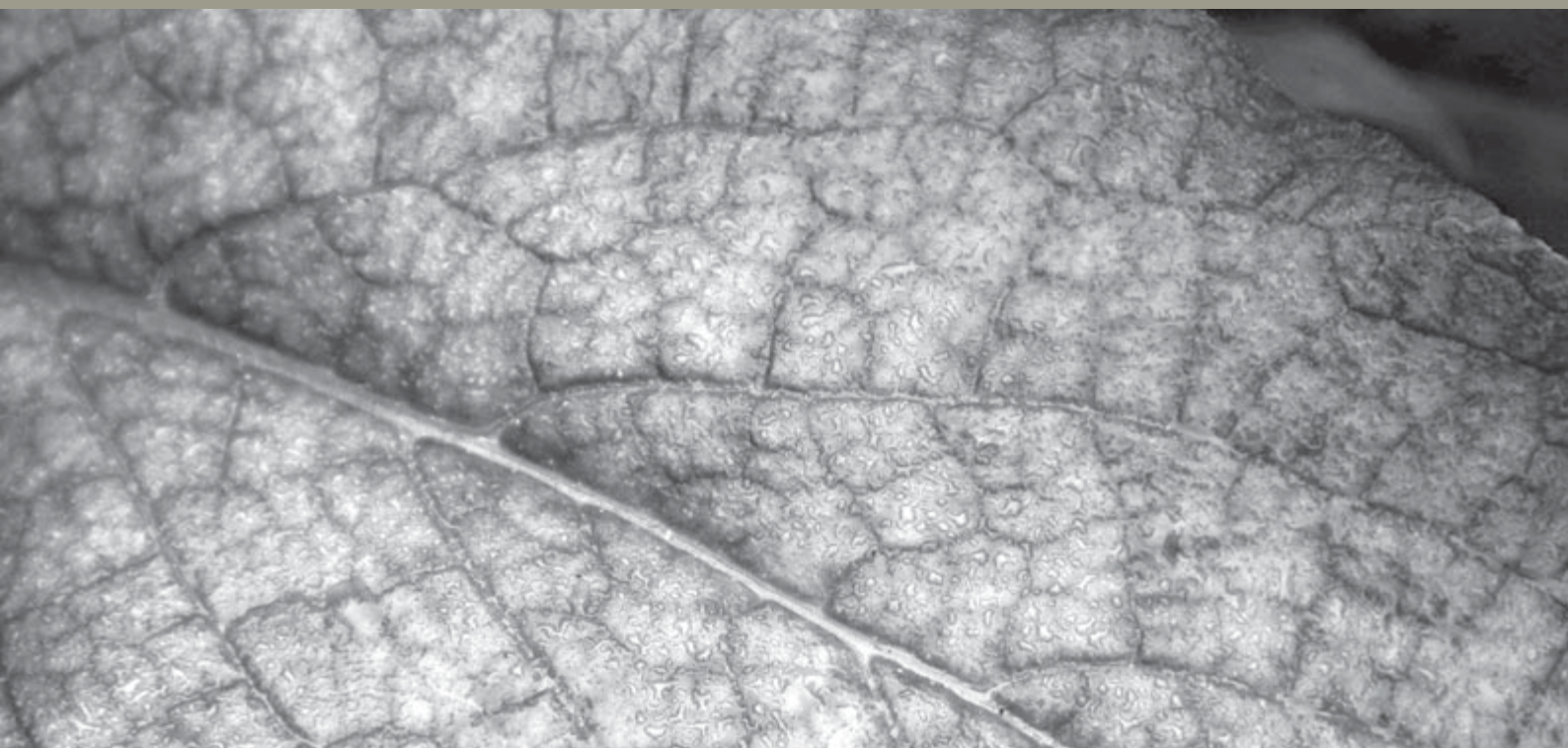


Accountants as Providers of Support and Advice to SMEs in Malaysia



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List of abbreviations

9MP	<i>Ninth Malaysia Plan 2006–2010</i>
the Act	The Accountants Act, 1967 (Malaysia)
AICPA	American Institute of Certified Public Accountants
CPA	Certified Public Accountants
CICA	Canadian Institute of Chartered Accountants
FSB	Federation of Small Businesses, UK
IFAC	International Federation of Accountants
ICA	Institute of Chartered Accountants
ICAEW	Institute of Chartered Accountants in England and Wales
IMP 3	Industrial Master Plan 3
IT	Information technology
MIA	Malaysian Institute of Accountants
RM	Malaysian Ringgits*
SMEs	Small and medium-sized enterprises
SMIDEC	Small and Medium Industries Development Corporation (Re-designated the Small and Medium Enterprises Central Coordinating Agency, or ‘SME Corporation Malaysia’ or ‘SME Corp’, in June 2008.)
SMPs	Small and medium-sized practices
SPSS	Statistical Package for the Social Sciences

