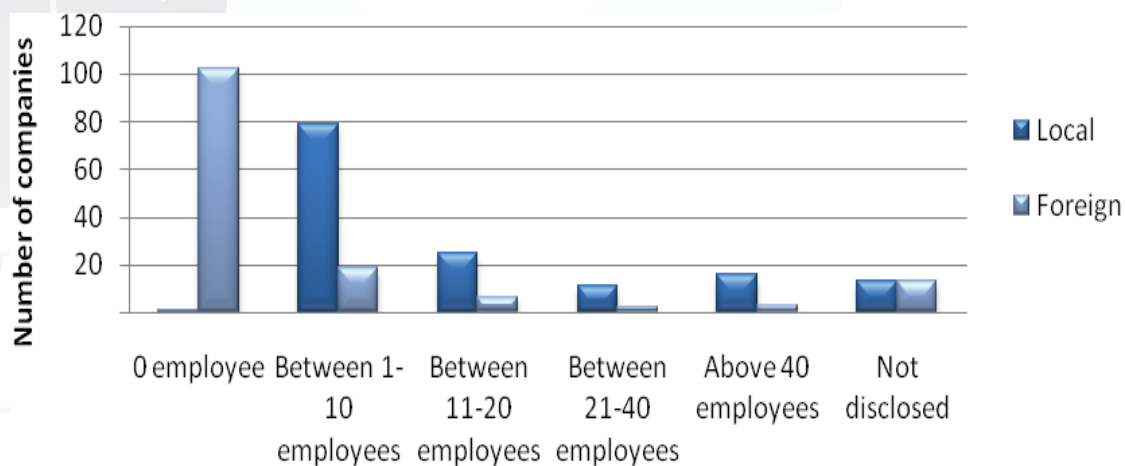


# COMPOSITION OF EMPLOYMENT

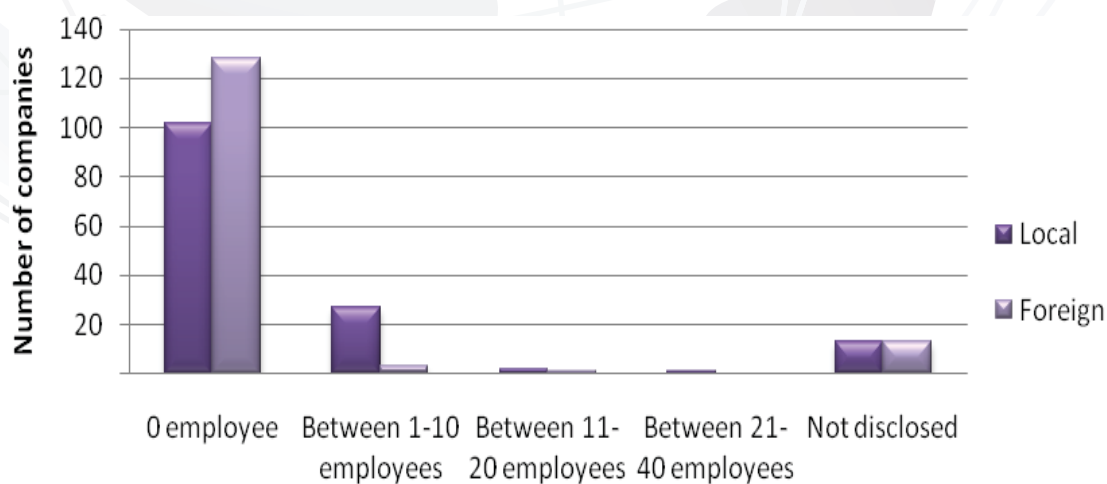
N

## Number of full-time and part-time employees

The SMEs engaged both full-time and part-time employees comprising both local and foreign workers.



