



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



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PART I

INTRODUCTION

1.1 Introduction

The small and medium enterprises (SMEs) permeate all sectors of the economy in Malaysia. According to the Census of Establishments and Enterprises (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 subsector in the services sector, contributed RM33.1 billion to gross domestic product (GDP) and created 1.3 million jobs. These statistics showed that SMEs are vital towards the development of the Malaysian economy.

1.2 Background of the Study

Recognising the importance of the growth of SMEs to the economy, the Malaysian government outlined various strategies in the Ninth Malaysia Plan (9MP) and the Third Industrial Master Plan (IMP3) to ensure the development of SMEs especially in the manufacturing and distributive trade sector. Under the 9MP, the government allocated nearly RM2 billion for the distributive trade sector (this includes SMEs) and more than RM2 billion was allocated to develop SMEs in the manufacturing sector. A major part of the allocation outlined in 9MP was to help SMEs acquire business, management and information technology skills to ensure their growth in both these sectors. To date, there is hardly any published study relating to the demand of business and management services by SMEs in Malaysia.

1.2.1 Services that will assist SMEs in Defining and Building Competitive Advantage

There are major impending challenges that SMEs face such as the changing international market environment, competition from emerging markets, changing global business trends and advancement in technology. These challenges could be met if SMEs, in the manufacturing sector, develop their capabilities in ICT, be more involved in research and development activities, enhance their technical, professional, managerial, entrepreneurial skills and explore possible market opportunities. For the distributive trade sector, the SMEs also face competition due to the entry of foreign retailers who have innovative supply chain activities. SMEs in the distributive trade industry need to adopt an innovative business approach, create strategic collaborations, increase their use of ICT and forge closer ties with the other economically related industries such as the manufacturing industry.

Most of the skills that SMEs in the manufacturing and distributive trade sectors require to be successful are broad based management skills. While some of these key skills could be developed in-house, much of the services could be out-sourced so that SMEs can focus on their core business. Studies have shown that successful business growth is strongly linked to external advice (e.g. Bryson et al., 1997).

1.2.2 The Types of Services that SMEs Currently Buy from Accountants

There are not many studies in Malaysia that examines the purchasing patterns of business services among SMEs. However, in other countries such as the UK, accountants were found to be the most frequent source of external advice among SMEs (Bennett & Robson, 1999b). External accountants are perceived to be highly competent in providing professional skills (Carey et al., 2005). Studies show that SMEs do purchase business advice from their accountants if they have established a successful relationship with their accountants (Marriott et al. 2006). Thus, accountants could utilise their existing relationship with the SMEs to their advantage by playing a bigger role in providing SMEs with the necessary business and management services.

Professional Accountants in Business (PAIB) (2004) conducted a study in various parts of the World (including Malaysia) on the role that accountants play in the business world. They found that the roles are diverse, encompassing enterprise governance, strategic support, internal control, shareholder communications, treasury, project management, corporate finance, information technology, risk management, analysis and information management. Carey et al. (2005) indicated that 67% of SMEs in Australia purchase business advice, which range from financial matters to improving operational performance, from their external accountants. Examples of business advice were matters pertaining to corporate finance, business restructuring, financial planning, performance review, benchmarking, risk management practices, information technology resources and control system.

However, upon closer examination, the types of business services that SME mostly purchase from accountants were related to financial matters and operational performance (Carey et al., 2005). Small businesses were not inclined to consider accountants for advice concerning general management issues (Kirby & King, 1997).

1.2.3 Factors that Influence SMEs to Purchase Business and Management Services from External Accountants

There are various factors that may influence SMEs to purchase services from external accountants. First, the size of the firm does influence their decision to purchase external business advice. Larger SMEs purchased more external business advice than small or medium sized SMEs (Bennett & Robson, 2003). Larger SMEs benefit more from the use of external business advice (Bennett & Robson, 1999a). Second, the growth phases of the SMEs also influence the purchase of business services. SMEs experiencing slower growth purchase more external business advice than those that are experiencing higher growth. Third, the availability of expertise in the SMEs also influences their decision to seek external advice. This means that if the business employs in-house accountants, the owner is a qualified accountant or a professional, or the business is managed by a professional manager, the business is less likely to purchase external business advice.

For SMEs, the cost of purchasing business and management services from accountants is a vital consideration. However, competitive fee structure is not the sole factor that influence owner of SMEs to purchase business advice from accountants. Non price-based factors such as specialisation, quality, speed of delivery and customisation to client's needs were also important consideration (Bagchi-Sen & Kuechler, 2000). Owners of SMEs only purchase

business advice from accountants if they are convinced that accountants are able to provide quality business and management services that are tailored to their needs. Accounting firms that are pro-active and functionally diversified are more likely to be chosen as business service providers by SMEs.

In summary, SMEs need to acquire managerial and business skills to remain competitive in the business world. These skills could be outsourced to external accountants. Studies have shown that accountants are capable of providing these business and management services to SMEs. There are two major factors that influence SMEs to purchase business advice from external accountants: characteristics of SMEs and the characteristics of their accountants.

Thus, this study, commissioned by the Malaysian Institute of Accountants (MIA) and funded by the Malaysian Accountancy Research and Education Foundation, (MAREF) observes the current usage patterns of business services among SMEs. From this study, MIA will be able to identify and expand the range of services that external accountants could provide to SMEs. The question that is posed is “Where do SMEs turn to for services that they are incapable of performing other than those that are mandatory?”

1.3 Objective

The objectives and scope of this study are as follows:

- i) To understand the needs of SMEs for business support services.
- ii) To identify support services (accredited and non-accredited professional services) that will assist SMEs in defining and building competitive advantage.
- iii) To broadly assess the extent of demand for such services.
- iv) To identify the types of services and the extent that SMEs currently buy from external accountants.
- v) To gauge the level of satisfaction among SMEs regarding the current types and scope of services provided by public accountants.
- vi) 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.
- vii) To forward recommendations to MIA.

As this is the very first study commissioned by MIA, the sub-sectors covered are the SMEs in the manufacturing and distributive trade sectors.

1.4 An Overview of the SMEs in the Manufacturing and Distributive Trade Industry

According to the Third Industrial Master Plan (IMP3), SMEs in the manufacturing sector are enterprises that have less than 150 full time staff and report an annual sales turnover of less than RM25 million. SMEs in the manufacturing sector could be divided into sub-sectors such as textiles and apparel, food and beverages, metal and metal products. The 3 main subsectors, which constituted nearly 40% of the manufacturing SMEs were textiles and apparel, food and beverages, and metal and metal products (Refer to Table 1.1).

Table 1.1: The number of SME establishments in the manufacturing sub-sectors

Manufacturing sub-sectors	Number of establishments	Share (%)
Textiles and apparel	8,779	23.2
Food and beverages	5,664	15.0
Metals and metal products	4,686	12.4
Paper, printing and publishing	3,483	9.2
Furniture	2,286	6.0
Rubber and plastics products	2,166	5.7
Wood and wood products	2,052	5.4
Non-metallic mineral products	1,650	4.4
Machinery and equipment	1,390	3.7
Electrical and electronics	1,077	2.8
Chemicals and chemical products	1,047	2.8
Transport equipment	699	1.8
General manufacturing ¹	2,887	7.6
Total	37,866	100.0

Note: ¹ Includes leather products, tobacco products, medical, precision and optical instruments, recycling and petroleum products

Source: Census of Establishments and Enterprises 2005, Department of Statistics

SMEs in the distributive sector are enterprises that have less than 50 full time staff and report an annual sales turnover of less than RM5 million. The IMP3 listed wholesale, retailing (includes franchising, direct selling), catering, restaurants and distributors of motor vehicles and other consumer durable goods as industries which fall under distributive trade. Retail was the largest sub-category while wholesale was the smallest subcategory (Refer to Table 1.2).

Table 1.2: The distributive trade sector: number of establishments, fixed assets and revenue

Activity	Establishments		Fixed Assets		Revenue	
	Number	Share (%)	(RM million)	Share (%)	(RM million)	Share (%)
Total	284,171	100.0	26,031	100.0	248,680	100.0
Wholesale	16,386	5.8	13,258	50.9	11,992	46.2
Retail	153,660	54.1	7,693	29.6	71,654	28.8
Motor vehicles	31,800	11.2	3,166	12.2	48,862	19.6
Restaurants	82,325	29.0	1,194	7.4	13,172	5.3

Source: Census of Distributive Trade 2002, Department of Statistics

1.5 Organisation of the Report

Part I of the report introduces the SMEs in the manufacturing and distributive trade sectors, objectives and scope of the study. Part II of the report outlines the methodology adopted in this study. Part III presents the data analysis of the findings and Part IV presents the recommendations.

PART II

METHODOLOGY

2.1 Research Design

This research employed two types of methodologies. First, qualitative research was conducted followed by quantitative research design. As the main objective of the study was to identify the potential business services that could be offered to SMEs by external accountants, a descriptive research design was the most appropriate in probing and in understanding the insights of SMEs on topics related to issues, challenges, advantages and disadvantages of hiring external accountants, as well as their usage patterns of professional and business services.

1. **FGDs** - The exploratory research was conducted through focus group discussions (FGD) as it is necessary to have a clear picture of the actual experiences and opinion of respondents (Morgan, 1988; Krueger, 1994; Vaughn et al., 1996). The preliminary findings from the FGDs were used as inputs to the questionnaire design. Other sources of information used were from secondary data sources, in addition to the knowledge of the researchers.

2. **Survey** - Based on the feedback gathered from the FGDs, a questionnaire was developed as the survey instrument. Mail survey was used (refer Table 1 for the details). In addition, the questionnaire was also distributed through MIA to their members. The snowballing method was also used since the research team was facing time constraint.

Table 2.1: Questionnaire Design and Data Collection

Method/ Task	Description of Activities	Members of FGDs/ Numbers of questionnaires	Time/ Length
Focus Group Discussion (FGD)	One FGD was conducted amongst the Service Providers (the accountants)	<ul style="list-style-type: none"> • FGD = 6 (Accountants) 	March – April 2008
FGD	Three FGDs were conducted to get views and opinions of SMEs on their usage of professional and business services. The members of the FGDs were recruited from the Manufacturing and Distributive Trade sectors in Klang Valley.	<ul style="list-style-type: none"> • 1st FGD = 5 (SMEs) • 2nd FGD = 5 (SMEs) • 3rd FGD = 3 (SMEs) 	April 2008
Questionnaire Design	The questionnaire was developed based on the inputs from the FGDs, literature and public reports.	n/a	April - March 2008
Questionnaire (Pre-test)	The questionnaire was pre-tested amongst MIA members. The aim was to obtain comments on the design, content and clarity of the questionnaire.	50 distributed 5 collected	May 2008
Questionnaire (Pilot test)	The refined questionnaire was tested on a group of SMEs in Klang Valley, conducted (self-administered) at the SMIDEX conference and exhibition 2008. The aim was to test and gauge the user-friendliness of the questionnaire in addition to clarity of the questions. Face validity was tested too.	43 distributed 23 collected	May 2008
Initial Survey	The survey was conducted in June-July 2008. A total of 1200 questionnaires were mailed to SMEs (list of names taken from SMIDEC online database) in the Manufacturing and Distributive Trade sectors in Klang Valley.	1200 mailed 91 returned 83 usable	June - July 2008
Survey Reminder	Follow up calls were made to increase the response among SMEs. Survey questionnaires were re-sent to some of the SMEs due to undelivered mail.	697 follow up calls	July 2008
Final Survey	Further data collection conducted by MIA	69 returned 62 usable	October 2008
TOTAL USABLE RESPONSES		145	21st October 2008

PART III

PROFILE OF SMEs AND SERVICES BUYING BEHAVIOUR

A total of 160 questionnaires were received and out of this total 15 questionnaires were not selected for the final data analysis as they were larger companies with full time employees of more than 150. The final data analysis was based on 145 useable questionnaires.