* As at 31 December 2008, the Malaysian Ringgit was worth
0.1973260838 United Kingdom Pounds, or
0.2883974715 United States Dollars

Executive summary

BACKGROUND

The Malaysian setting is that of a rapidly developing 'country in transition', which has an integrated culture. Its laws are inherently British with underlying customs drawn from the two dominant races: Malay and Chinese. It further evidences the impact of political factors and macroeconomic changes on the behaviour and responses of auditors. The Asian Financial Crisis led to significant transformation in the Malaysian regulatory environment, with significant enhancements to the corporate governance regime. There is continuous effort to elevate transparency and accountability in all sectors of the economy. Furthermore, intensive actions are directed at building capacity for small and medium-sized enterprises (SMEs) by the government. The accounting profession, especially small and medium-sized practices (SMPs), has an opportunity to contribute significantly to these efforts.

There is a need to ascertain how professional accountants assist SMEs. Given the limited literature on services offered by SMPs to SMEs, this research study aims to examine:

- the services offered to SMEs, in addition to compliance work
- the services that SMPs perceive that SMEs need, which they might offer in the future
- the issues that SMPs perceive as barriers in their work with SMEs, currently and in the future
- suggested solutions for addressing barriers/problems/issues and challenges that SMPs face in dealing with SMEs
- training needs, if any, for SMPs who wish to expand their offerings to SMEs.

Eleven focus groups of SMPs in Malaysia were consulted to ascertain their perceptions of the support and advice that they can offer SMEs. The results of the focus groups (combined with findings from SME literature) were used to develop a questionnaire to be administered to SMPs specialising in offering services to SMEs within Malaysia. The views of 174 SMPs have been incorporated in this report.

This research confirmed that accountants have an important role to play in the development of SMEs, and regulations ensure that SMEs are in regular contact with their accountants in order to meet their compliance requirements. This provides an opportunity for accountants to extend their offering beyond compliance services, as indicated in the key findings. This study shows that although currently SMPs focus more on traditional compliance-related work such as bookkeeping, secretarial services, auditing and tax services, there is a shift towards extending the range of business services offered to SMEs.

KEY FINDINGS

Services currently offered to SMEs

The respondents identified 34 different business services. SMPs spend 60% of their time on compliance work – principally tax filing, auditing and secretarial services. Traditional types of non-compliance services such as bookkeeping, cash flow forecasting and tax planning, dominate the remaining 40% of time. Some SMPs may wish to restrict their bookkeeping services by outsourcing them. A wide range of other services are offered, including business coaching, grant application, and strategic planning. Some firms are offering support in the relatively 'newer' areas of forensic accounting and ISO standards.

Services SMPs perceive that they might offer to SMEs in future

Approximately half the SMPs did not intend to offer additional services in the future. Those who did plan to extend their services (54.4%) appeared to favour areas such as business planning, business coaching, internal controls, liquidations or corporate recovery and internal audit.

Issues that SMPs believe cause barriers for their work with SMEs

The most significant barriers, from the SMPs' perspective, were staffing and the SME mindset. The SMPs were short of staff and this affected their ability to cope with the workload and to spend time with SME clients. The shortage of accounting staff also reduced the ability of the SME clients to maintain adequate records and possibly fed the market for unqualified or 'bogus accountants,' who were seen as devaluing the professionalism of registered accountants. There appeared to be a high expectation that SMPs would provide additional services within the one fee charged for compliance work: some SMPs believed that SMEs could not afford to pay for additional services.

Solutions to the barriers SMPs face in dealing with SMEs

Several solutions were proposed, including:

- outsourcing lower-level activities, eg bookkeeping
- recommissioning retired accountants
- offering services in areas that could provide direct and visible benefits to the SMEs (eg profit improvement and grant applications) and more future-oriented services (eg business and tax planning)
- forming strategic alliances with other SMPs and other professionals
- becoming a 'one-stop' referral centre to other service providers
- recruiting business graduates and para-professionals
- persuading the Malaysian Institute of Accountants (MIA) to lead a campaign to inform SMEs of the value and range of expertise of accountants as leaders in business advice.