### Number of full-time employees

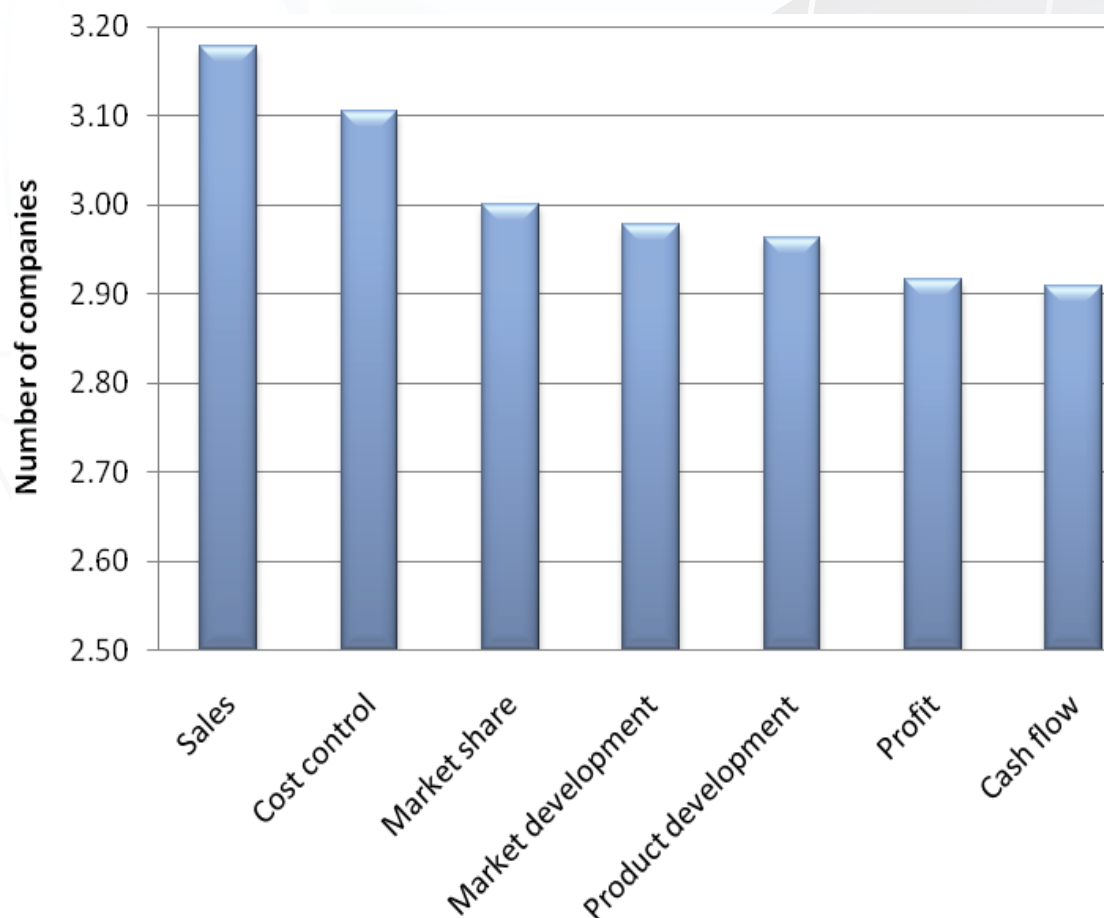


### Number of part-time employees

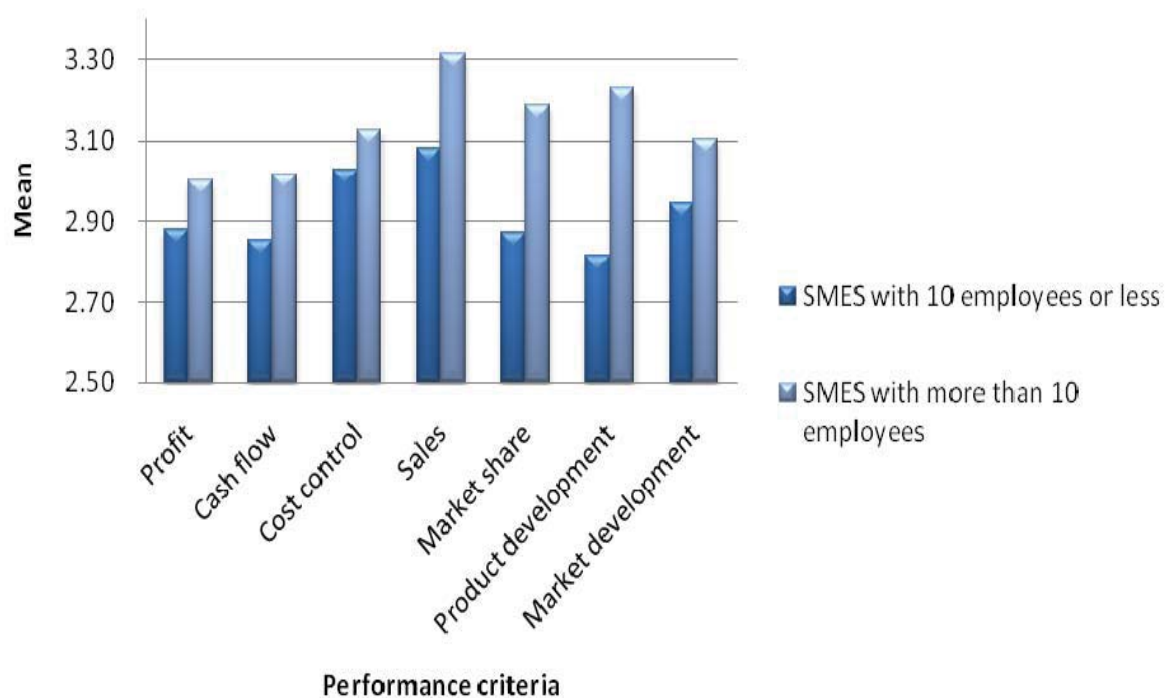


### **F**inancial and Non-Financial Indicators

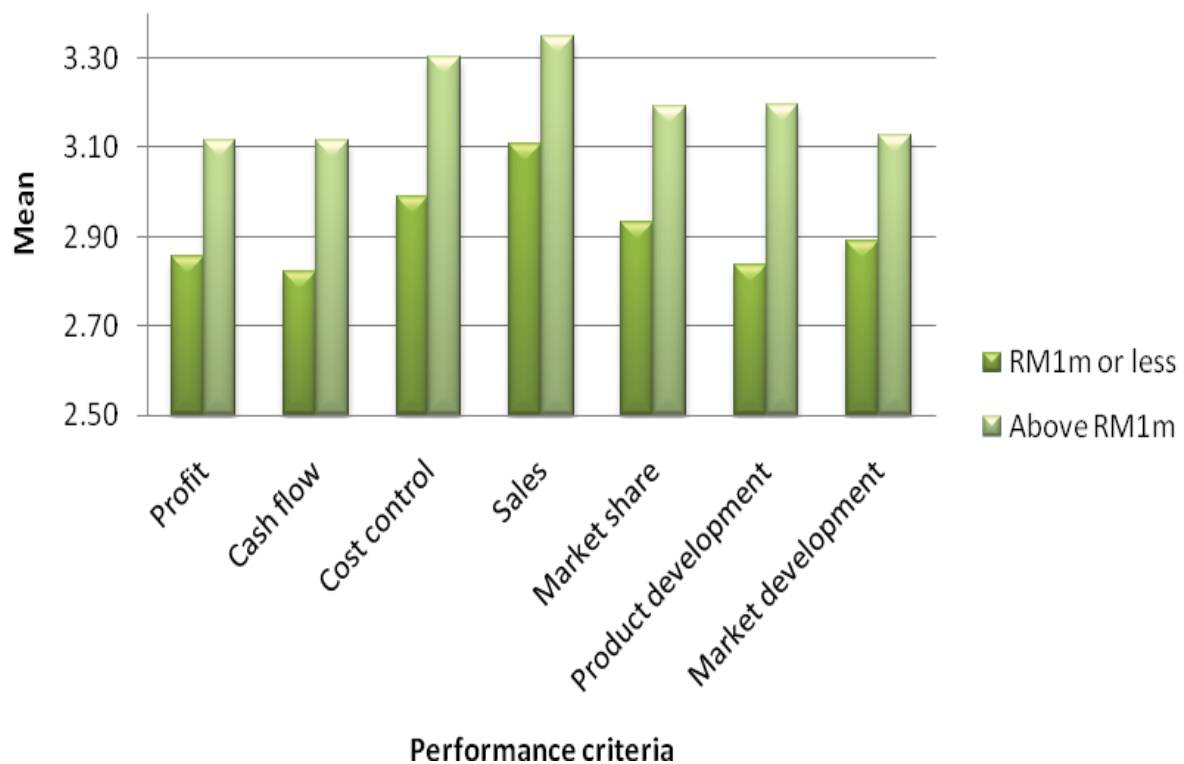
To assess the perception of the SMEs' business performance, the sampled respondents were requested to rate their performance relative to their competitors across a range of financial and non-financial performance indicators.



The chart below shows further analysis of business performance by employee size measured by number of fulltime employees. SMEs with more than 10 full time employees rated their performance significantly higher than firms with less than 10 employees in two performance indicators: market share and product development. There were no significant differences in other performance indicators between these two groups of SMEs.