3.1 Profile of SMEs

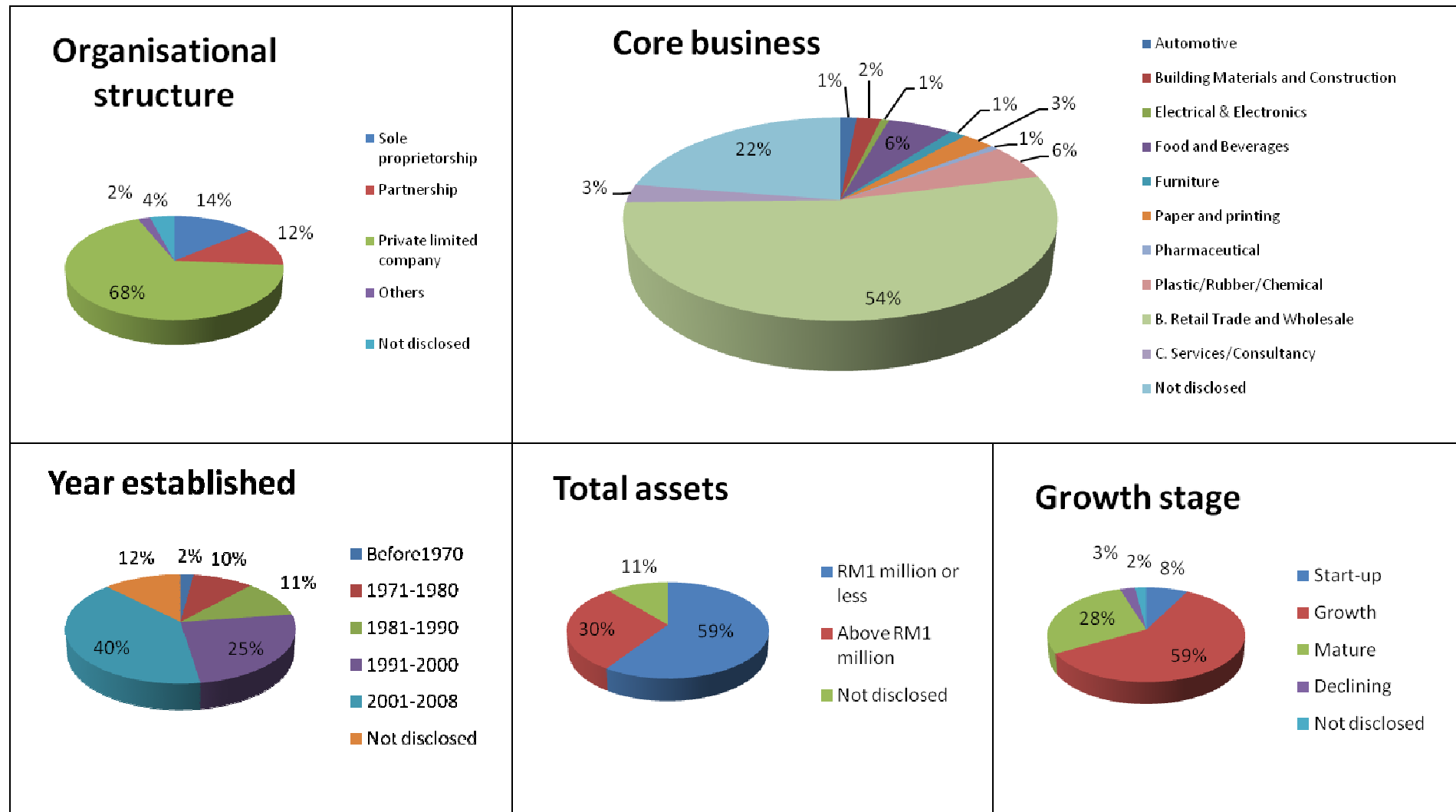
Table 3.1 shows that almost half of the sampled firms were operating in the manufacturing sector 24.83%, 51.03% from the retail trade and wholesale, 2.76% were in services sector while the remaining were in various industry sectors.

Table 3.1: Profile of SMEs

Core Business			Year established	N	Percent
A. Manufacturing:	N	Percent	Before 1970	3	2.07
Automotive	2	1.38	1971-1980	14	9.66
Building Materials and Construction	3	2.07	1981-1990	16	11.03
Electrical & Electronics	1	0.69	1991-2000	36	24.83
Food and Beverages	8	5.52	2001-2008	58	40.00
Furniture	2	1.38	Not disclosed	18	12.41
Paper and printing	4	2.76	Total	145	100.00
Pharmaceutical	1	0.69			
Plastic/Rubber/Chemical	8	5.52	Total Assets	N	Percent
Others	7	4.83	RM1,000,000 or less	86	59.31
Sub-Total	36	24.83	Above RM1,000,000	43	29.66
B. Retail Trade and Wholesale	74	51.03	Not disclosed	16	11.03
C. Services/Consultancy	4	2.76	Total	145	100.00
Not disclosed	31	21.38			
Total	145	100.00	Growth Stage	N	Percent
			Start-up	11	7.59
Organisation structure	N	Percent	Growth	86	59.31
Sole proprietorship	20	13.79	Mature	41	28.28
Partnership	18	12.41	Declining	4	2.76
Private limited company	98	67.59	Not disclosed	3	2.07
Others	3	2.07	Total	145	100.00
Not disclosed	6	4.14			
Total	145	100.00	(Rate of growth* of core business within the last 3 years: Mean = 3.19, SD = 0.60) Scale ranges from 1 = very poor to 5 = very good		

The majority (n=98 or 68%) of the SMEs were private limited companies, 20 were sole proprietorship, and 18 were under partnerships. Most of the SMEs surveyed were established over the last decade with 65% or 94 having started their business between 1991 till present. Two percent were more than 30 years old while 11% aged between 17 to 27 years old. Eighteen companies did not disclose the year the business was set up. About 60% 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 value of their asset . 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, eleven described their business as start-ups while only 4 companies reported decline. When measured using the mean, the overall stage of growth was at the average with mean = 3.2, SD = 0.6.

Chart 3.1 : Profile of SMEs

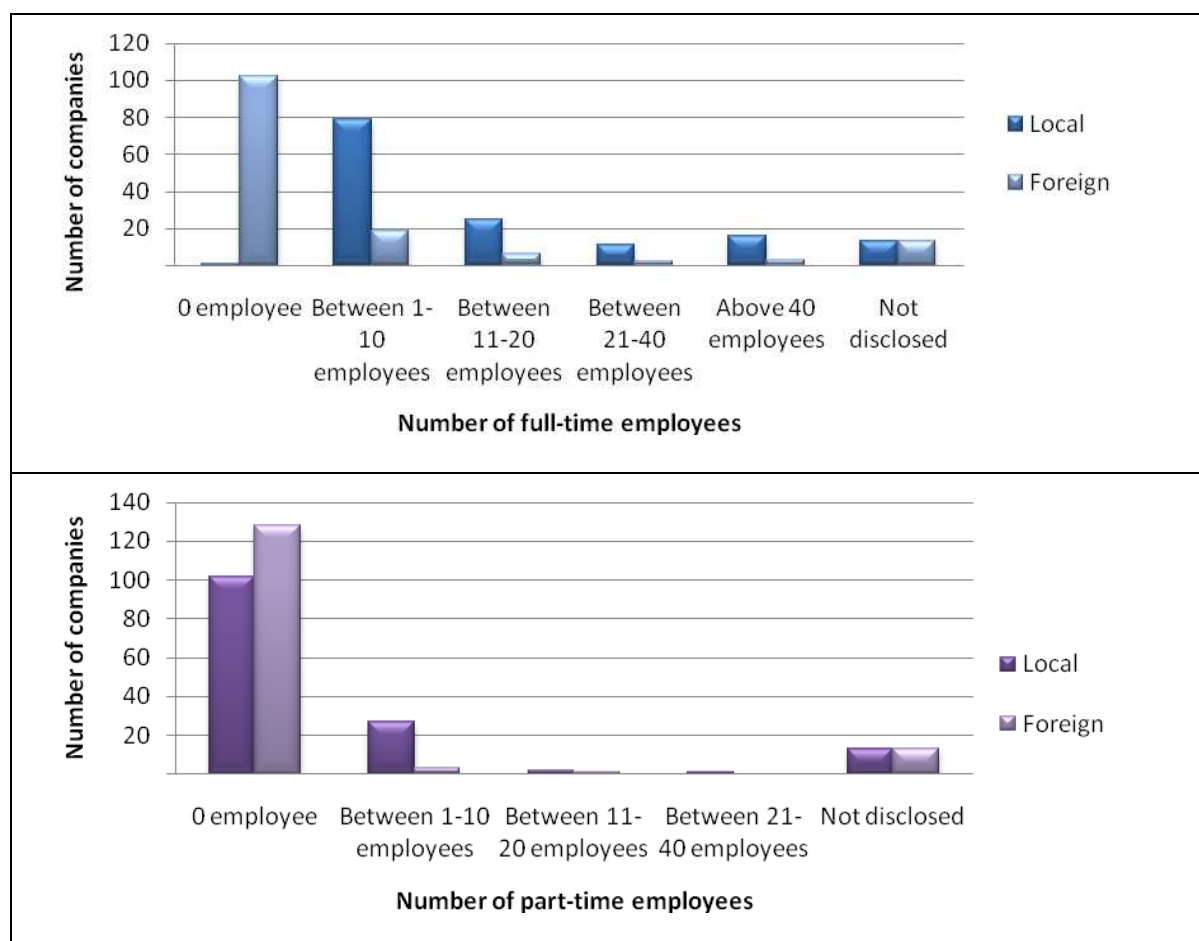


These SMEs engaged both full time and part-time employees comprising both local and foreign workers.

Table 3.2: Number of Companies with Full-Time and Part-Time Employees

Number of Employees	Number of Companies			
	With Full-Time Employees		With Part-Time Employees	
	Local	Foreign	Local	Foreign
0 employee	1	102	102	128
Between 1-10 employees	79	19	27	3
Between 11-20 employees	25	6	2	1
Between 21-40 employees	11	2	1	0
Above 40 employees	16	3	0	0
Not disclosed	13	13	13	13
Total	145	145	145	145

Chart 3.2: Number of Companies with Full-Time and Part-Time Employees



3.1.1 Business Performance

To assess the perception of firms' business performance, the sampled firms were requested to rate their firms' performance relative to competitors across a range of financial and non-financial performance indicators. The results of the study indicated that on average the SMEs rated their performance relatively low as indicated by mean scores below 3.0 for all indicators except for sales (mean = 3.18), cost control (mean = 3.10) and market share (mean = 3.00). The lowest mean score was cash flow (mean = 2.91, SD = 0.75).

Table 3.3: Business Performance (Overall Sample)

Performance Indicators	N	Mean	Std. Deviation
Sales	140	3.18	.70
Cost control	143	3.10	.79
Market share	132	3.00	.71
Market development	134	2.98	.80
Product development	135	2.96	.84
Profit	142	2.92	.78
Cash flow	143	2.91	.75

*Five point scale ranges from 1 = "significantly lower" to "5 = significantly higher"

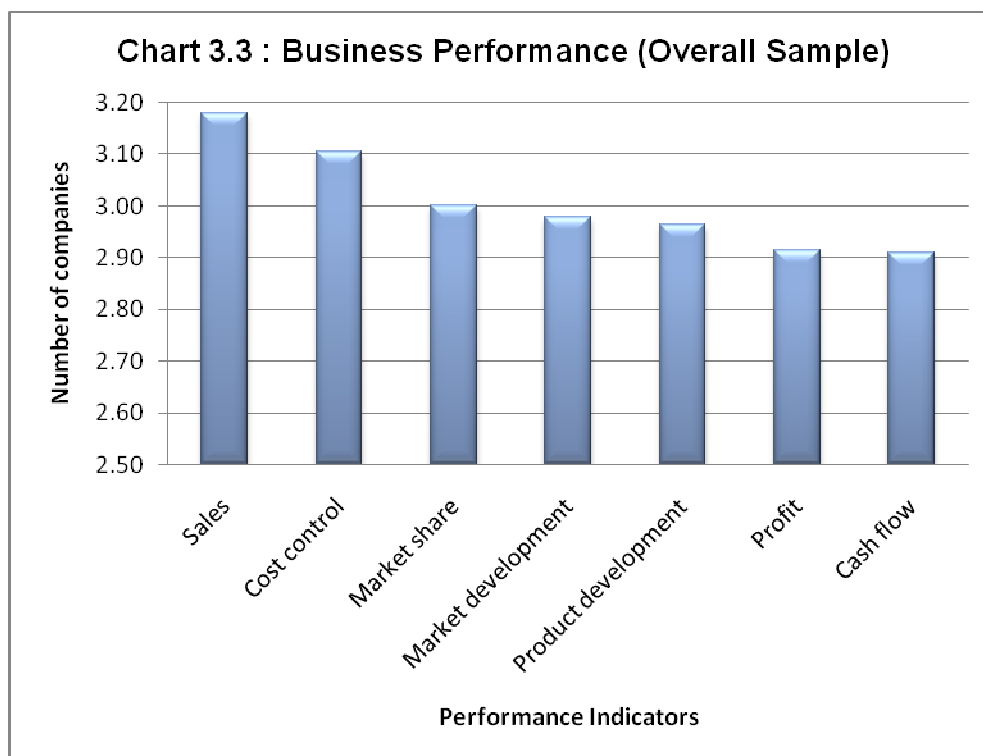
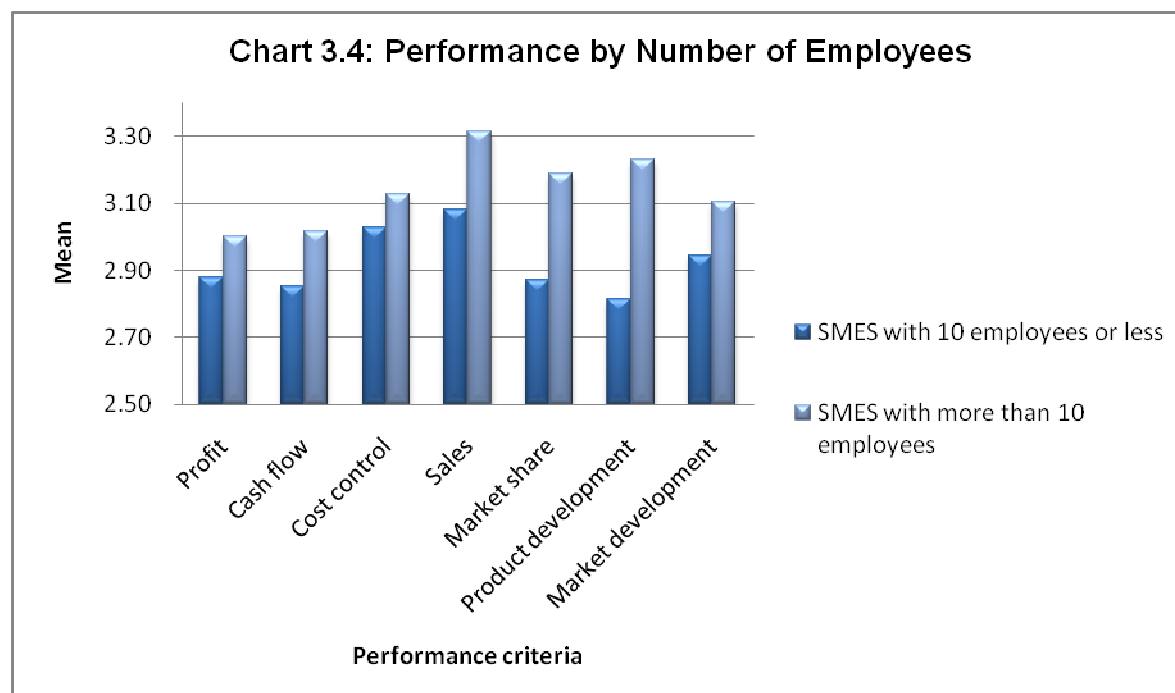


Table 3.4 shows further analysis of business performance by employee size measured by the number of fulltime employees. Firms with more than 10 full time employees rated their performance significantly higher than firms with less than 10 employees in two performance indicators: market share and product development. There were no significant differences in other performance indicators between these two groups of firms.