Training needs of accountants who wish to expand their offerings to SMEs

Training needs were identified in business advisory techniques and tools (including soft skills), and fee setting/pricing techniques (moving beyond time-based pricing to value-based pricing).

IMPLICATIONS OF THIS RESEARCH

Three parties are seen to be critical in the development of support service provision to SMEs: the professional accountants, MIA and the government (through the SME Corporation).

The professional accountants

Professional accountants need to be aware of the differing approaches that consultants use in dealing with client needs and the difficulties they may have in articulating their needs. As a consultant, the accountant will need to move from providing prescriptive solutions to providing non-directive advice. SMPs may need to alter and adapt the services they offer as the SMEs develop. A model was developed to illustrate how SMPs might extend their advisory services to SMEs (See Figure 7.1: Model for SMPs' expansion of assistance to SMEs, page 54).

MIA's role

There is call for MIA to play a proactive role in developing the business advice capabilities of SMPs, particularly in exploring strategies to enhance relationship-building practices by SMPs.

MIA should accept responsibility for educating SMEs about the value of accountants. The development of a brand may assist in providing assurance of quality and protection for registered practitioners. MIA could join with the IFAC to promote the message to SMEs 'that qualified accountants are best equipped to assist businesses in managing through these uncertain times' (IFAC 2008).

There is a need for MIA to take more action to address the issue of bogus accountants and accounting service providers who do not hold valid licences. Further, MIA's proposed competency framework (MIA 2008) needs to be in place to address the skill-set gap acknowledged by the participants in the study. Traditional compliance-based accounting and tax work are progressively being deskilled and delegated to lower-level operators following the development of computer software and Internet systems, and so are seen as representing a shrinking source of employment for accountants, who would require a broader suite of skills for survival in a multidisciplinary management future (Parker 2001).

SME Corporation

It is suggested that MIA work closely with the SME Corporation to ensure that the SMPs are given timely information about initiatives to enhance capacity and capabilities of SMPs and SMEs. SMPs who qualify to be given assistance by the SME Corporation for improving their own capacity should be encouraged to do so. A model is proposed to illustrate how SMPs, MIA and the SME Corporation might work together to extend their advisory services to SMEs (See Figure 7.3: Empowering SMEs through SMPs in Malaysia, page 57).

CONCLUSION

The study has revealed the potential for business advice services. It has also identified the barriers that exist. The key issue is the problem of changing the mindset of both SMPs and SMEs. This challenge has to be taken up by the accounting profession as well as the SME Corporation, which came into effect in 2009. One aspect of capability development is the issue of branding and gaining the trust of SME clients.

Around the world, SMEs are seen as having the potential to create sustainable development and poverty alleviation. An analysis of the literature shows considerable gaps in knowledge about the relationships between accountants and SMEs, particularly from the perspective of the accountant, and of the role of accountants in Malaysia. It appears that while accountants have the attention of their SME clients they could broach other areas of service that could assist the SME owners/managers in running their businesses. Accountants need to develop new skills and understandings to deliver the intangible product: 'advice'.

1. Introduction

1.1 INTRODUCTION

This chapter provides the background to this study and indicates the lack of research in this area in Malaysia. The objectives of this research are outlined, and a method overview and the Malaysian working definition of small and medium-sized enterprises are presented. The importance of this study is indicated and the chapter concludes with a plan of the report.

1.2 BACKGROUND

Given the rapidly changing economic and trading conditions in local, national, regional and international markets, the ability of businesses to respond to new and developing opportunities will partly determine their relative competitiveness. Understanding business needs provides opportunities for firms in the financial management services sector to identify more accurately the services needed by smaller businesses in general, and thus meet these needs more efficiently. The role of small business in development is undisputable (Amini 2004; Muske et al. 2007). Much effort is directed at providing new business support and encouraging innovation and competitiveness.

In its *Ninth Malaysia Plan 2006–2010* (9MP), the Malaysian government has allocated significant resources to enhancing and promoting growth of small and medium-sized enterprises (SMEs) (Economic Planning Unit 2006). Past studies show, however, that a significant number of small businesses do not succeed. This research focuses on professional accountants, specifically those operating small and medium-sized practices (SMPs) and their relationship with SMEs. The study investigates how accountants in Malaysia can assist in building and sustaining successful and profitable SMEs by providing business advice.