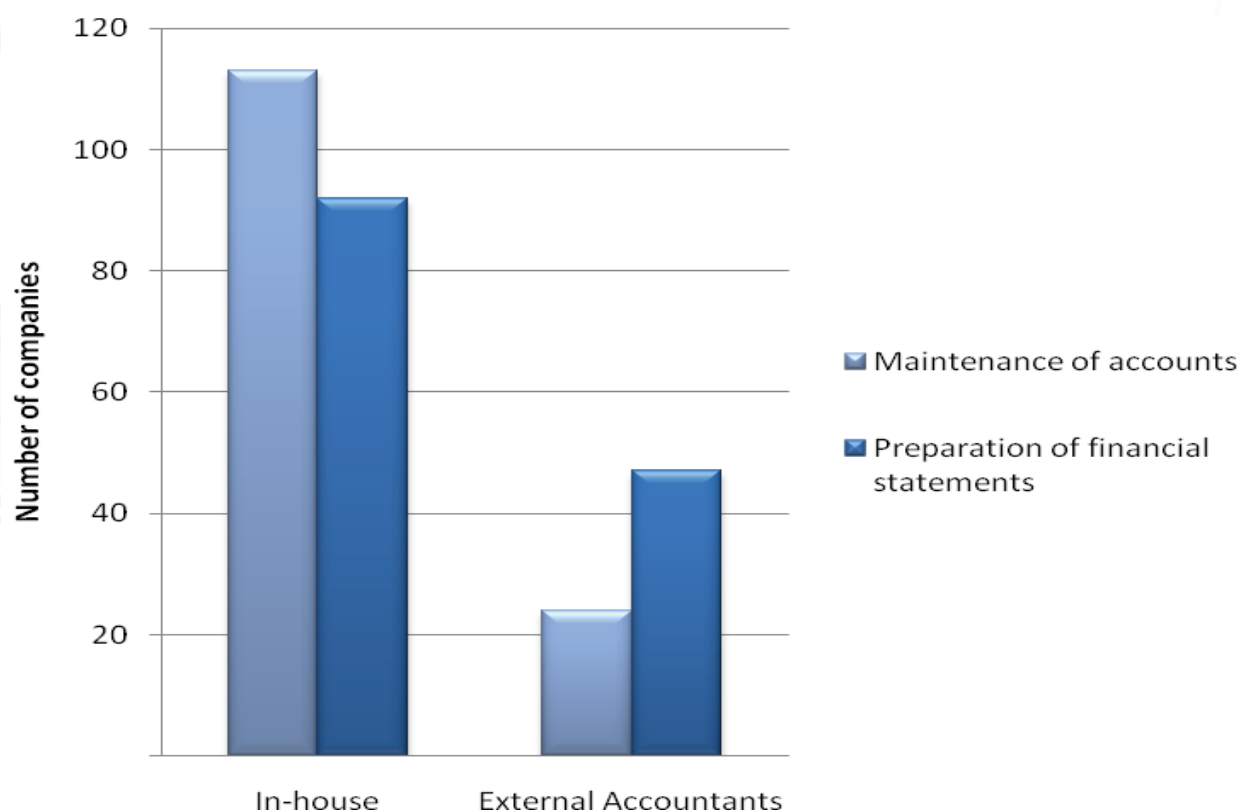
Analysis was done on the business performance relative to total assets. SMEs with assets of more than RM1 million and those with total assets of RM1 million or less reported significantly different performance in three of the indicators covered in this study. SMEs with total assets of more than RM1 million rated their performances in terms of cash flow, cost control and product development significantly higher than firms with total assets of RM 1 million or less. However, performance across other indicators was not significantly different between these two groups of SMEs. Although these two groups of SMEs performed differently in 3 of the indicators, it was observed that SMEs with large assets tend to perform better in all of the indicators covered in the study.



# PREPARATION OF ACCOUNTS AND FINANCIAL STATEMENTS

## How Accounts are Managed

The survey results showed that the majority (82.1%) of SMEs maintained their own accounts while only 16.6% hired external accountants for this purpose. Similarly, about 65% of the SMEs prepared their financial statements internally. The results suggested that most SMEs used their own internal staff to maintain their accounts and prepare financial statements.

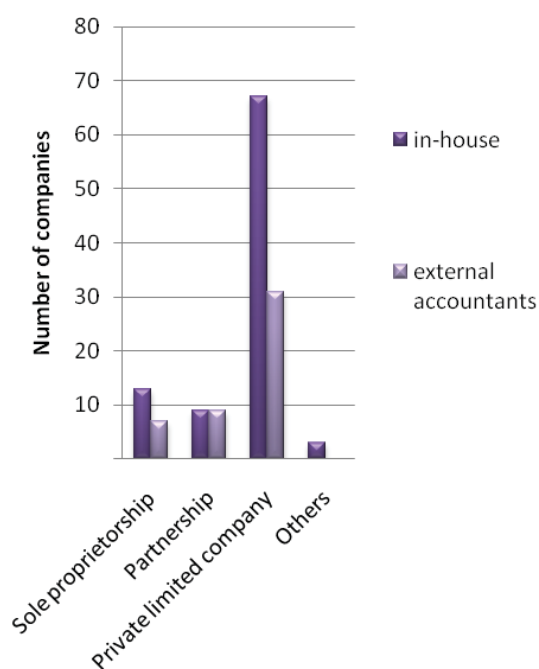


# P

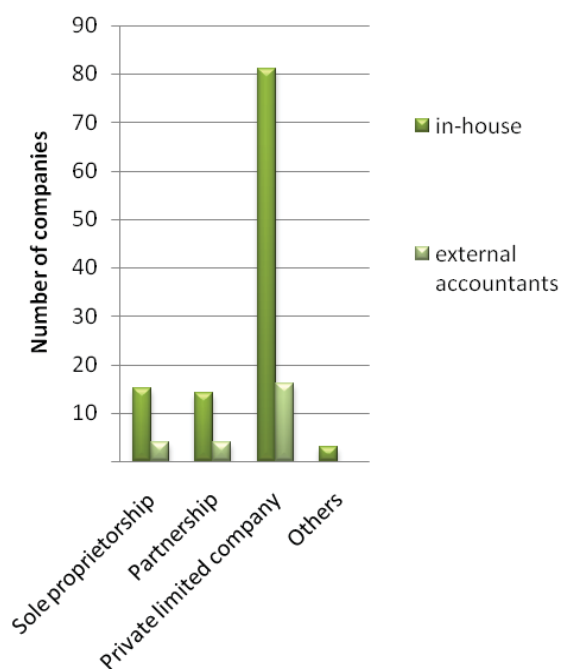
## reparation of Accounts and Financial Statements (by Business Structure)

A majority of the SME respondents from all the categories; sole proprietorship (79%), partnership (78%) and private limited company (84%), maintained their own accounts. A lower proportion of the respondent companies prepared their own financial statements. 65% of sole proprietorship, 50% of partnership and 68% of private limited company prepared their own financial statements suggesting that a higher proportion of these companies hired external accountants for preparation of financial statements.