Table 3.4: Performance by Number of Employees

Performance Indicators	Number of Full Time Employees (Local and Foreign)						T-Test
	SMES with 10 employees or less			SMES with more than 10 employees			
	N	Mean	SD	N	Mean	SD	
Profit	74	2.88	0.76	55	3.00	0.84	
Cash flow	75	2.85	0.67	55	3.02	0.83	
Cost control	75	3.03	0.72	55	3.13	0.79	
Sales	73	3.08	0.68	54	3.31	0.75	
Market share	70	2.87	0.54	53	3.19	0.86	P=(0.020)**
Product development	70	2.81	0.75	52	3.23	0.90	P=(0.008)**
Market development	73	2.95	0.72	48	3.10	0.88	

**p<0.05

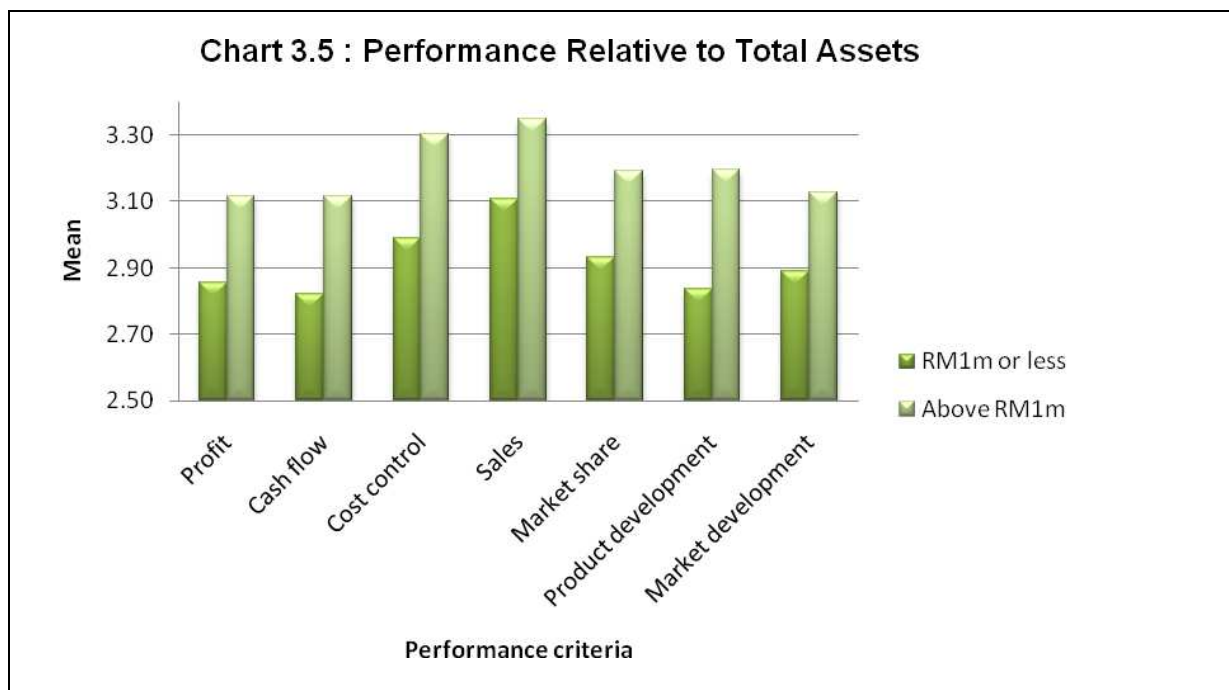


Business performance by total assets was analysed. Firms with assets of more than RM1 million and those with total assets RM1 million or less reported significantly different performance in three of the indicators covered in this study. Firms with total assets of more than RM1 million rated their performance in terms 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 firms. Although these two groups of firms performed differently in 3 of the indicators, we could observe that firms with large assets tend to perform better in all of the indicators covered in the study.

Table 3.5: Performance Relative to Total Assets

Performance Indicators	Total Assets						T-Test
	RM1m or less			Above RM1m			
	N	Mean	SD	N	Mean	SD	
Profit	83	2.86	.72	43	3.12	.85	
Cash flow	84	2.82	.73	43	3.12	.76	P= (0.036)**
Cost control	84	2.99	.74	43	3.30	.77	P= (0.027)**
Sales	82	3.11	.69	43	3.35	.65	
Market share	75	2.93	.60	42	3.19	.83	
Product development	79	2.84	.85	41	3.20	.84	P= (0.030)**
Market development	81	2.89	.81	39	3.13	.83	

*
**p<0.05



In order to understand SMEs patronage behaviour in accounting services, the respondent companies were asked about who maintained the company accounts and who prepared their financial statements. Survey results showed that the majority (82.1%) of SMEs maintained their own accounts while only 16.6% hired external accountants for the purpose (Table 3.6). 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.

Table 3.6: Preparation of Accounts and Financial Statements

	Maintenance of accounts		Preparation of financial statements	
	N	Percent	N	Percent
In-house/ Your own staff	113	77.9%	92	63.4%
External Accountants	24	16.6%	47	32.4%
Not Stated	8	5.5%	6	4.1%
Total	145	100.0%	145	100.0%

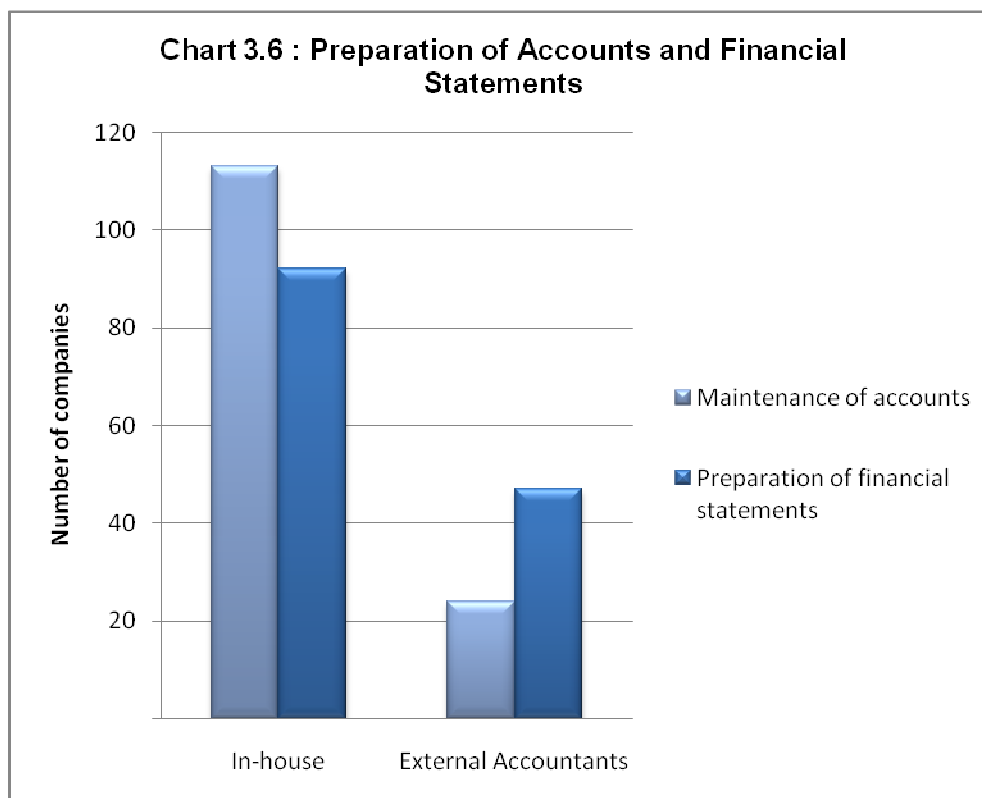
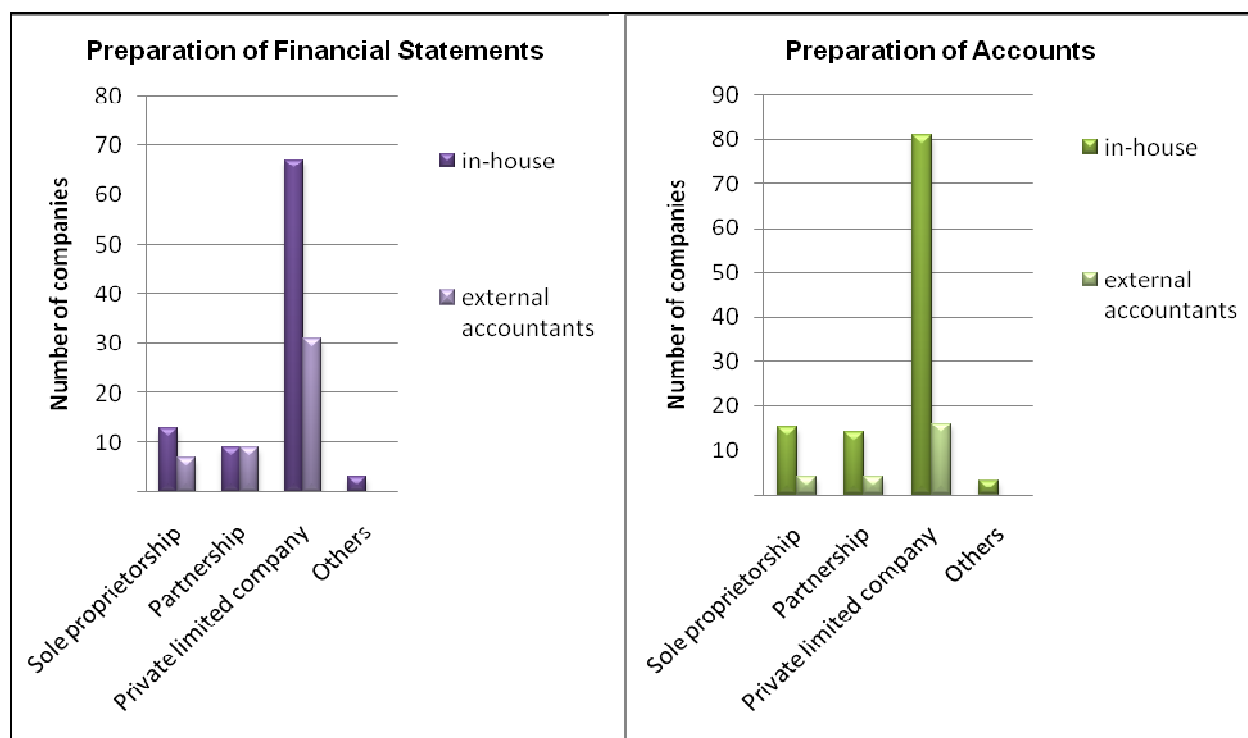


Table 3.7 and chart 3.7 show the patronage behaviour in accounting services according to organization structure. The results show that a majority of the respondent companies from all the categories; sole proprietorship (79%), partnership (78%) and private limited company (84%), maintained their own accounts. However, a lower proportion of the respondent companies prepared their own financial statements. The results show that 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.