There has been considerable interest globally in the development of SMEs, and in reducing their tendency to fail, because of their potential contribution to the world economy. Entrepreneurship through small businesses has been signalled as having potential for the creation of sustainable development (Tilley and Parrish 2006) and poverty alleviation in transitioning and developing countries (Morris et al. 2006). Small businesses are recognised worldwide as vital and significant contributors to economic development, job creation, and the general health and welfare of economies (Korsching and Allen 2004; Muske et al. 2007).

They are a major source of ideas and employment and they both sustain and stimulate the growth of national economies. Yet many, far too many, fail. (Birkett 2000)

A report by RCB Financial Group, Canadian Manufacturers and Exporters and the Queen's School of Business in 2003, on the internal barriers to growth of Canadian SMEs, noted the importance of management skills (cited in Yusoff 2006). The report introduced the SME growth framework, which identified four general challenges faced by SMEs: business development (strategy); management

development (leadership); organisational development (infrastructure); and influencing factors (context).

Yusoff (2006) opines that:

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

This supports the view of IFAC (2001) on the transformation of the roles of accountants in management. IFAC (2001) notes that the new credentials for accountants would be rooted in strategy, and they would act as facilitators in organisational change, being globally aware and experienced in knowledge integration. This sits well with the observation in the Canadian Report that SMEs experience different stages of enterprise growth; namely, 'start-up', 'fast-growth', 'sustainability', and some of them may eventually graduate to become a 'global enterprise'. Accountants thus can draw on their skills to facilitate this organisational change and advise on strategies that really matter to the growth of their SME clients.

The IFAC study observed that:

In Malaysia, there is an awareness of the potentialities of international best practice in management accounting and initiatives have been taken to disseminate these to members of the MIA and wider management audiences. However, competing demands on the regulatory front make it unlikely that the MIA will become a 'management driven organization' in the immediate future. Where Malaysian organizations do use modern management accounting technologies, such as Economic Value Added (EVA) and the balanced scorecard, it is within the management process – and only some accountants are involved in 'business partner' roles. It may take the 'increased competitiveness' associated with cross-border liberalization' to convert the awareness that is present into new modes of practice expected of accountants. (IFAC 2001)

Empirical evidence suggests that accountants play a key role in advising SMEs, because they provide the most frequent source of advice (Bennett and Smith 2002; Carter and Mason 2006; Scott and Irwin 2009), especially in matters relating to regulation and compliance (Gooderham et al. 2004; Blackburn et al. 2006; Leung et al. 2008).

The business environment for accounting practitioners has undergone considerable changes (Chaston et al. 2002). *Firm of the Future* (CPA Australia 2007) indicates that service and product mixes will change and that public practitioners will need to review their levels of knowledge, and training, and their management strategies in order to meet the demand for business advisory services.

Currently, there is further interest in compilation and review functions carried out by professional accountants. De Zoort et al. (2008) note that the conceptual foundation of the services professional accountants provide to clients should be modified to refocus on reliable financial statements as the end product. Very importantly, the American Institute of Certified Public Accountants (AICPA) Reliability Task Force concluded that accountants could maintain their objectivity and provide review services even when performing control-related activities for clients (AICPA 2008). This is a departure from the technical literature that advises professional accountants against performing review engagements in cases where independence is impaired and reports will need to be modified to disclose lack of independence in compilation engagements (SSM 2009). This may have implications for SMP practices and the services rendered to SMEs.

Globally, much effort has been directed at enhancing capacity-building efforts in the profession. For example, at the October 2008 forum of the SMP Committee of the International Federation of Accountants (IFAC) at Abuja, Nigeria, one of the main objectives was to discuss how SMPs could best contribute to the development of SMEs (IFAC 2008). National accounting bodies, such as the Institute of Chartered Accountants of Pakistan networking service, are also pouring resources into enhancing the quality of services rendered by SMPs (ICAP 2010)

A preliminary search of the literature, undertaken prior to the fieldwork for this research, revealed a considerable volume of literature on the supply of business advisory services by accountants to SMEs. A *googlescholar.com* search of 'SME', 'accountants' and 'advice' produced 5,240 hits. The early literature predominately focuses on what SMEs need to know and their general lack of financial skills, presenting the views of 'experts' such as accountants, bankers and lawyers (Cameron 1992; Birley and Niktari 1995; Certified Public Accountants 1995). Subsequent literature has focused on the perspectives of SME operators (Dyer and Ross 2007), their relationships with accountants and other business advisers and the quality of advice they received from the accountants (Bennett 2007; Hussain and Matlay 2007; Jaffa 2007; Johnson et al. 2007; Watson 2007)

A journal search for articles on business advice from accountants to SMEs, based on empirical research and published from 1999 to 2009, produced 48 English language publications. The research stemmed largely from the UK. Of the 48 studies, 27 publications (56%) were sourced from the UK.