**Preparation of Financial Statements**



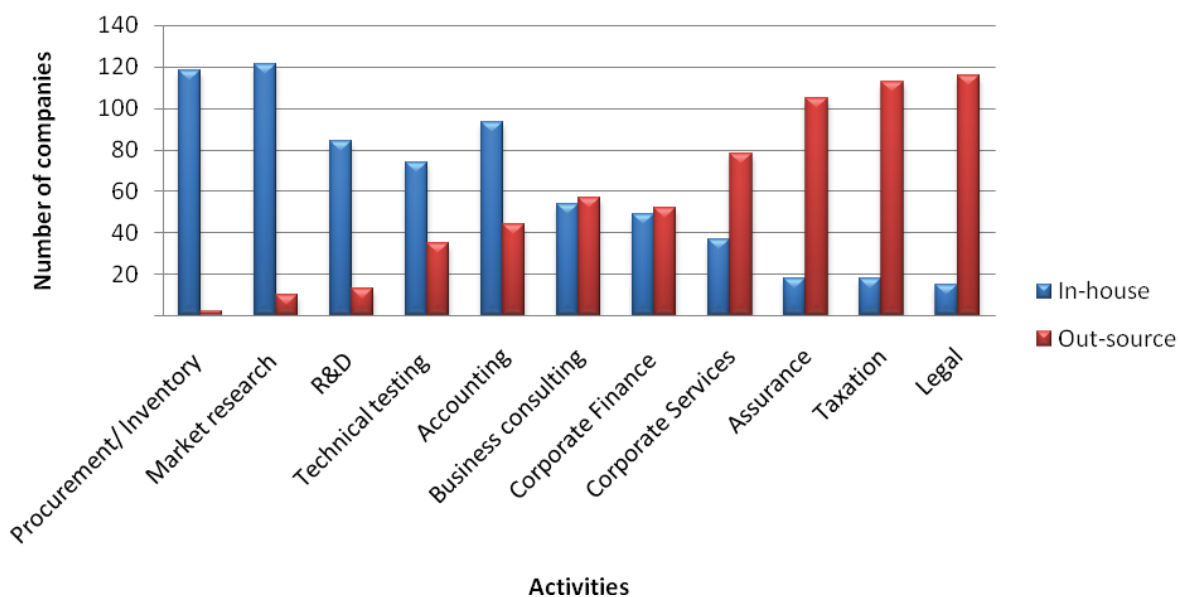
**Preparation of Accounts**



## SME AND BUSINESS SERVICES

### SME as Buyer of Business Services

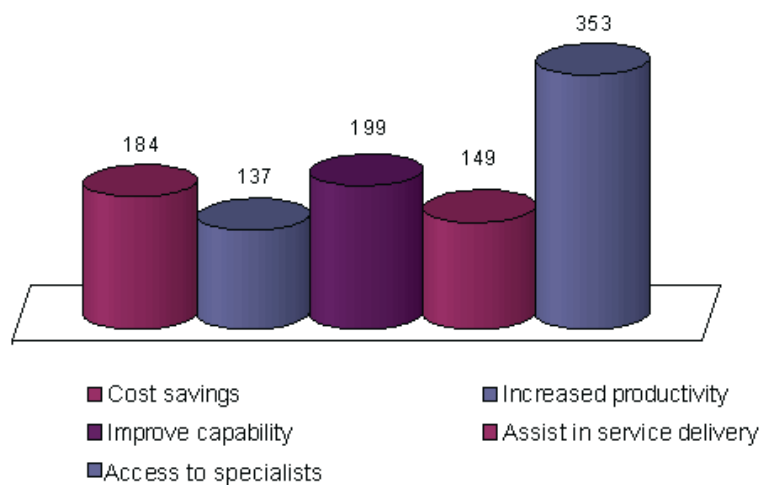
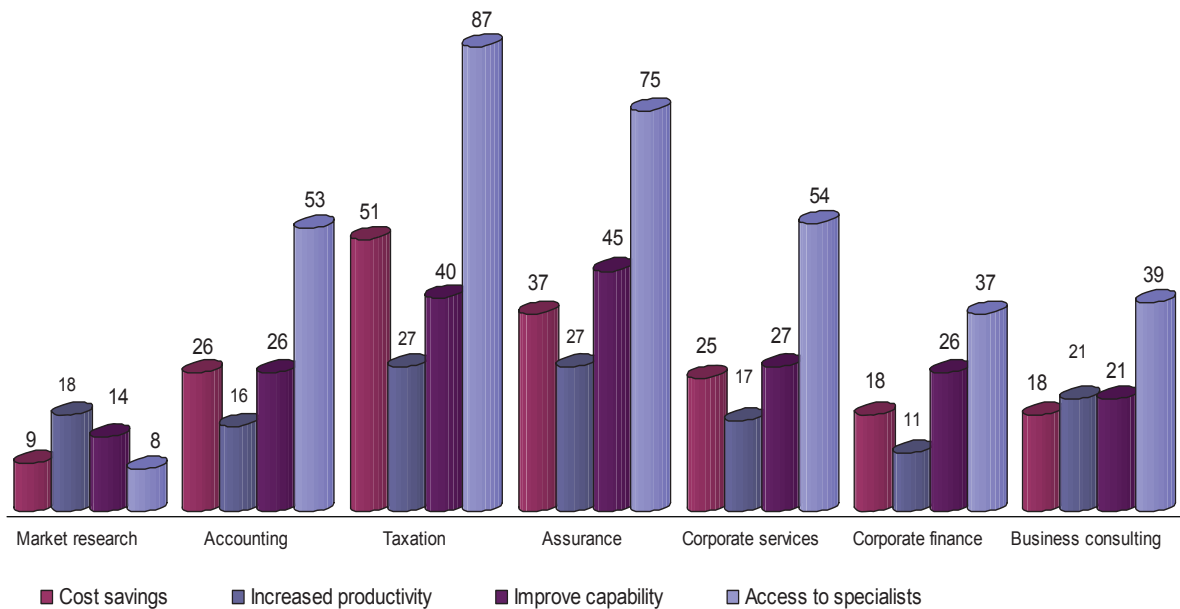
Respondents were asked about the types of business services used and the source from which they purchased such services, i.e. in-house vs. outsourcing. The services that are mostly produced in-house were procurement, market research, R&D, technical testing and accounting. The services that were out-sourced by most of the respondents were legal, taxation, assurance and corporate services.



# A

## Advantages and Reasons for Outsourcing

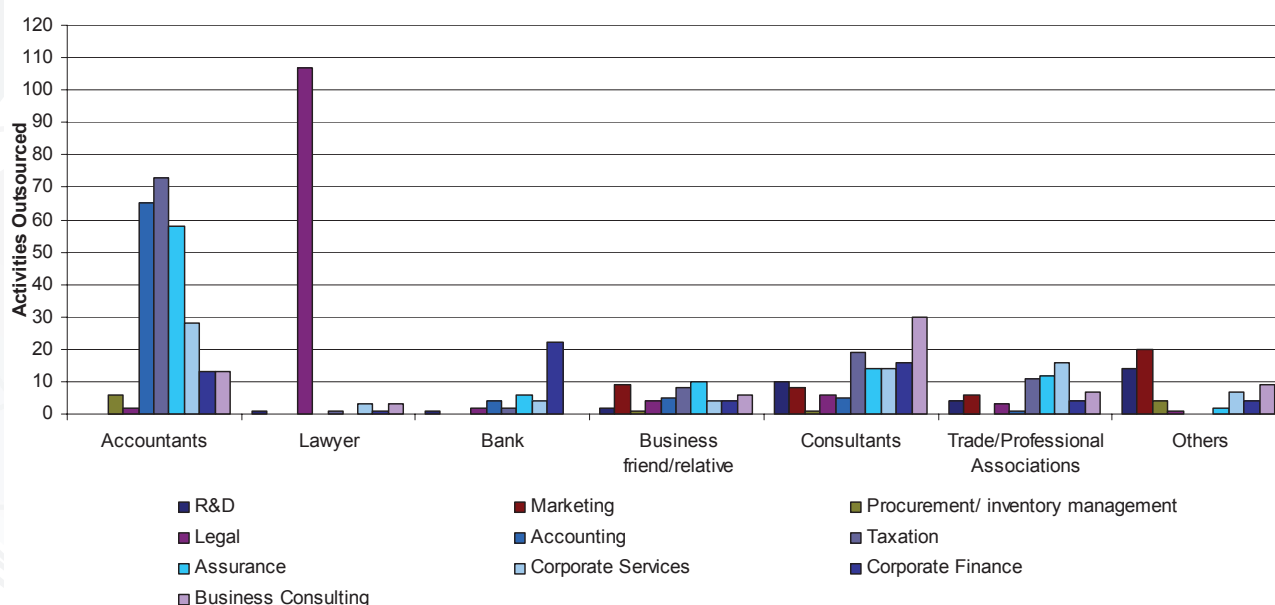
The questionnaire outlined several advantages of outsourcing. Overall, the most frequently cited advantage for most outsourced activities was “access to specialist” services except for market research and procurement. Looking at each of the activities outsourced, it is clear that for legal, accounting and taxation services, the accessibility to specialist services was the most frequently cited advantage.