Table 3.7: Preparation of Accounts and Financial Statements (by business structure)

Organisation structure	Maintenance of accounts			Preparation of financial statements		
	in-house N (%)	external accountants N (%)	Total N (%)	in-house N (%)	external accountants N (%)	Total N (%)
Sole proprietorship	15 (79)	4 (21)	19 (100)	13 (65)	7 (35)	20 (100)
Partnership	14 (78)	4 (22)	18 (100)	9 (50)	9 (50)	18 (100)
Private limited company	81 (84)	16 (16)	97 (100)	67 (68)	31 (32)	98 (100)
Others	3 (100)	-	3 (100)	3 (100)	-	3 (100)
Total	113 (82)	24 (18)	137 (100)	92 (66)	47 (34)	139 (100)

Chart 3.7: Preparation of Accounts and Financial Statements (by business structure)



3.2 SMEs as Buyer of Business Services

3.2.1 Business Services Obtained In-house and Outsourced

This section discusses the types of business services used by the respondent SMEs and the source from which they purchased such services. Table 3.8 shows the results. Analysing the results based on the number of users for a particular service, it can be seen that the widely used professional and business services were accounting (N=137), market research, taxation and legal (N=131), and assurance (N=123). The most in-frequently used professional service was R&D, in which only 98 firms were engaged in it.

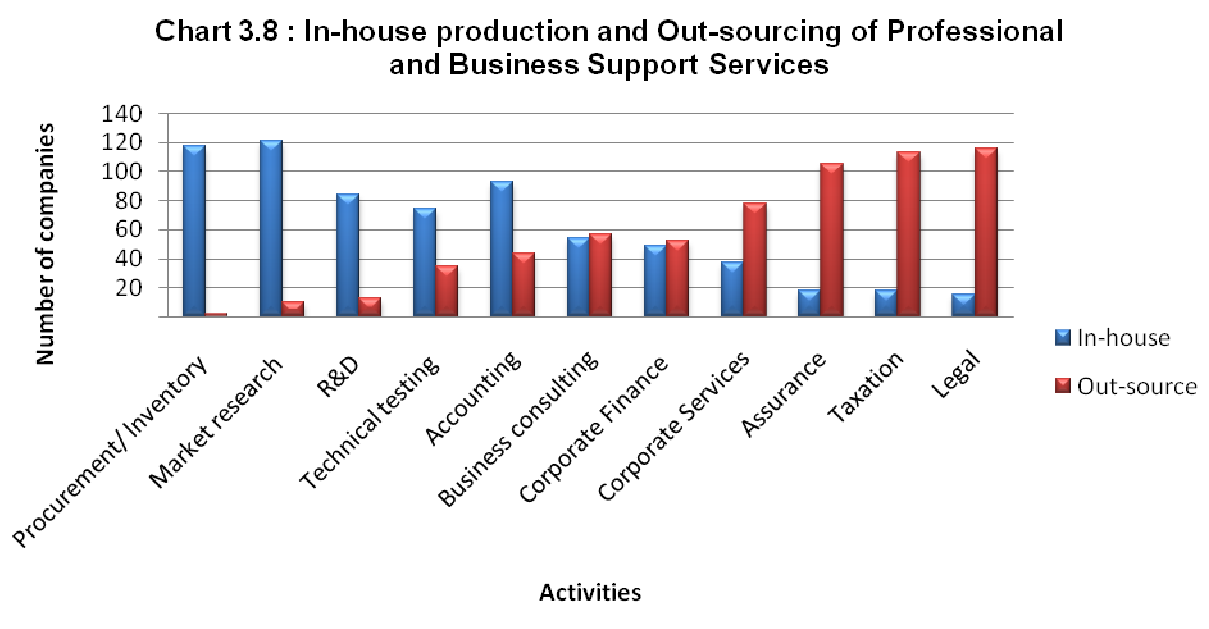
For accounting, 68% of the firms produced it in-house while 32% outsourced it. For market research services, 92% of the firms produced it in-house while only 8% outsourced it. For legal services, about 89% of the services were outsourced while only 11% produced it in-house, perhaps employing their own legal professional. For taxation, about 86% outsourced it while 14% produced it in-house. For assurance services, 85% of the firms outsourced it while 15% produced it in-house. The business support service that was mostly produced in-house was procurement which is to be expected for SMEs. It is surprising to find that market research was mostly produced in-house. This could be related to market research activities that the firms are capable of handling.

In short, the services that are mostly produced in-house were: procurement, market research, R&D, technical testing and accounting. For services that were outsourced by most of the respondent firms were: legal, taxation, assurance and corporate services.

Table 3.8: In-house production and Outsourcing of Professional and Business Support Services

Activities	Total No. of users	In-house N (%)	Rank *	Outsource N (%)	Rank*
Procurement/Inventory management	120	118 (98.3)	1	2 (1.7)	11
Market research	131	121 (92.4)	2	10(7.6)	10
R&D	98	84 (85.7)	3	13 (13.3)	9
Technical testing	109	74 (67.9)	4	35 (32.1)	8
Accounting	137	93 (67.9)	5	44 (32.1)	7
Business consulting	111	54 (48.6)	6	57 (51.4)	6
Corporate Finance	101	49 (48.5)	7	52 (51.5)	5
Corporate Services	115	37 (32.2)	8	78 (67.8)	4
Assurance	123	18 (14.6)	9	105 (85.4)	3
Taxation	131	18 (13.7)	10	113 (86.3)	2
Legal	131	15 (11.5)	11	116 (88.5)	1

*Rank is based on row percentages



3.2.2 Advantages and Reasons for Outsourcing

Overall, the most frequently cited advantage for most outsourced activities was 'access to specialist' services except for market research and procurement (refer Table 3.9). Taking each of the activities outsourced, it is clear that for legal, accounting and taxation services, the advantage of accessibility to specialist services was the most frequently cited advantage.

Table 3.9: Most Important Advantages of Outsourcing

Advantages Activities outsourced	Costs saving N (%)	Increased productivity N (%)	Improve capability N (%)	Help in service delivery N (%)	Access to specialist N (%)	Total N (%)
R&D	15 (25.0)	15 (25.0)	7 (11.7)	9 (15.0)	14 (23.3)	60 (100)
Market research	9 (15.3)	18 (30.5)	14 (23.7)	10 (16.9)	8 (13.6)	59 (100)
Procurement/ Inventory management	10 (28.6)	5 (14.3)	9 (25.7)	5 (14.3)	6 (17.1)	35 (100)
Legal	29 (13.9)	16 (7.7)	39 (18.7)	35 (16.7)	90 (43.1)	209 (100)
Accounting	26 (19.3)	16 (11.9)	26 (19.3)	14 (10.4)	53 (39.3)	135 (100)
Taxation	51 (21.3)	27 (11.3)	40 (16.7)	34 (14.2)	87 (36.4)	239 (100)
Assurance	37 (17.1)	27 (12.4)	45 (20.7)	33 (15.2)	75 (34.6)	217 (100)
Corporate Services	25 (16.6)	17 (11.3)	27 (17.9)	28 (18.5)	54 (35.8)	151 (100)
Corporate Finance	18 (16.2)	11 (9.9)	26 (23.4)	19 (17.1)	37 (33.3)	111 (100)
Business consulting	18 (16.4)	21 (19.1)	21 (19.1)	11 (10.0)	39 (35.5)	110 (100)

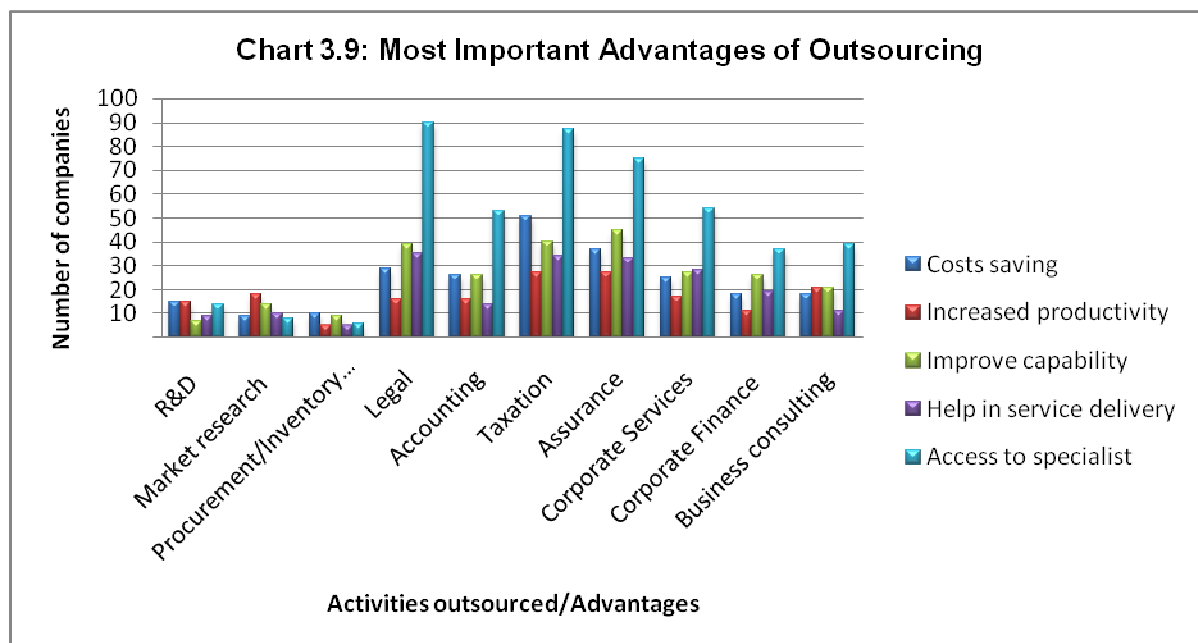


Table 3.10 shows the most frequently selected service providers for outsourced business services. When asked from whom these services were obtained, accountants were selected as service provider for accounting, taxation, assurance, and corporate services activities; lawyers for legal activities; banks for corporate finance activities; and consultants for business consulting activities.

The respondent SMEs were also asked to state three most important reasons for their choice of service providers of professional and business support services. Table 3.11 shows that 'competitive costs/price', 'perceived best quality' and 'strength in technical knowledge' were the most frequently cited reasons for selecting service providers. On time delivery was considered important for selecting providers for procurement while creativity of service providers was important for marketing activities. They 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 were important.

Future Plans for Outsourcing

To assess the future plans of respondent firms to outsource business services, the respondents were asked to indicate their plans to further outsource their business activities, for 2009, during 2010 to 2013, and during 2014 to 2016, respectively. A considerably high percentage of the firms plan to outsource business services within these three time frames. Almost 42% (N=30), 80% (N=59) and 68% (N= 42) of the firms indicated their intention to outsource their business and professional activities in 2009, during 2010 to 2013, and during 2014 to 2016, respectively. This can be seen as an opportunity for external accountants to provide their services not only in the conventional compliance activities, but also in other related services.

Table 3.10: Service Providers for Professional and Business Support Services

Providers Activities Outsourced	Accountants N (%)	Lawyer N (%)	Bank N (%)	Business friend/ relative N (%)	Customers N (%)	Suppliers/ Vendors N (%)	Consultants N (%)	Chambers of commerce N (%)	Trade/ Professional Associations N (%)	Government Agencies N (%)
R&D	-	1 (0.9)	1 (2.4)	2 (3.8)	3 (20)	7 (29.2)	10 (8.1)	-	4 (6.3)	4 (36.4)
Marketing	-	-	-	9 (17.0)	8 (53.3)	9 (37.5)	8 (6.5)	1 (9.1)	6 (9.4)	2 (18.2)
Procurement/ inventory management	6 (2.3)	-	-	1 (1.9)	-	4 (16.7)	1 (0.8)	-	-	-
Legal	2 (0.8)	107 (92.2)	2 (4.9)	4 (7.5)	-	-	6 (4.9)	1 (9.1)	3 (4.7)	-
Accounting ¹	65 (25.2)	-	4 (9.8)	5 (9.4)	-	-	5 (4.1)	-	1 (1.6)	-
Taxation ²	73 (28.3)	1 (0.9)	2 (4.9)	8 (15.1)	-	-	19 (15.4)	-	11 (17.2)	-
Assurance ³	58 (22.5)	-	6 (14.6)	10 (18.9)	1 (6.7)	1 (4.2)	14 (11.4)	-	12 (18.8)	-
Corporate Services ⁴	28 (10.9)	3 (2.6)	4 (9.8)	4 (7.5)	1 (6.7)	1 (4.2)	14 (11.4)	5 (45.5)	16 (25.0)	-
Corporate Finance ⁵	13 (5.0)	1 (0.9)	22 (53.7)	4 (7.5)	-	-	16 (13.0)	1 (9.1)	4 (6.3)	3 (27.3)
Business Consulting ⁶	13 (5.0)	3 (2.6)	-	6 (11.3)	2 (13.3)	2 (8.3)	30 (24.4)	3 (27.3)	7 (10.9)	2 (18.2)
Total	258(100)	116 (100)	41 (100)	53 (100)	15 (100)	24 (100)	123 (100)	11 (100)	64 (100)	11 (100)

¹ Accounting services: Book keeping, Financial Statement Compliance, Budgeting / Forecasting, Product / Services Costing, Customer Profitability Analysis, Financial Planning

² Taxation services: Tax Compliance, Tax Planning, Tax Dispute Resolution, Tax Incentives Application