Table 1.1: Principal location of research

Country of research	Number
UK	27
Australia	5
US	3
Canada	3
Malaysia	2
Others	8
Total	48

Publications originating predominantly from the European Union (countries such as Belgium, Denmark, Finland, Norway, and Sweden) made up the 'Others' category. Significantly, only 13 articles provided the accountants' perspective of their relationship with SMEs.

The business environment in Malaysia has undergone significant changes. The advent of globalisation and technological advances in Information Technology (IT), coupled with some major corporate failures such as Enron and WorldCom, have affected the accounting environment in which SMPs operate, posing significant challenges (Lee 2002a; Kandiah 2003a; 2003b). Koh (2007) observes that within Asia, Malaysia has the greatest number of rules and regulations for corporate governance. Furthermore, the Malaysian Budget 2008 mandated internal audit for all listed companies and this has created opportunities in internal audit and related internal control review for SMPs (*The Star* 2007).

In the Malaysian context, since early 2000, much discussion has focused on the future of small and medium-sized practises and the need for them to remain competitive (Lee 2002a; 2002b; Kandiah 2003a; 2003b) as well as the need to explore ways to bridge the services gap between SMPs and SMEs (Yusoff 2006).

Research on the provision of advice by accountants to SMEs from the perspective of SMPs in Malaysia is notably lacking. Yusoff (2006) calls for research to explore the opportunities to enhance the support provided by SMPs to SMEs.

It is important to understand the business needs of the SMEs and identify areas where accountants in public practice can focus on additional areas currently serviced. At the same time, the barriers preventing the SMPs in meeting the needs of the SMEs need to be understood and possible initiatives by national accountancy bodies to facilitate the SMPs in breaking those barriers down should be explored.

Apart from two contributions from Malaysia (Isa et al. 2007; Ong et al. 2008), which provide the SME perspective, the English language literature from developing and in-transition countries lacks empirical research on business advice given by accountants to SMEs. Research on the provision of advice by accountants to SMEs from the perspective of SMPs in Malaysia is notably lacking. As noted from the IFAC (2001) report discussed earlier, the awareness of new modes of practice expected of accountants was not clearly evident even in 2001. Hence this study is timely in examining the state of awareness and potential for new modes of practice for professional accountants in Malaysia.

1.3 OBJECTIVE

The aim of this study is to reduce the gap in the literature on how SMPs in Malaysia assist SMEs through offering business advisory services. It was designed to ascertain Malaysian accountants' perceptions of the services they offer to SMEs. Specifically, it examines:

- the services offered to SMEs, in addition to compliance work
- the services that SMPs perceive that SMEs need, which they might offer in future
- the issues that SMPs perceive as barriers in their work with SMEs, currently and in the future
- suggested solutions for addressing barriers/problems/issues and challenges that SMPs face in dealing with SMEs
- training needs, if any, for SMPs who wish to expand their offerings to SMEs.

1.4 METHOD OVERVIEW

For data collection, this research used both quantitative and qualitative research methods, incorporating focus groups and a questionnaire administered to accounting practitioners registered with the Malaysian Institute of Accountants (MIA). The literature was used first to identify the gap (between SMPs' current roles and a role as business advisers) and then secondly to assist in understanding the phenomena found in the data. The use of focus groups to precede the questionnaire provided confidence in obtaining a range of perspectives for constructing a questionnaire embodying relevant issues as identified by the SMPs.

Eleven focus groups of SMPs were conducted in five locations in Malaysia. The locations were chosen to represent different business sectors and ethnic concentrations. The resultant discussion transcripts were analysed using QSR NVivo 7 software. The survey questionnaires were distributed to members of MIA by

email; 114 usable responses were returned and analysed using the Statistical Package for the Social Sciences (SPSS). In total, the views of 174 professional accountants, all members of MIA, have been incorporated in the findings of this research.

1.5 DEFINITIONS

Who is a professional accountant?

The International Federation of Accountants defines a professional accountant as 'a person who is a member of an IFAC member body' (IFAC 2009). MIA is a member body of IFAC. Accordingly, all accountants who are members of MIA are deemed to be professional accountants. This research investigates the perceptions of SMPs who are professional accountants operating in small practices in Malaysia. Other persons who may call themselves 'accountants' have not been included as informants.