# W

## ho are the Service Providers for Professional and Business Support Services?

Respondents were further asked about the likely service providers for each of the outsourced business services. Accountants were selected as service providers for accounting, taxation, assurance, and corporate services activities; lawyers for legal activities; banks for corporate finance activities; and consultants for business consulting activities. Others shown in the X axis refer to other service providers that include customers, suppliers/ vendors, trade/ professional associations and government agencies.

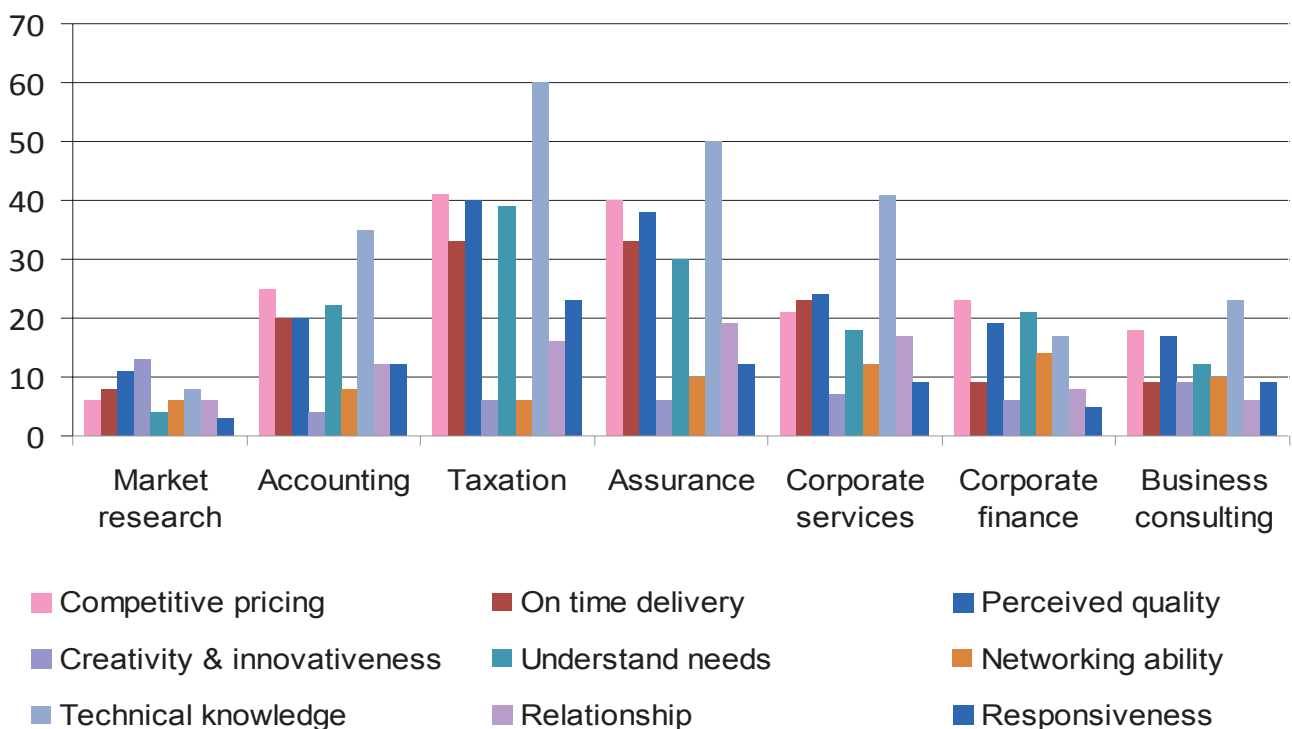


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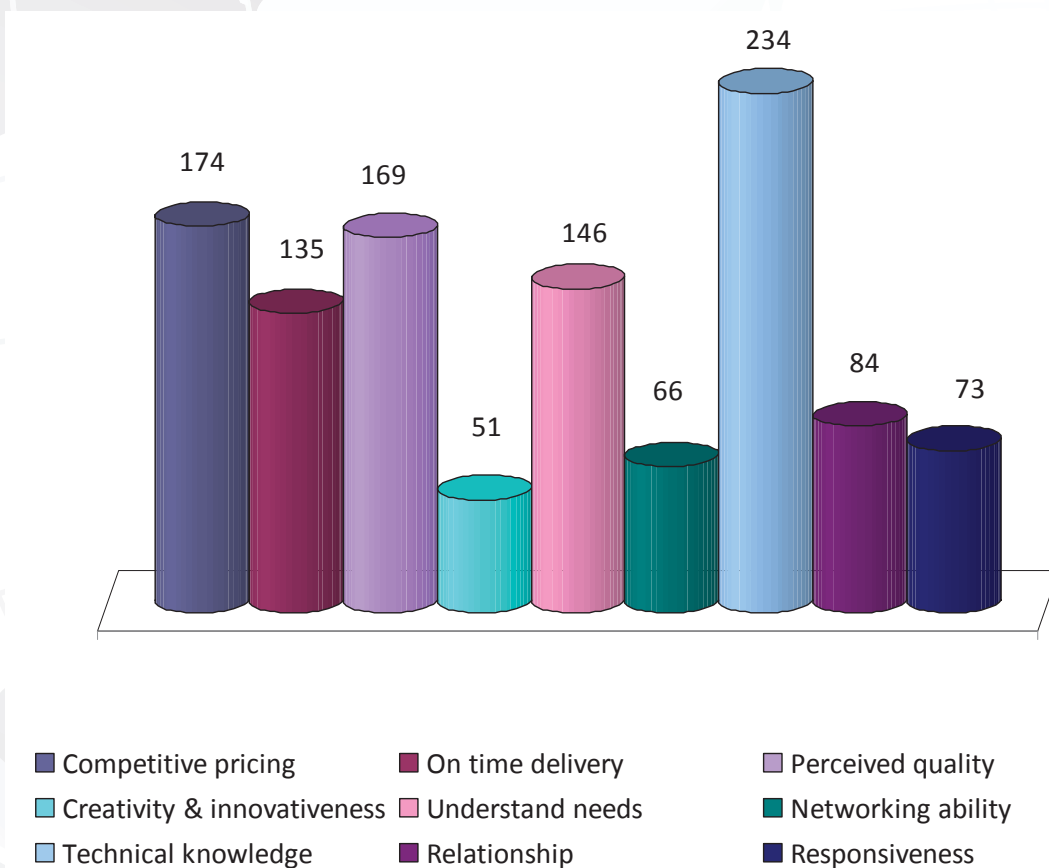
## What are the important reasons for determining the choice of service providers of professional and business support services?

To understand the reasons that determine the choice of service providers, several were outlined against activities outsourced. The respondents were asked to state the three most important reasons for their choice of service providers of professional and business support services.