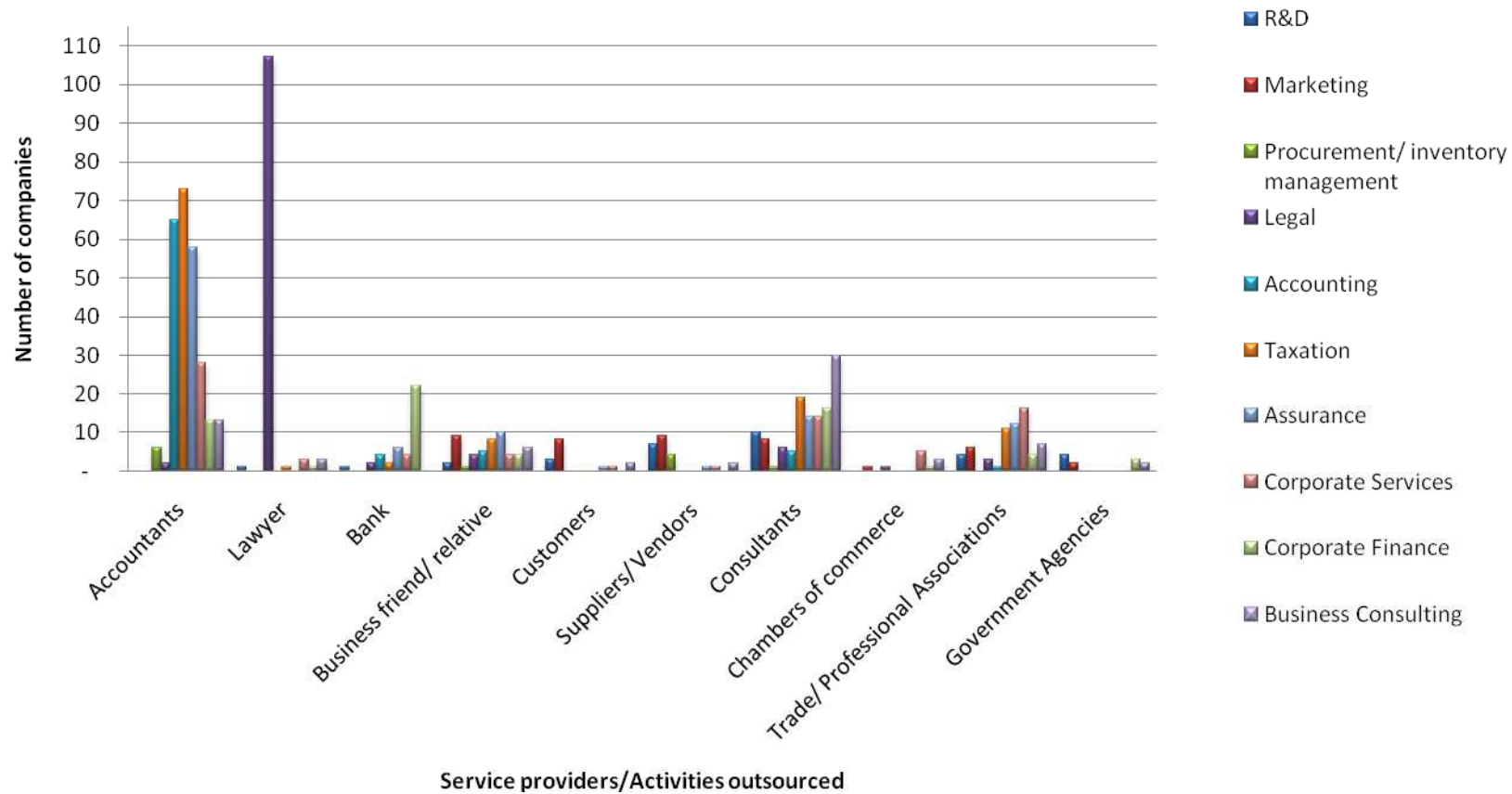
³ Assurance services: Financial Audit, Internal Audit, Internal Control Review, Financial Due Diligence

⁴ Corporate services: Company Secretarial Services, Mergers & Acquisitions

⁵ Corporate Finance services: Fund Raising, Financial Management Services

⁶ Business Consulting services: Business Strategy & Planning, Performance Management, IT Consulting Advisory, Business Restructuring, Insolvency & Receivership, HR Consulting

**Chart 3.10a: Service Providers for Professional and Business Support Services
(by service providers)**



**Chart 3.10b: Service Providers for Professional and Business Support Services
(by activities outsourced)**

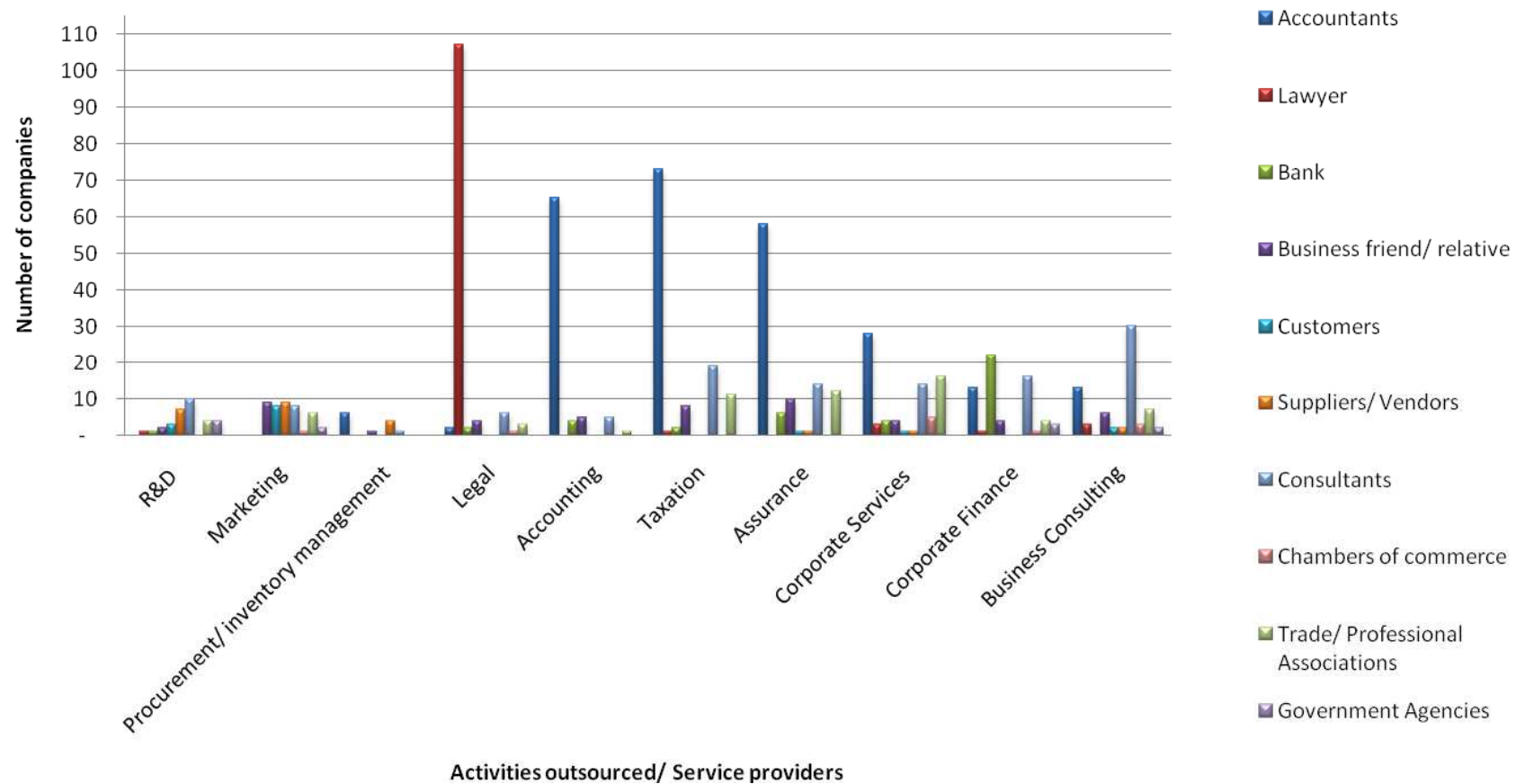


Table 3.11: Reasons for Selecting Service Providers for Professional and Business Support Services

Reasons	Competitive costs/price	On time delivery	Perceived best quality	Creativity & innovativeness	Knows my needs best	Networking ability	Strength in technical knowledge	Established relationship	Respon-siveness	Total
Activities Outsourced	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)	N (%)
R&D	8 (13.6)	2 (3.4)	15 (25.4)	5 (8.5)	7 (11.9)	4 (6.8)	13 (22.0)	5 (8.5)		59 (100)
Marketing	6 (9.2)	8 (12.3)	11 (16.9)	13 (20.0)	4 (6.2)	6 (9.2)	8 (12.3)	6 (9.2)	3 (4.6)	65 (100)
Procurement/ inventory	6 (18.2)	7 (21.2)	3 (9.1)	4 (12.1)	3 (9.1)	2 (6.1)	5 (15.2)	2 (6.1)	1 (3.0)	33 (100)
Legal	30 (13.0)	15 (6.5)	37 (16.1)	6 (2.6)	41 (17.8)	5 (2.2)	66 (28.7)	13 (5.7)	17 (7.4)	230 (100)
Accounting ¹	25 (15.8)	20 (12.7)	20 (12.7)	4 (2.5)	22 (13.9)	8 (5.1)	35 (22.2)	12 (7.6)	12 (7.6)	158 (100)
Taxation ²	41 (15.5)	33 (12.5)	40 (15.2)	6 (2.3)	39 (14.8)	6 (2.3)	60 (22.7)	16 (6.1)	23 (8.7)	264 (100)
Assurance ³	40 (16.8)	33 (13.9)	38 (16.0)	6 (2.5)	30 (12.6)	10 (4.2)	50 (21.0)	19 (8.0)	12 (5.0)	238 (100)
Corporate Services ⁴	21 (12.2)	23 (13.4)	24 (14.0)	7 (4.1)	18 (10.5)	12 (7.0)	41 (23.8)	17 (9.9)	9 (5.2)	172 (100)
Corporate Finance ⁵	23 (18.9)	9 (7.4)	19 (15.6)	6 (4.9)	21 (17.2)	14 (11.5)	17 (13.9)	8 (6.6)	5 (4.1)	122 (100)
Business Consulting ⁶	18 (15.9)	9 (8.0)	17 (15.0)	9 (8.0)	12 (10.6)	10 (8.8)	23 (20.4)	6 (5.3)	9 (8.0)	113 (100)

¹ Accounting services: Book keeping, Financial Statement Compliance, Budgeting / Forecasting, Product / Services Costing, Customer Profitability Analysis, Financial Planning,

² Taxation services: Tax Compliance, Tax Planning, Tax Dispute Resolution, Tax Incentives Application

³ Assurance services: Financial Audit, Internal Audit, Internal Control Review, Financial Due Diligence

⁴ Corporate services: Company Secretarial Services, Mergers & Acquisitions,

⁵ Corporate Finance services: Fund Raising, Financial Management Services,

⁶ Business Consulting services: Business Strategy & Planning, Performance Management, IT Consulting Advisory, Business Restructuring, Insolvency & Receivership, HR Consulting

Chart 3.11a: Reasons for Selecting Service Providers for Professional and Business Support Services (by types of services)