What is an SME?

For this research the definition used is that developed by the Small and Medium Industries Development Corporation (SMIDEC), which groups SMEs into three categories: micro, small or medium. These groupings are based on either the number of employees (staff) or the total sales (or revenue) generated by a business in a year. Table 1.2 summarises those criteria.

Table 1.2: Definition of SMEs

Sector	Manufacturing*		Primary agriculture and the services sector (including ICT)	
	Annual sales turnover**	No. of full-time staff	Annual sales turnover	No. of full-time staff
Micro	<RM250k	< 5	<RM200k	< 5
Small	≥RM250k–<RM10m	5–50	≥RM200k<RM1 m	5–19
	≥RM10m–<RM25m		≥RM1m≤RM5m	
Medium	<RM25m	51–150		20–50

Source: SMIDEC (2008: 205).

* including agro-based and manufacturing-related services

** Turnover is given in Malaysian Ringgits (RM)

Using these criteria, the number of SMEs in 2005 was 516,855, which is 98.8% of all establishments registered with the Companies Commission of Malaysia (SMIDEC 2006).

1.6 IMPORTANCE OF THE STUDY

The research findings will assist in creating a new business model for SMPs who offer support and advice to SMEs. They will also provide guidance for government agencies developing initiatives to support SMEs. The accounting profession will be informed about services that could be offered to SMEs and about training for their members, especially within Asia. In addition, the report will enable the designers and implementers of policy at local, national and regional levels to be more effectively informed and therefore generate a higher return from providing advisory services to SMEs.

In short, clearer understanding of small business needs as perceived by business advisers alongside an improved understanding of business advisers' needs could greatly improve both the efficiency of private sector services to business and public sector business support. This research is expected to contribute significantly to the development of small and medium practitioners amid current uncertainty over the implementation of an audit exemption regime in Malaysia (see section 3.3, page 23, on statutory audit).

This work is also timely as, at local level, Malaysia seeks to develop its smaller enterprises. Globally, 130 chief executives and presidents, representing 104 IFAC member bodies and associates in 73 countries, have rated the needs of SMEs and SMPs as one of the four most pressing issues for the accounting profession (IFAC 2008).

1.7 PLAN OF THE REPORT

Chapter 1 has introduced this study. Chapter 2 provides the background for the study by examining the literature on the use of accountants as business advice providers to SMEs. Chapter 3 presents the Malaysian context, outlines current government initiatives, and describes the SMP and SME environment. Chapter 4 explains the methodology and research design. Chapter 5 explicates the analysis and findings and implications of the qualitative inquiry. Chapter 6 presents the survey findings and implications. Chapter 7 concludes the report with a summary of the major findings, implications and recommendations.

2. Literature

2.1 INTRODUCTION

This chapter presents a broad overview of the subject matter; subsequent chapters introduce additional literature as specific issues and patterns emerge. In the following sections we examine the ACCA publications; the accountants in the role of business advisers; business-advice literature pertaining to professional accountants working with SMEs; limitations of the literature; and a summary of the contribution of the literature.

2.2 ACCA RESEARCH REPORTS

ACCA has produced several research reports on the interface of accountants and their SME clients. Of particular relevance to our studies on support and advice for SMEs in Malaysia are the following.

- ACCA research report no. 18, which indicates the potential role of the profession in supporting small businesses (Chittenden et al. 1990).
- ACCA research report no. 64, which highlights the role of accountants in assisting with networks, providing advice on business performance and ensuring learning takes place for SMEs, particularly at the early stages of the business life-cycle (Deakins et al. 2001).
- ACCA research report no. 85, which points out that ageing populations herald a need to provide for succession planning services (Martin 2005).

Each of the above reports emphasises the unique accountant-client relationships that develop over time and the need for soft skills to provide emotional support to the client. Accountants should be convincing in their offerings so potential clients have confidence that they are offering good service. Two further reports clearly indicate that accountants need to be capable and be seen to be capable in the new services they offer.

- ACCA research report no. 70 shares perceptions from both small practitioners and SMEs about e-Commerce. It is of particular interest that SMEs do not perceive that accountants could assist them beyond very basic functions (Chaston and Mangles 2001).
- ACCA research report no. 71 isolates the minority ethnic respondents' comments and illustrates how small practitioners might expand their fee base (Ram and Carter 2001).

ACCA research report nos. 96 and 99 are part of a drive to obtain international data on how accountants can assist SMEs with their regulatory obligations and about how SMEs seek advice on regulatory compliance issues. Both studies limited their investigations to regulatory issues.