The most frequently cited reasons for selecting service providers were 'competitive costs/price', 'perceived best quality' and 'strength in technical knowledge'. On time delivery was considered important for selecting providers for procurement while creativity of service providers was important for marketing activities. The respondents also perceived that service providers who know their needs best are required for activities related to legal, taxation and corporate finance. In selecting service providers for accounting related activities such as accounting, taxation, and assurance, most of the SMEs agreed that cost, perceived quality and strength of technical knowledge of service providers are important.



The bar chart is further extended to show the significance of each variable as reasons for determining the choice of service providers. The SMEs rated technical knowledge as the strongest determining factor while at the same time they are also sensitive to cost. Apart from that, the SMEs expect the accountants to have a deeper understanding about their business and demand a certain standard of service from the accountants.

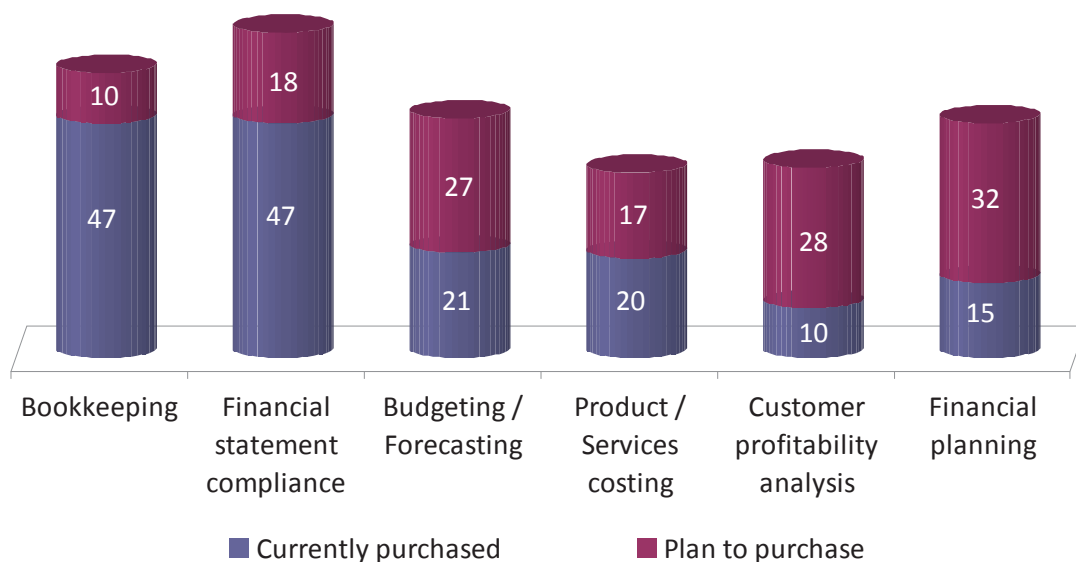


## CURRENT AND FUTURE PURCHASE BEHAVIOUR AMONG SMES

Survey respondents were asked to indicate the types of services that they purchased from external accountants and their intention to purchase in the future. These services were classified into six types. Accounting, taxation and assurance services were broadly categorized as compliance and mandatory services, while corporate, corporate finance and business consulting services are non-compliance /non mandatory services.

### C Current and Future Purchase Plan: Accounting

The demand for additional book-keeping and financial statement compliance services are rather soft. On the other hand, there is a significant demand for value-added services especially in the areas of financial planning and customer profitability analysis. This gives a clear indication that SMEs are willing to outsource budgeting and costing functions.

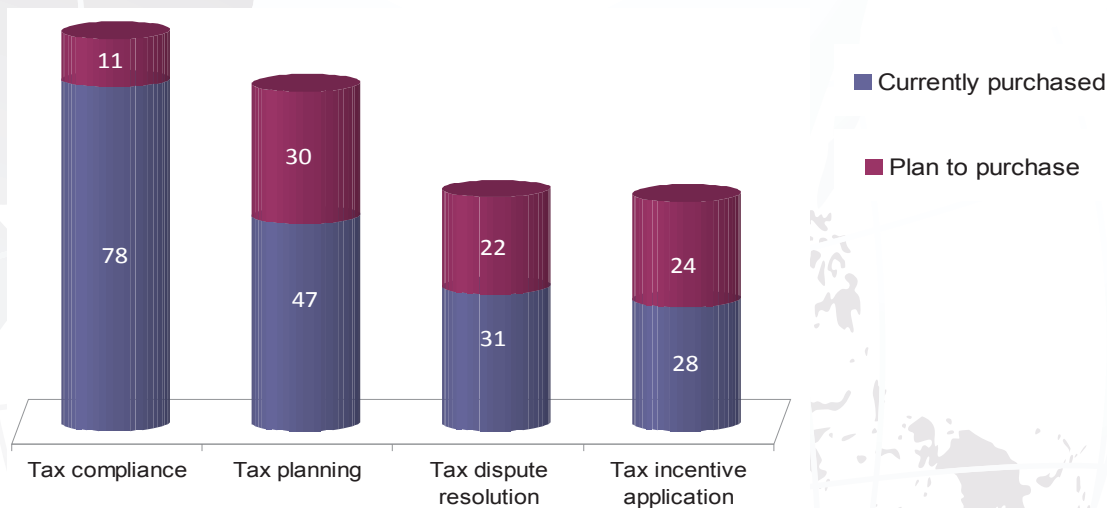


The above values are in percentage.



## C Current and Future Purchase Plan: Taxation

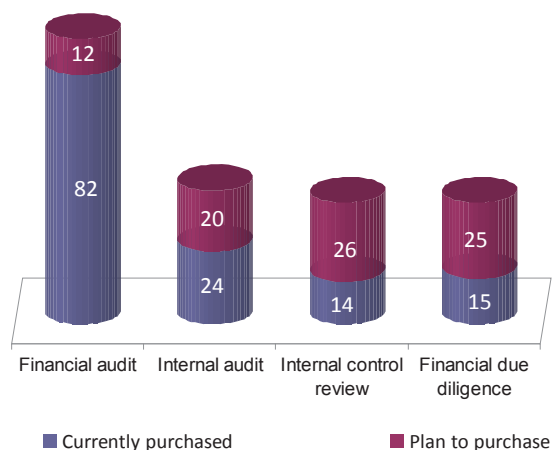
Tax compliance services are considerably outsourced by SMEs although not many intend to purchase further in the future. Tax planning has the most potential for further purchase. There is also indication of a demand for tax dispute resolution and application for tax incentive services.



The above values are in percentage.

## C Current and Future Purchase Plan: Assurance

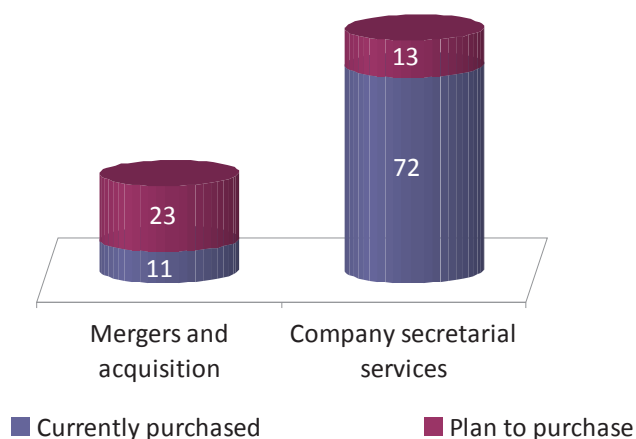
Financial audit is the most purchased assurance service; however there is no indication of further purchase plan. The findings also highlights the SMEs desire to have assurance on their business which is indicated by the demand for internal auditing, internal control review and financial due diligence



The above values are in percentage.