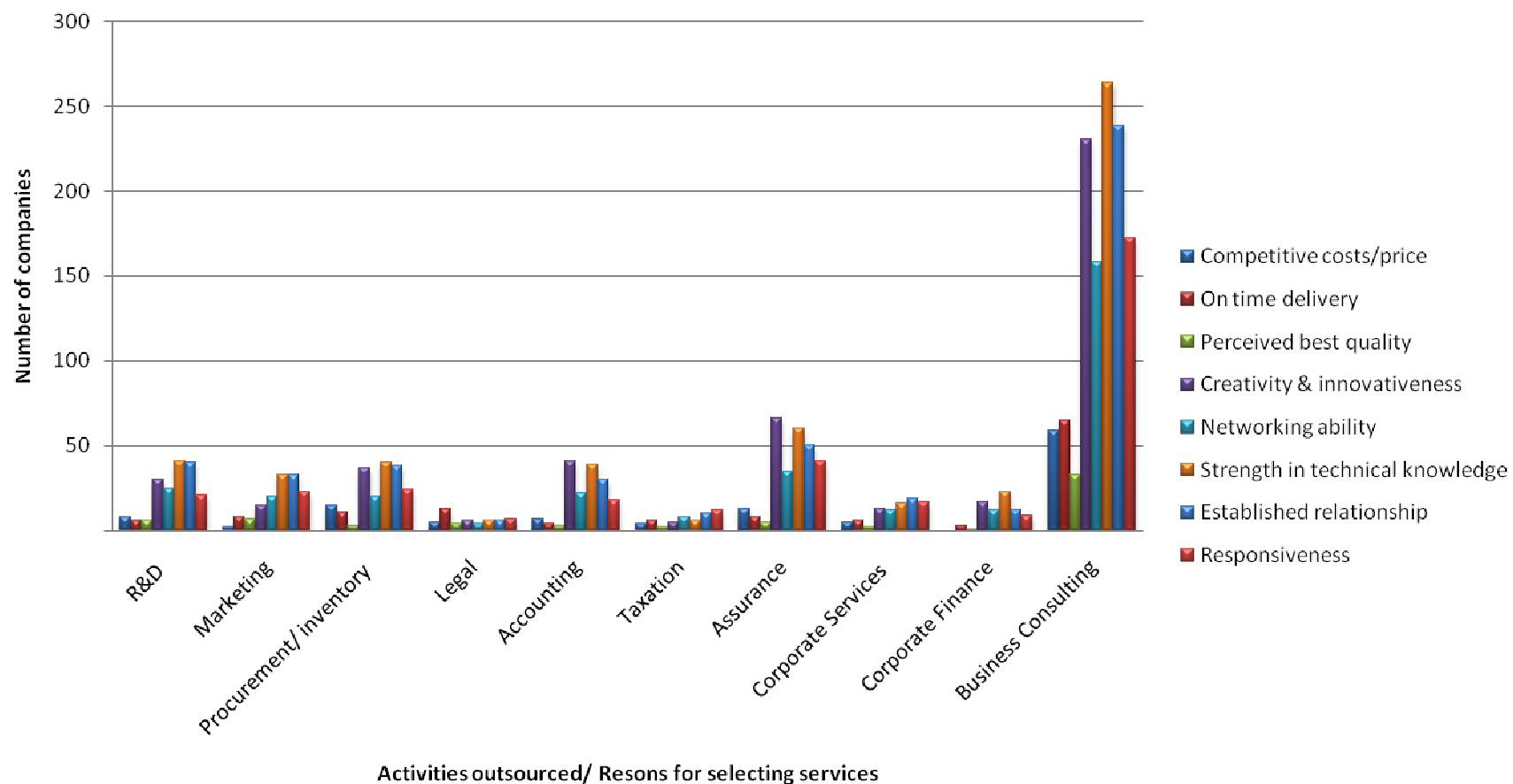
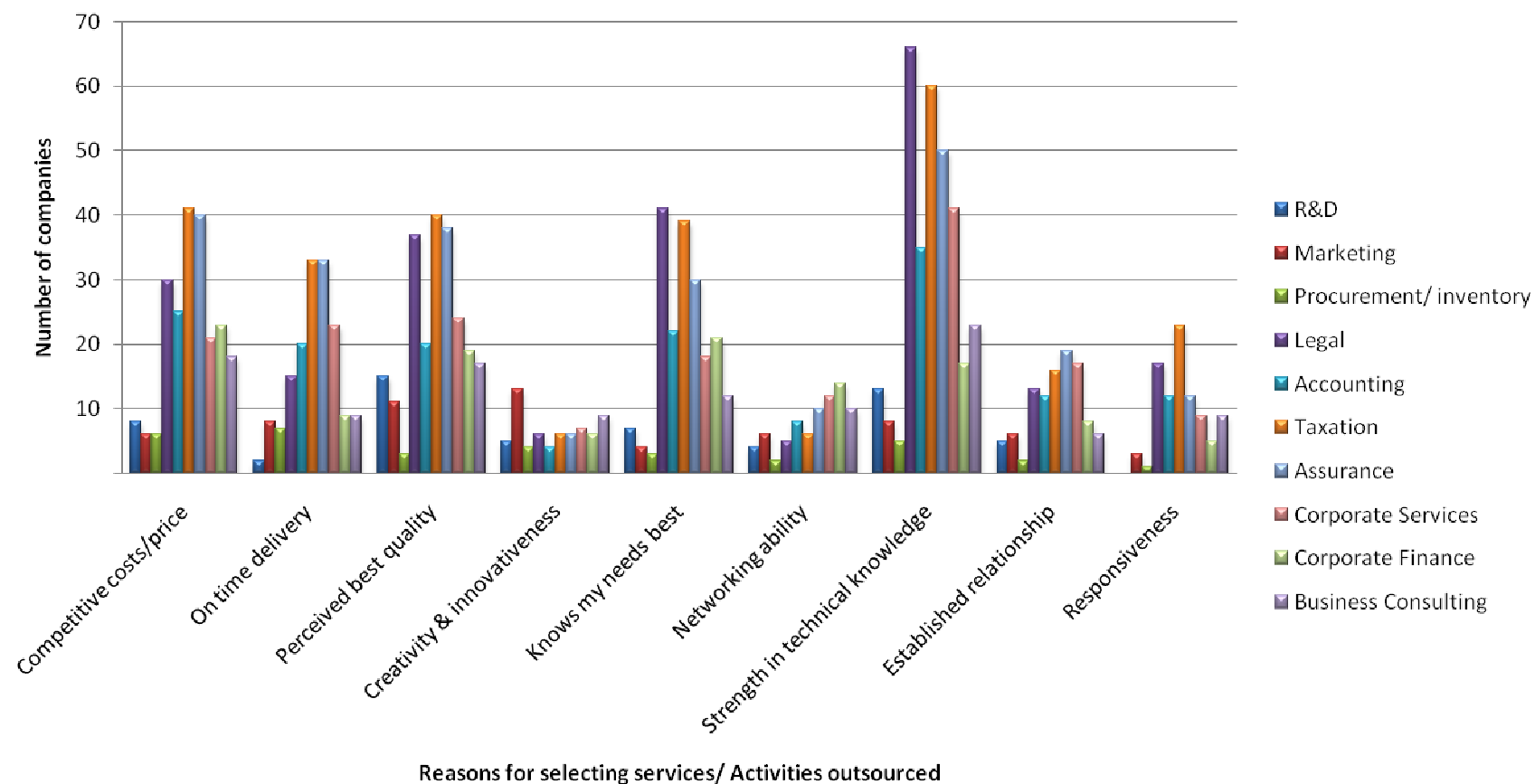


Chart 3.11b: Reasons for Selecting Service Providers for Professional and Business Support Services (by reasons for selection)



3.3 Services Provided By External Accountants to SMEs

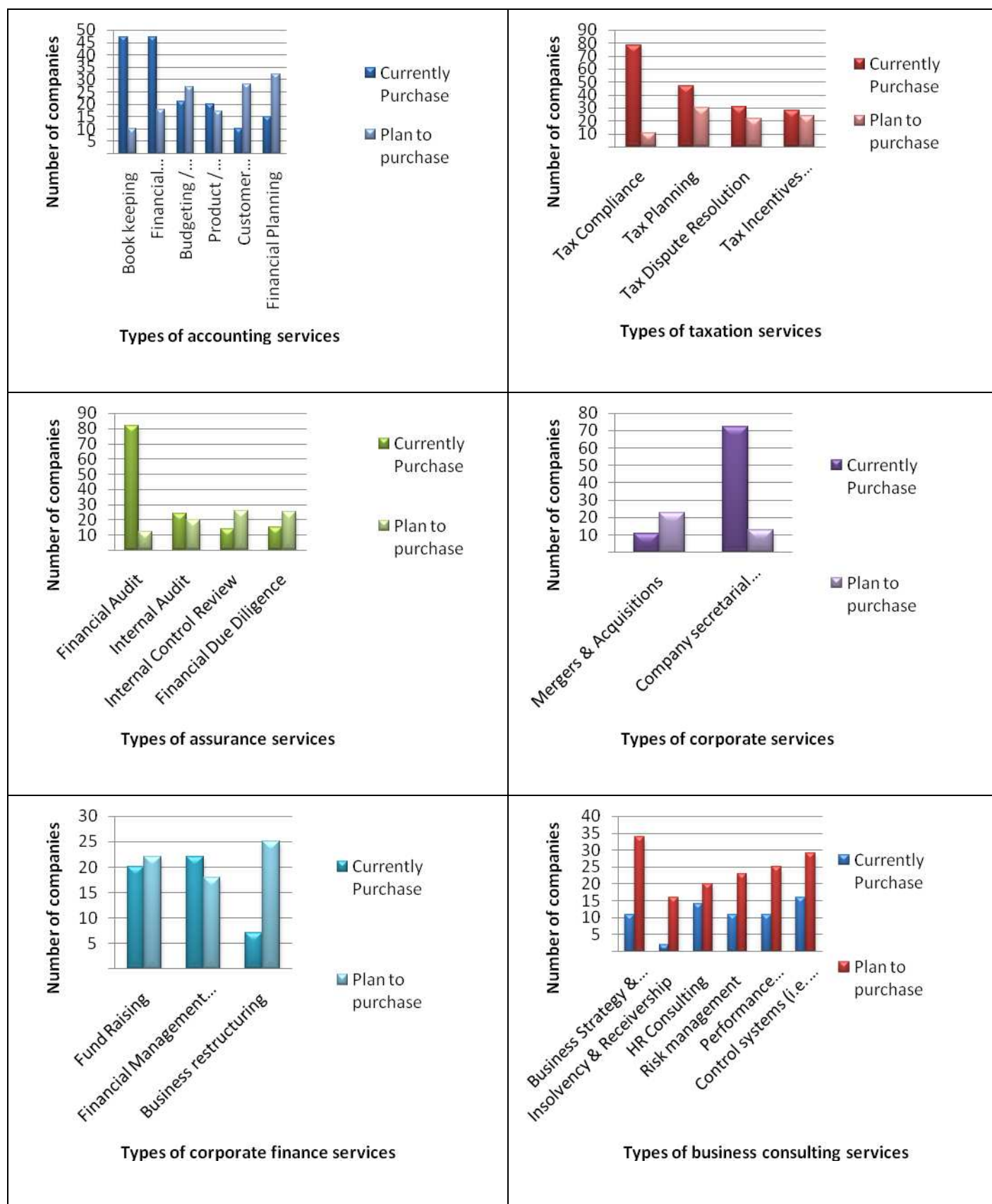
3.3.1 Current and Future Purchase Behaviour among SMEs

Table 3.12 shows the results obtained from the respondent SMEs with regards to the types of services that they purchased from external accountants and their intention to purchase in the future.

Table 3.12: Current and Future Purchase Behaviour of Services from External Accounts among SMEs

Accounting Services:	Currently Purchase N (%)	Plan to purchase N (%)
Book keeping	47 (29.4)	10 (7.6)
Financial Statement Compliance	47 (29.4)	18 (13.6)
Budgeting / Forecasting	21 (13.1)	27 (20.5)
Product / Services Costing	20 (12.5)	17 (12.9)
Customer Profitability Analysis	10 (6.3)	28 (21.2)
Financial Planning	15 (9.4)	32 (24.2)
Taxation Services:	Currently Purchase	Plan to purchase
Tax Compliance	78 (42.4)	11 (12.6)
Tax Planning	47 (25.5)	30 (34.5)
Tax Dispute Resolution	31 (16.8)	22 (25.3)
Tax Incentives Application	28 (15.2)	24 (27.6)
Assurance Services:	Currently Purchase	Plan to purchase
Financial Audit	82 (60.7)	12 (14.5)
Internal Audit	24 (17.8)	20 (24.1)
Internal Control Review	14 (10.4)	26 (31.3)
Financial Due Diligence	15 (11.1)	25 (30.1)
Corporate services:	Currently Purchase	Plan to purchase
Mergers & Acquisitions	11 (13.3)	23 (63.9)
Company secretarial services	72 (86.7)	13 (36.1)
Corporate Finance services:	Currently Purchase	Plan to purchase
Fund Raising	20 (40.8)	22 (33.8)
Financial Management Services	22 (44.9)	18 (27.7)
Business restructuring	7 (14.3)	25 (38.5)
Business Consulting Services:	Currently Purchase	Plan to purchase
Business Strategy & Planning	11 (16.9)	34 (23.1)
Insolvency & Receivership	2 (3.1)	16 (10.9)
HR Consulting	14 (21.5)	20 (13.6)
Risk management	11 (16.9)	23 (15.6)
Performance Management	11 (16.9)	25 (17.0)
Control systems (i.e. Internal control)	16 (24.6)	29 (19.7)

Chart 3.12: Current and Future Purchase Behaviour of Services from External Accountants among SMEs



The types of services that are currently purchased and planned to be purchased from external accountants can be classified into six types. They are accounting, taxation, assurance, corporate, corporate finance, and business consulting services. Accounting, taxation, and assurance services were broadly categorised as compliance or mandatory services, while corporate, corporate finance, and business consulting services as non-compliance/non-mandatory services.

Accounting Services

Accounting services can be further categorised into six types, namely, book keeping, financial statement compliance, budgeting/forecasting, product/services costing, customer profitability analysis, and financial planning. Results in Table 3.12 indicates that the most widely purchased accounting services were book keeping and financial statement compliance (N=47), followed by budgeting and forecasting (N=21) and product and services costing (N=20). The majority of the SMEs indicated that customer profitability analysis, financial planning, and budgeting/forecasting services were the services that SMEs planned to purchase in the future.

Taxation Services

There are four types of taxation services: tax compliance, tax planning, tax dispute resolution, and tax incentives application services. The top two types of taxation services currently purchased from the external accountants were tax compliance (N=78) and tax planning (N=47). Of those responding, more indicated that they had the intention to purchase tax planning services, followed by dispute resolution services.

Assurance Services

Four types of assurance services covered were: financial audit, internal audit, internal control review, and financial due diligence. Financial audit (N=82) was the most purchased services under assurance services provided by external accountants. This was followed by internal audit (N=24). The scope for future services purchased by SMEs were in internal control review services and financial due diligence services. The results suggest that financial audit services are the most currently purchased compliance/mandatory services among the SMEs which are consistent with our expectation since financial audit is required under the Company's Act.