- ACCA research report no. 96 finds that accountants are key advisers on regulation to all businesses, and are in the position to assist SMEs in managing their regulator

obligations (Blackburn et al. 2006). The study is largely presented from the perspective of the SMEs in the UK and Canada and contains extensive data on the use they have made of accountants.

- ACCA research report no. 99 surveys both accounting practitioners and SMEs in Australia to understand how accountants help SMEs with their regulatory obligations and finds that accountants are willing to assist or refer their clients to specialist advisers. Although the service given by accountants was deemed to be very good, the issue of value for money was raised (Leung et al. 2008).

These publications have been the results of substantial pieces of work and provide a useful background to the topic. Being research reports, their development of the respective topics was much greater than could be expected from the journal articles that provide most of the other sources of business advice literature.

2.3 ACCOUNTANTS AS BUSINESS ADVISERS

Four themes are evident in the literature:

- i. the usefulness of accountants' advice
- ii. the intangible nature of business advice
- iii. the heterogeneity of SMEs, and
- iv. the evolution of accountants' roles.

These themes are considered within this section.

The usefulness of accountants' advice

Accountants are one of the most-used professional support providers (Atkinson and Hurstfield 2003; Jay and Schaper 2003). The percentage of SMEs using accountants for business advice and support appears to lie between 72% and 94%, providing a consistent message that accountants are relied on to provide business advisory services by a large number of SMEs.

Table 2.1: Accountants as business adviser of first choice

Researchers	Accountants as source of advice
(Jay and Schaper 2003)	94%
(Berry et al. 2006)	85%
(Robson and Bennett 2000)	83%
(Bennett and Smith 2002)	74%
(Leung et al. 2008)	72%
(Carter and Mason 2006)	57%
(Scott and Irwin 2009)	38%

The 2006 biennial survey of the UK Federation of Small Businesses (FSB 2007) asked members to identify, from a list of 17 sources, where they had sought business advice in the previous year (Carter and Mason 2006). Of the 18,939 UK small business respondents, 12.5% did not seek advice. Further, their responses show the use of accountants (although ranked first as a source of advice) at 57%. The reason for this comparatively low result is not clear. Perhaps more disturbing is the 38% measured by Scott and Irwin (2009) and a finding by Bennett (2008) that although accountants are ranked the single most important source of advice, the percentages in the UK, relating to 'first choice,' dropped from 81% to 77% over the years 1997 to 2002. Nonetheless, the most-used external source of advice for regulatory matters in the UK are accountants (75.1%), with banks (54.2%) and lawyers (53.6%) following a distant second and third source (Blackburn et al. 2006).

Some writers suggest that although accountants are widely used, their services are still not used as much as they could be (CURDS (Centre for Urban and Regional Development Studies) 2002; Gooderham et al. 2004). Their use typically relates to compliance work (Collis and Jarvis 2000, 2002; Massey et al. 2004)

It has also been suggested that accountants, although apparently good at rescuing SMEs, are not able to provide services supporting their success (CURDS 2002).

Professional accountants have the training and the opportunity to blend two aspects of their work – compliance and advice to existing clients – to function as business consultants advising on internal management planning, decision making and control reports (Deakins et al. 2001), with marginal cost to their firms. Yet, accountants have to promote the availability of their extended services actively, to inform their customers of their extended range of services (Bagchi-Sen and Kuechler 2000; Hurmerinta-Peltomäki and Nummela 2004) and persuade them that their advice would have a positive effect on the growth of firms.

Berry et al. (2006) find the use of external advisers is associated with higher growth rates (Table 4, below). They take into account the frequency of use as an added dimension to the relationship with the adviser. They find that an SME that always uses an accountant for business advice may achieve an average growth rate of 17.25%. Network contacts also feature highly in positive growth rates.

Table 2.2: Sources of advice, their frequency of use and growth rate

Source	Always (%)	Usually (%)	Sometimes (%)	Never (%)
Academic		-6.25 *	4.38 *	7.02 *
Support agencies		15.00 *	9.32 *	3.21 *
External accountant	17.25 *	7.06 *	3.78 *	2.32 *
Network contacts	18.33 *	8.49 *	5.07 *	-0.38 *
Consultants		16.25 *	8.42 *	4.05 *

Note: *Average growth rates are significantly different between always, usually, sometimes and never with significance level $p < 0.01$

Source: Berry et al (2006: 41, Table IX).