## C Current and Future Purchase Plan: Corporate Services

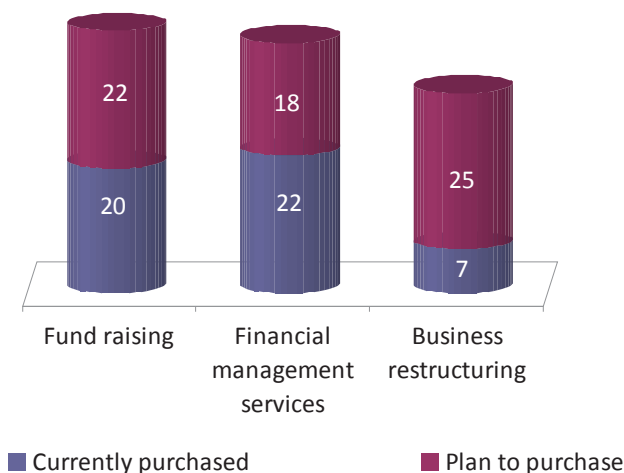
Overall, company secretarial services are the most purchased services although further purchase plan is not indicated. There is strong demand for services relating to merger and acquisition which suggests the SMEs' desire for further business growth.



The above values are in percentage.

## C Current and Future Purchase Plan: Corporate Finance Services

The SMEs have been procuring external services for fund raising and financial management services. Simultaneously, there is also a strong demand for services relating to business restructuring which signals the SMEs' need to align capital structure with business activities.



The above values are in percentage.



## C Current and Future Purchase Plan: Business Consulting Services

Among the different categories of services provided by external accountants, business consulting services represented the category that showed the lowest level of penetration. Business consulting services are classified into six types as shown in the chart below. Among them, the area of business strategy and planning has the greatest potential of expansion.

The findings showed that the SMEs have been procuring business consulting services especially in areas related to human resource and internal control. There is also a strong indication of demand for services relating to strategy, risk management and performance management. A significant jump in demand is noted for insolvency and receivership services.



The above values are in percentage.

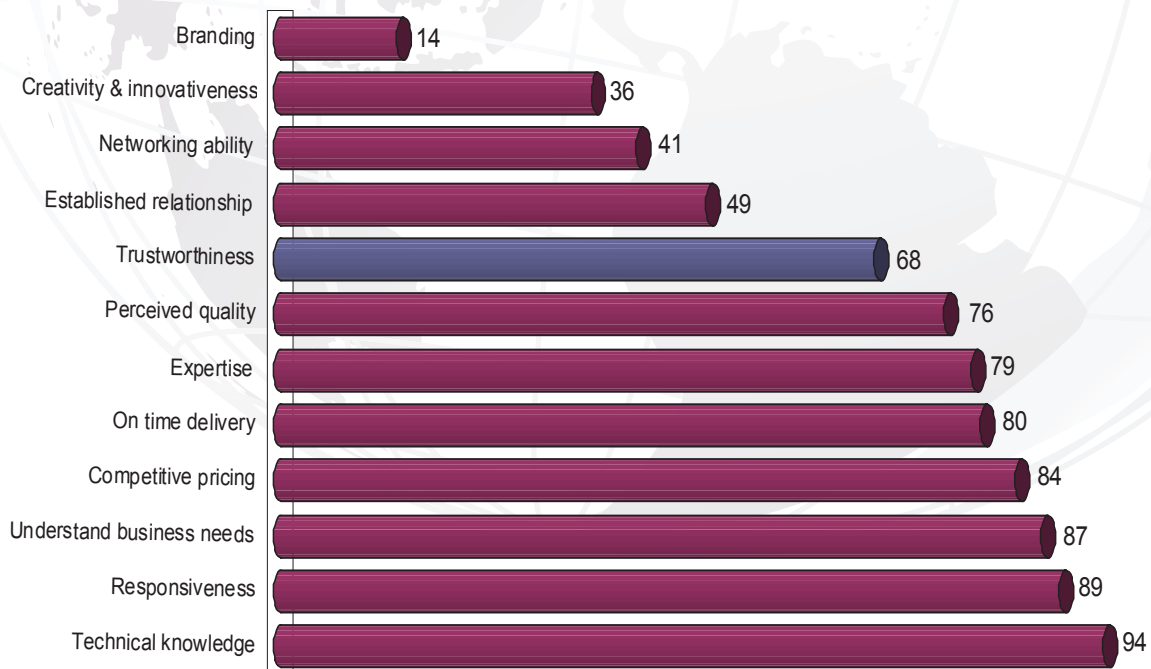


## FACTORS INFLUENCING THE SMEs' PURCHASE DECISION

To understand further the drivers that influence the decision of SMEs to purchase business services from external accountants, they were asked to state reasons for their patronage behaviour. The trend was found to be quite consistent with the findings on why SMEs select their service providers.

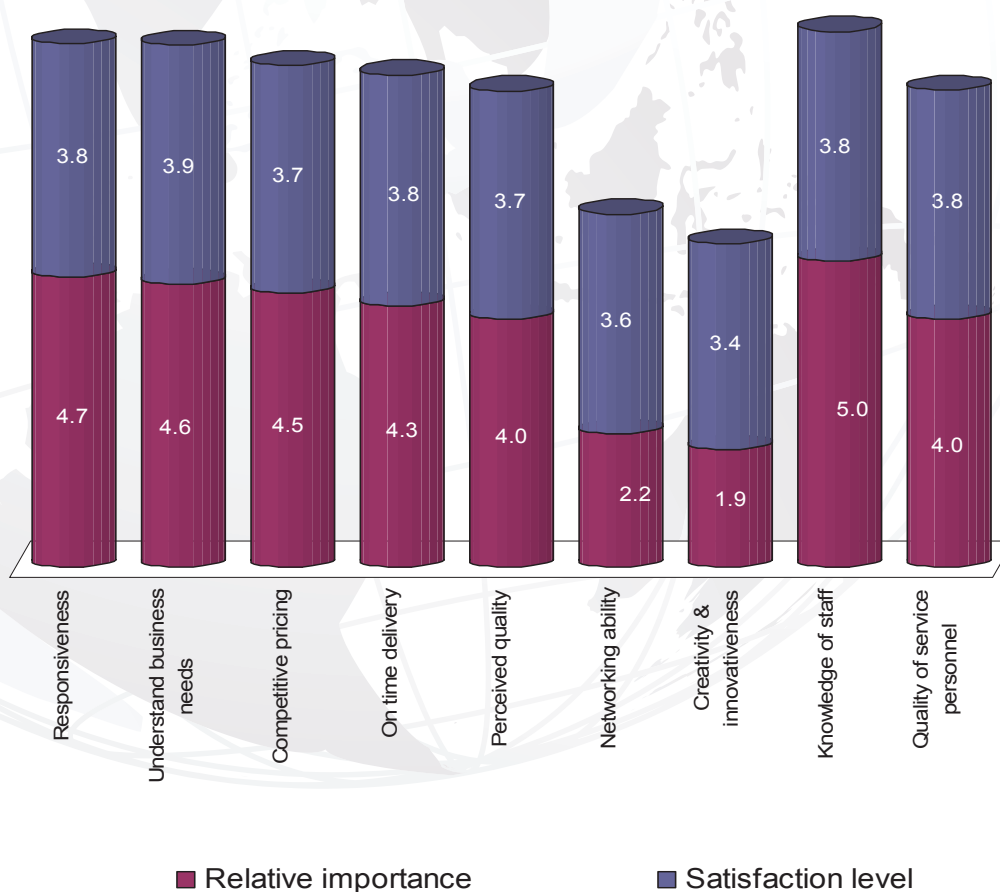
The majority of SMEs indicated that strength in technical knowledge (75.8%, N=94) and responsiveness (72.4%, N=89) were the two most cited factors that influenced their purchase decisions. It was also discovered that trustworthiness is not one of the highest criteria. The findings also highlighted that SMEs are not loyal to existing providers as suggested by the lack of appreciation on established relationships.