Corporate Services

Of two types of corporate services: mergers and acquisition and company secretarial services, the majority of the respondents purchased company secretarial services (N=72) whereas mergers and acquisition was hardly purchased. However, the response by SMEs seemed to point to more purchases of mergers and acquisition services in the future as indicated by 23 of the respondent firms.

Corporate Finance Services

The three types of services covered in this study on finance services were fund raising, financial management, and business restructuring services. Results showed that 22 of the SMEs indicated that they purchased financial management services, while more firms (N=25) intended to purchase business restructuring services in the future.

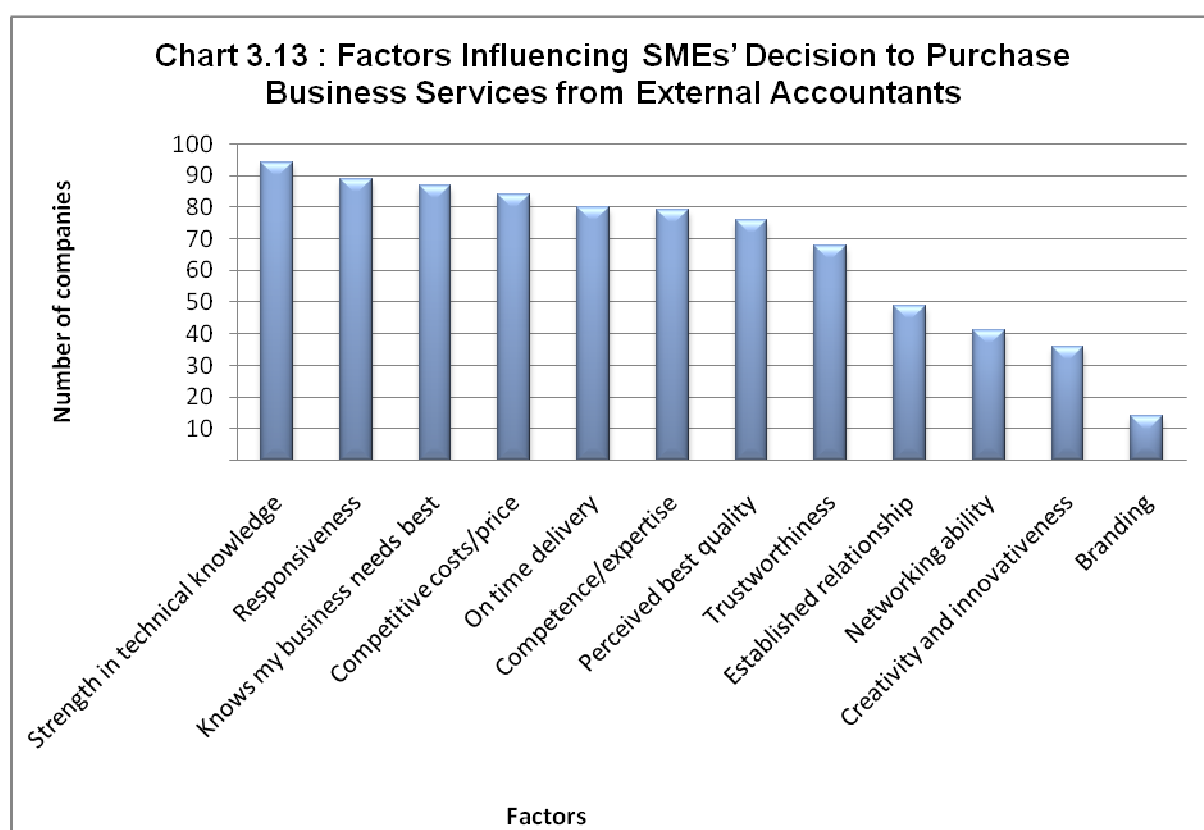
Business Consulting Services

Among the different categories of services provided by external accountants, business consulting services represented the category that enjoyed the lowest level of penetration. Business consulting services as classified into six types, namely, business strategy and planning, insolvency and receivership, human resource consulting, risk management, performance management, and control systems services, show that only 16 firms purchased internal control systems, while as few as 2 purchased insolvency and receivership services. This is to be expected since external accountants are not perceived to have strengths in these services. Or, in the response from the firms, many were not aware about the offer of such services by external accountants. However, looking at the response of SMEs, there appeared to be enthusiasm among SMEs to purchase such services from external accountants in the future. Among the six types, business strategy and planning had the greatest potential (N=34) followed by control systems (N=29), performance management (N=25) and risk management (N=23).

In order to understand further the drivers that influence the decision of SME firms to purchase services from external accountants, the respondent firms were asked to state reasons for their patronage behaviour.

Table 3.13: Factors Influencing SMEs' Decision to Purchase Business Services from External Accountants

Factors	N (%)
Strength in technical knowledge	94(75.8)
Responsiveness	89(72.4)
Knows my business needs best	87(69.6)
Competitive costs/price	84(67.7)
On time delivery	80(65.0)
Competence/expertise	79(63.2)
Perceived best quality	76(61.3)
Trustworthiness	68(54.8)
Established relationship	49(39.5)
Networking ability	41(33.1)
Creativity and innovativeness	36(28.8)
Branding	14(11.2)



The majority of SMEs indicated that strength in technical knowledge (N=94, or 75.8%) and responsiveness (72.4%) were the two most cited factors that influenced their decision to purchase business services from external accountants. Other factors that largely influenced the SMEs' decision were "knows my business needs best" (69.6%), "competitive costs/price"

(67.7%), “on time delivery” (65%) and “competence/expertise” (63.2%). Branding was found to be the least important factor.

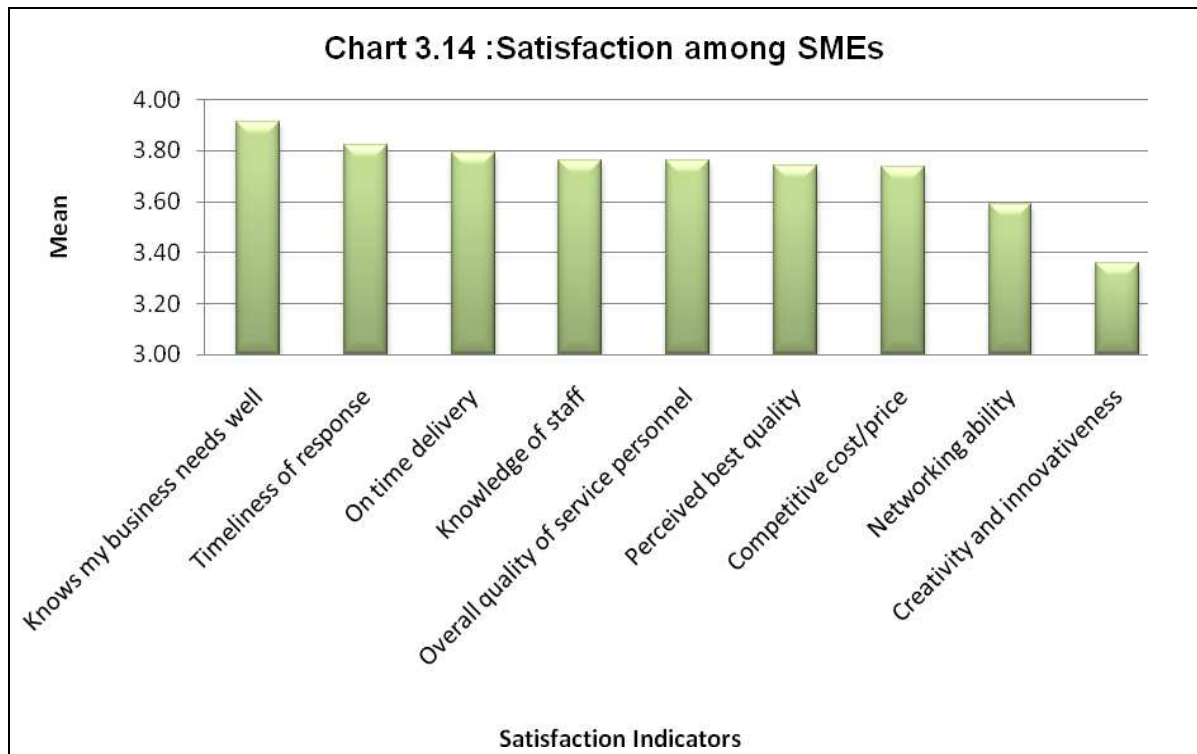
3.3.2 Client Satisfaction

SMEs were asked to indicate how satisfied they were with the services provided by external accountants across nine criteria: knows my business needs well, on time delivery, perceived best quality, creativity and innovativeness, competitive cost/price, networking ability, knowledge of staffs, timeliness of response, and overall quality of service personnel. As shown in Table 3.14, these SMEs were most satisfied with the services offered by the external accountants in terms of “knows my business needs well (mean = 3.91), “timeliness of response” (mean = 3.82) and “on time delivery” (mean = 3.79). They are most dissatisfied with creativity and innovativeness (mean = 3.36) of the external accountants.

Table 3.14: Satisfaction among SMEs

Satisfaction Indicators	N	Mean*	Std. Deviation
Knows my business needs well	115	3.91	0.82
Timeliness of response	112	3.82	0.87
On time delivery	115	3.79	0.91
Knowledge of staff	110	3.76	0.78
Overall quality of service personnel	109	3.76	0.78
Perceived best quality	108	3.74	0.80
Competitive cost/price	109	3.73	1.02
Networking ability	105	3.59	0.90
Creativity and innovativeness	100	3.36	0.90

*Based on 5 point scale where: 1 = not satisfied at all; 5 = very satisfied



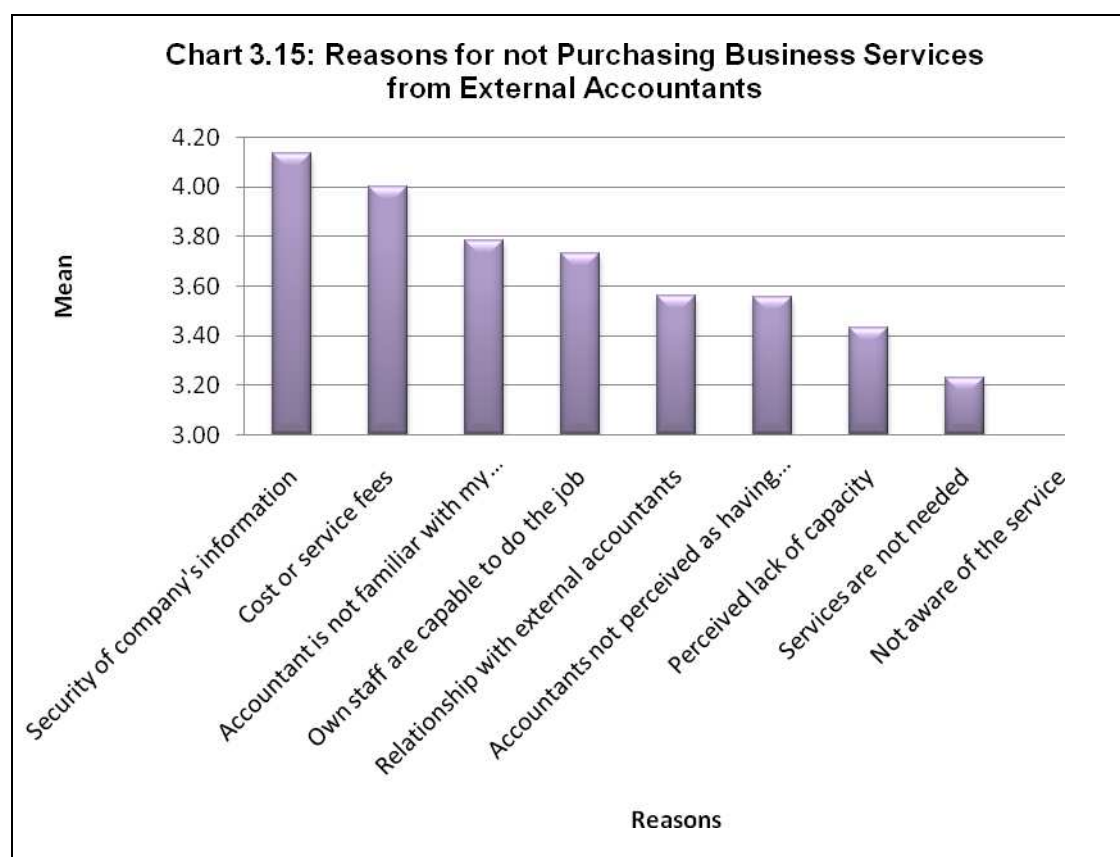
3.3.3 Reasons for not Purchasing Business Services from External Accountants

It is equally important to examine the reasons that prevented SMEs from engaging the services of external accountants. The responding SMEs were required to indicate the reasons and rate the level of importance of each of these reasons. Among the reasons given, the most important barrier was cost of service fees followed by the in-house capability among SMEs. Safe guarding the security of company information was the third barrier. Since this factor was a rather general factor, we could only speculate that in some cases, the relationship might not be sufficiently strong for the SMEs to consult external accountants on matters pertaining to the other aspects of their business such as future plans for growth and issues relating to their firms' competitiveness within the industry.

Table 3.15: Reasons for not Purchasing Business Services from External Accountants

Reasons	Mean*	Std. Deviation
Security of company's information	4.14	0.96
Cost or service fees	4.00	1.24
Accountant is not familiar with my company's needs	3.78	1.08
Own staff are capable to do the job	3.73	1.06
Relationship with external accountants	3.56	1.07
Accountants not perceived as having knowledge other than accounting services	3.56	1.04
Perceived lack of capacity	3.43	1.12
Services are not needed	3.23	1.31
Not aware of the service	3.00	1.29

*Based on 5 point scale that ranges from 1 = not at all important to 5 = very important



PART IV

DISCUSSIONS AND RECOMMENDATIONS

4.1 Evaluating the Current Services Provided by External Accountants

In this study, the majority of the SMEs (77.9%) maintained their own accounts, while slightly less than a quarter engaged external accountants for this purpose. For preparation of financial statements, 63.4% had in-house human resource to handle the job, while 32% engaged the service of external accountants. Since 63% prepared financial statements in-house, the prospect for external accountants to continue to concentrate on mandatory services can be described as not very encouraging. Therefore, the potential for external accountants in providing mandatory accounting services would be to: (i) convince SMEs to engage them in the entire value chain (from maintenance to preparation of statements, to other related services) with innovative marketing and pricing strategies; (ii) to diversify into other business advisory services.

In terms of the categories of services bought from **external accountants**, research results show that the services that SMES bought from external accountants were: taxation services further classified into five categories (N=184), accounting services with six sub-categories (N=160), assurance services with four sub-categories (N=135), , corporate services made up of two categories (N=83), business consulting services broken down into six categories (N=65), and corporate finance services with three distinct groups of services (N=49). It is clear that some of the respondent SMES bought multiple services within each broad type of services from external accountants.

For the services that the respondent firms expressed intention to buy were: business consulting services (N=147), accounting services (N=132), taxation (N=87), assurance (N=83), corporate finance services (N=46), and corporate services (N=36). It is encouraging to find that SMEs regard external accountants as a possible provider of business consulting services. They had plans to continue to purchase the mandatory services such as accounting services, taxation and assurance. Within each category of services, there are sub-categories that enjoy better prospect than others. For example, under accounting services, more expressed intention to purchase customer profitability analysis and financial planning than basic activities such as book-keeping.

In terms of out-sourcing of services, SMEs' stance was clearly in-line with global development where out-sourcing appears to be the strategic direction forward with their plan to further out-source services for 2009, to 2016. The advantage of out-sourcing that was most obvious to SMEs was access to specialist services for all of the business and professional services (except market research, R&D and procurement services). External accountants need to take cognizance of this in the development of knowledge, skills and expertise so that they have the necessary capacity to provide services to SMEs in the future. In addition, the main reason for SMEs decision in service provider selection was service providers' strength in technical knowledge. This is especially so for taxation, legal and assurance services. For corporate services, the most obvious reason for engaging service provider was also the strength in technical knowledge of the service provider. For corporate finance services, the most obvious reason was competitive cost/price. This implies that if external accountants are interested in diversifying the scope of their services, they need to build capacity in technical knowledge and to improve on their cost structure in order to be more competitive in pricing.

An additional perspective to check the strengths of external accountants as service providers was based on the factors that influenced SME firms' decision to purchase services from external accountants. The five most cited reasons among respondent firms were: strength in technical knowledge, followed by responsiveness, knowledge about clients' business needs, competitive cost/price, and on-time delivery of services. Branding was the least cited reason for choosing external accountants as the service provider.

Based on the level of satisfaction expressed by respondent firms toward the service of external accountants, it could be observed that they were not happy on: creativity and innovativeness, networking ability, competitive price and perceived best quality. They were most happy with the ability of external accountants in understanding customer needs, timeliness of response and on time delivery of services.

Looking at barriers that prevented SMEs from purchasing services from external accountants, it was clear that security of company information was the main reason. This could hint towards a very formal and cordial relationship, but not one that is sufficiently strong that allows discussion of problems and prospects. The next important barrier was the fees charged followed by accountants not having knowledge about client needs. Respondent firms also cited having in-house expertise and knowledge to perform various services as another important reason that limited the use of external accountants' services. Another

reason was that accountants were not perceived as having knowledge in other areas except on accounting services.

4.2 FGD on External Accountants

The FGD conducted at the very beginning of this project provided some insights into the types of services external accountants currently provide to their clients. Six external accountants participated in the FGD.

Apart from the mandatory services, other services provided include financial due diligence, corporate financial services and business consulting services. Most of these services provided were on “as and when needed” basis and infrequently on a regular basis (Table 4.1). Based on the number of participants who said that they provide due diligence service, we can deduce that this is a service accountants have the necessary capability. This indicates that external accountants have the capability of providing more diversified types of services. However, a more in-depth research is needed to find out about the extent of the expertise embodied in these service providers. Should the expertise be substantial, the way forward would be to engage in awareness building and marketing strategy implementation. However, if the expertise is limited, the obvious strategy will be capacity building. For this, external accountants need to conduct their own audit of strengths in technical knowledge, in addition to competitive analysis.

Table 4.1: Services Provided by External Accountants: Results of FGD

Description	Frequency			
	As and when needed	Regularly (e.g. yearly, monthly)	Not stated	Total
Internal audit	2	1	0	3
Financial due diligence	3	1	1	5
Corporate advisory services	0	1	0	1
Loan application support	0	1	1	2
Financial planning	2	0	0	2
Corporate finance	1	0	0	1
Financial Modelling	1	0	0	1
Business/Company share valuation	1	0	1	2
Share verification	1	0	1	2
Investment appraisal- share valuation	1	0	0	1
Bank management	1	0	0	1
Enterprise risk management	0	1	0	1
Business Advisory	1	1	0	2
Insolvency	3	0	0	3
Liquidation and winding up processes	1	1	0	2
IT services	1	0	0	1
Training and seminars	1	1	0	2

Matching the services that are currently provided by external accountants and the services that SMEs are planning to purchase, it is obvious that there is scope for diversification, with appropriate marketing strategies.

Customer profitability analysis and financial planning are the two services related to mandatory services that enjoy high prospect among SMEs with the clear indication of purchase intention from them. This should be seen an opportunity for growth. Mergers and acquisition of which part of it is related to due diligence studies, is another area that should see expansion in the future.

Based on the output of FGD with external accountants and the survey of SMEs, it is obvious that there is a gap between the demand for services by SMEs and the supply of them by external accountants.

4.3 SWOT Analysis: A Summary on External Accountants

The analysis of strengths, weaknesses, threats and opportunities gives a summary of the current situation facing external accountants. Respondent SMEs viewed external accountants as having several strengths including technical knowledge, responsiveness, knows client's needs related to mandatory services currently provided external accountants and competitive cost/price. For weaknesses, external accountants were not perceived as creative and innovative, lacking in networking ability, their relationship with client, and their quality of service was not perceived as the best.

The gap analysis shows that opportunities for external accountants are abundant, from the traditional mandatory services to new types of services. For threats, competition should be the major concern and the perception among SMEs about the capability of external accountants as provider of other types of services need immediate attention.

Strengths	Weaknesses
<ul style="list-style-type: none"> • Mandatory services remain the mainstay of services purchased from external accountants • Technical knowledge • Timeliness of response • On-time delivery of services • Competitive cost/price • Knows clients' needs • Competent and responsive 	<ul style="list-style-type: none"> • Creativity and innovativeness • Networking ability • Relationship with client • Perceived best quality • Substantially low level of satisfaction among SME firms in regards to many aspects of the services
Threats	Opportunities
<ul style="list-style-type: none"> • SMEs engage own personnel to maintain and prepare financial statements • Competition among external accountants • Perception of SMEs not having knowledge on other services • Low awareness among users about the other types of services provided by external accountants • Security of company information 	<ul style="list-style-type: none"> • A limited window of opportunity to provide mandatory services but good opportunity for value-added services such as profitability analysis and financial planning • Intention among SMEs to further outsource business and professional services • Expressed intention to purchase business consulting services from external accountants

4.4 Strategy Recommendations for External Accountants

Based on the SWOT analysis, the external accountants should further leverage on their strengths, overcome their weaknesses and exploit opportunities while seriously evaluate the threats in relation to the internal environment of their respective practice. The threats represent challenges and it is dependent on the strategic intent of external accountant firms to evaluate, interpret and strategise for growth. In considering any of the strategic approaches, external accountants must conduct an audit of its internal and external environment to create its own firm SWOT analysis and their own strategic position. Such analysis would allow the service provider to understand its position in the industry and hence to formulate appropriate strategies.

Using the Ansoff Matrix Product/Market Expansion Grid, which has provided generations of small business owners/leaders a simple approach to develop a strategic map for growth, the suggestions for external accountants are outlined in Figure 4.1. From the four quadrants, Quadrant 4, **diversification strategy**, is **not** recommended as a short-term (1-2 years) or medium term (3-5 years) strategy for external accountants whose size has not reached that of the Big Four.

Quadrant 1 suggests **market penetration** strategy which involves penetration strategy with existing products marketed to existing customers. This is best suited for the short-term as firms serve existing customers while building capacity and upgrade skills. Before adopting this strategy, external accountants should conduct an audit of customer satisfaction to find out the areas that their customers are unhappy about, while also getting to know aspects that they are pleased with since the level of satisfaction expressed by respondent SMEs could be considered low with mean value of less than 4 on a Likert scale of 1-5. This requires the very first step in establishing customer relationship management.

For some external accountants who have not embarked on mandatory related services such as due diligence, financial planning and etc., it would be appropriate for them to consider their current position vis-à-vis competitors position. This is because such firms are likely to be small firms serving clients with limited mandatory services needs. For this group of external accountants, penetration strategy should include convincing clients to out-source the more up-stream activities such as bookkeeping. Embracing ICT for greater productivity should be the way forward. In this regard, external accountants should exploit the SME loans and incentives for up-grading of skills and productivity. These accountants should also start paying attention to client relationship for long-term development.

Quadrant **2** is **product development** strategy which takes into account the gap analysis identified from the results of the survey of SMEs. While respondent SMEs have expressed their intention to purchase other services such as customer profitability analysis, financial planning, mergers and acquisition, and etc. external accountants appear to be slow in providing such services. For those external accountants who have the expertise to provide such services, they have not marketed it appropriately since many of the accountants who participated in the FGD provided the services on “as and when needed” basis. It is therefore not difficult to imagine that there are “lags” or under utilization of knowledge and skills among these accounting firms. To stay to one’s stitches may be a sound strategy in the past. However, the globalised world that appears to blur the boundaries of industries would require a different strategic approach.

Similar to the recommendations given for strategic option 1, we would also recommend that external accountants conduct an internal audit to identify its position within the industry as well as to gauge the demand for such services among SMEs. Establishing better customer relationship management should be the priority. However, this should be done alongside customer profitability analysis which determines the best performing customers in terms of profitability since a high level of service is associated with higher cost structure. In this regard, cultivating and maintaining client relationship should be done with an understanding of the profitability profile of clients where resources should be invested in those profitable clients.

Quadrant **3**, which proposes **market development** strategy, is suited to larger accounting firms with capacity to engage in market expansion, firms which desire to spread the risk of a limited group of customers, or for firms with excess capacity. Within Malaysia, we have witnessed accounting firms establishing branch offices in different states and capitals, offering the same types of services. Since the growth of accounting industry is a function of economic growth, it would be wise for accounting firms to look beyond the Malaysian shores.

Export of accounting services is in line with the proposed IMP3 strategic direction, which is being targeted based on three time frames, short-term, medium-term and the long-term. It has to be recognized that some of the accounting firms have already ventured abroad. For them, this is the most suitable strategy since these firms would have had a deep learning curve of host market conditions. As such, continuing export expansion seems appropriate. In exporting services, accounting firms will need to examine the services that are desired in

foreign markets so that the most appropriate mode of export of services can be used, based on the four modes of services export enshrined in GATS.

In putting forward our recommendations, it must be emphasised that up-grading of productivity, skills and knowledge can only be optimized by embarking on the adoption of ICT and sophisticated soft wares that have become integral to quality and speed of service delivery.

Figure 4.1: The Ansoff Matrix for Growth

Market	New	<p style="text-align: center;">3</p> <p>Market Development</p> <ul style="list-style-type: none"> Geographical expansion with existing products (it could be expansion within Malaysia or outside Malaysia) 	<p style="text-align: center;">4</p> <p>Diversification</p> <ul style="list-style-type: none"> Expansion to new markets with innovative products in related (concentric diversification) or unrelated industries (conglomerate diversification)
	Existing	<p style="text-align: center;">1</p> <p>Market Penetration</p> <ul style="list-style-type: none"> More aggressive marketing of current mandatory services to existing clients so as to achieve a higher penetration rate, targeting at both the up-stream and downstream activities For those who provide other services such as due diligence, corporate advisory services to step up the frequency of service provision from on an “as and when needed” basis to a regular basis. 	<p style="text-align: center;">2</p> <p>Product Development</p> <ul style="list-style-type: none"> Marketing of new services to existing clients: <ul style="list-style-type: none"> i. customer profitability analysis. ii. financial planning. iii. mergers and acquisition. iv. internal control review. v. business restructuring. vi Performance and risk management. vi. Business strategy and planning. vii. Tax planning and dispute resolution.
		Existing	New
		Product & Services	

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