It is a concern that trustworthiness appears not to be one of the key factors in determining the choice of service providers. The accountancy profession should probably explore this further.



## L Level of Satisfaction Towards Existing Service Providers

Respondents were also asked to indicate their level of satisfaction towards the services provided by external accountants. The two highest satisfaction indicators were in terms of “knows my business needs well” and “timeliness of response” whereas the lowest satisfaction is attributed to lack of “creativity and innovativeness”



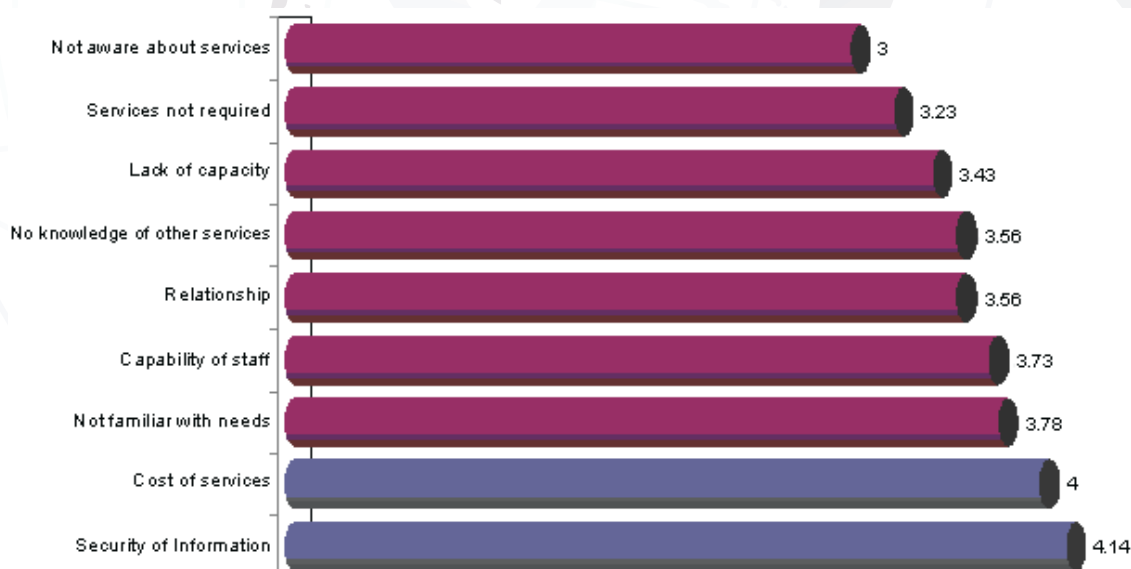
The above mean values are based on a 5 point scale where  
1 = not satisfied at all ; 5 = very satisfied



# W

## hat are the Reasons For Not Purchasing Business Services From Accountants?

It is equally important to examine the reasons that prevented SMEs from engaging the services of external accountants. The findings suggest that the SMEs are concerned about the security of their business information although trustworthiness was found not to be the highest criteria in selecting service providers. There is therefore a need to understand more about the “lack of trust” when confidentiality is essentially one of the main professional values to be upheld by accountants.



The above mean values are based on a 5 point scale that ranges from  
1 = not at all important ; 5 = very important



## ESSENCE OF FINDINGS

- ❖ As in any business, SMEs face different challenges in different aspects depending on the general economic climate, industry sector and stage of growth.
- ❖ Entrepreneurs are interested in ensuring the sustainability of their businesses; hence they would be seeking assistance from experts in areas where they believe their businesses could be further strengthened.
- ❖ SMEs want assurance on their business, not just assurance on their financial statements.
- ❖ While accountants are required to uphold professional values including the duty of confidentiality, SMEs do not see trustworthiness as the main aspect in making their purchase decision and are even concerned about information security when dealing with accountants.
- ❖ Further strengthening of relations between accountants and SMEs is desired to ensure more sustainable business relationships, subject to the continuing affordability of services offered to the SMEs.
- ❖ Accountants serving the SMEs should not limit their scope of services to the traditional compliance services but also venture into areas which further enhance the competitiveness of the SMEs' business as indicated by the future purchase plan of the SMEs
- ❖ The relative strength of accountants in accounting, taxation, assurance and corporate services should be capitalised to offer other services in business advisory areas which are also needed by the SMEs.
- ❖ While technical knowledge appears to be the key driver that attracts SMEs, they are also cost sensitive and demand more understanding about their business and certain service levels from the accountants.
- ❖ Investment in the staff's professional development and service quality would enhance the attractiveness of an SMP in servicing the SMEs.



## MOVING FORWARD THOUGHTS

- ❖ It is crucial to consider the balance between the needs of SMEs and capital market given its importance in Malaysia's economic growth.
- ❖ To provide specialized assistance in areas where SMEs lack certain skill sets. In line with this, the MIA Professional Development Centre needs to target accountants in fulfilling this demand for the country.
- ❖ The institutions of higher learning also play an important role in that they need to understand the requirements of the SME sector to ensure that the educational syllabus is adequate to provide the required knowledge and skill sets.
- ❖ Achieving cost efficiency and product improvements should be a priority for SMEs, thus every facet of the business operations has to be examined to identify ways to streamline the processes, eliminate waste, adopt new technology and consolidate activities in ensuring better performance.
- ❖ It is vital for SMEs to acquire a competitive edge by raising the level of value creation and finding new areas of growth which requires the shifting of resources to new areas of competitive advantage.
- ❖ In riding through challenging times, SMEs need to possess the agility to adapt to changing conditions and entrepreneurial skills to prosper in the current economic scenario. Accountants in particular, who act as preparers in SMEs or as SMPs, should give serious consideration to the merits of attaining resources internally vs. outsourcing.



## ACKNOWLEDGEMENT

We hope you find the results of this survey interesting and insightful. We wish to record our appreciation to the parties that have made this survey possible namely the Malaysian Accountancy Research & Education Foundation (MAREF) for funding this project and the research team at Universiti Malaya headed by Assoc. Prof. Dr. Ong Fon Sim and her dedicated team members namely Dr. Anna Azriati Che Azmi, Assoc. Prof. Dr. Che Ruhana Isa, Dr. Ruzita Jusoh and Dr. Yusniza Kamarulzaman.

To those who participated and contributed their time towards this survey, we thank you.

If you require additional hardcopies of the SME Survey Report 2008, please contact:

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