The Berry study cannot, however, be accepted as conclusive evidence for a number of factors, such as location (Manchester City, UK), sample size (140), selection and measurement of growth factors, recall, and number of times visited over the period. An alternative interpretation is that the SMEs were experiencing growth and that prompted them to use an accountant more. Perhaps the growth was in tandem with the use of business advice rather than a consequence of it. Furthermore, earlier findings contradict this finding. Robson and Bennett (2000) report that although accountants are the most-used source of advice, 'their use appears to have no statistically significant relationships with any of our measures of firm performance. This finding is in accord with earlier research'.

Although the provision and acceptance of business advice from professional sources might intuitively appear to be helpful, research generally has not been able to confirm this supposition. For example, Robson and Bennett (2000: 200) set out to assess the relationship between various measures of firm performance and the use of business advice. They comment:

The use of external advisors has surprisingly little relationship with each of the measures of growth; where it does it is chiefly for employment growth. The use of lawyers as external advisors is the only professional source which is statistically significant and associated with all three measures: employment growth, turnover growth, and increases in profitability. Given the nature of the services provided by lawyers, such as implementing a number of technical legal requirements, particularly related to firm establishment, ownership and finance or

leasing, we should not be surprised at these results, but the lack of statistical association of growth with use of other advisers is surprising.

Accountants are in a privileged position to offer advice to their existing clients as they will, at the very least, be already acquainted with the financial dimensions of their clients' businesses. They have the professional qualifications and can offer business advisory services that are a natural extension of their compliance work.

The intangible nature of business advice

Accountants are encouraged to think of business advisory services as intangible products (Gooderham et al. 2004; Bennett 2007), without fixed expectations:

Advice is a process of supplying an intangible and perishable commodity with a high human asset and technical speciality (that is, knowledge transfer and the de facto transfer of the skills to use the knowledge). (Bennett and Smith 2002)

Face-to-face delivery of the intangible product becomes more important when dealing with sensitive issues. This challenges accountants to rethink their role as one of assisting SME development, not merely delivering a service. Perry and Coetzer (2009) examine the level of personal contact of SMEs with bankers and accountants and find that accountants pay more visits to SME workplaces and meet more frequently with the SMEs than did bankers. Consequently, it seems that accountants are more able than bankers to establish supportive relationships with their SME clients, which in turn enable the SMEs to share their concerns with the accountant.

The change from technical service supply to advice giving requires the accountant to think and act beyond the more traditional job, 'to design and maintain mechanisms to assure effective, ethical and responsible corporate governance and control' (PAIB Committee 2005). Further, the delivery of these intangible services 'must be demand driven and the development of effective policy programs must involve the entrepreneurs' (Boter and Lundstrom 2005).

Extended offerings of services will bring the need for more skills, particularly in the human relations area, for all accountants. For example, SMEs are particularly sensitive when discussing, or rather not discussing, their succession plans, so, when undertaking succession planning:

Accountants may need to develop conversational skills and create space for discussion opportunities that can be used to uncover and influence clients' succession thinking (and other business advisory needs) (Martin 2005).

When the work for a client extends beyond compliance work, 'credible delivery' appears large in the SME perception of accountants' abilities, as Burke and Jarratt (2004) find.

Accountants were viewed as providing sound advice relating to purchasing decisions, reporting practices and tax matters...Accountants, while frequently consulted by SME managers, are not seen as a credible source of strategic advice.

Trust is critical in choosing a business confidant and supporter (Gluckler and Armbrüster 2003; Gooderham et al. 2004). This could preclude sources with which the business operators are not familiar and those who had not built with them a professional reputation or relationship of trust. Also, it may partly explain why such contacts as bankers and accountants are the external sources most often used for support and advice (Collis and Jarvis 2002). Trust seems to be a result of the quality of the services delivered, as 'the small firm must perceive its accountant as a credible deliverer of business advisory services if they are to be used in an advisory capacity' (Gooderham et al. 2004).

Trust could be broken into a number of components, such as technical understanding, understanding of the SME's business, meeting the needs of the SME, value for money, responsiveness and potential for a long-term relationship. These components were used by the authors of research reports nos 96 and 99 as indicators of client satisfaction with the advice on regulatory compliance issues that accountants supplied. SMEs rated the accountants between 71% and 82% on all the components except value for money, which was between 58% and 60%. (Blackburn et al. 2006; Leung et al. 2008). SMEs may be expressing an opinion such as: 'I do not trust accountants to provide me with value for the money I pay; even though they appear to be fine, understanding professionals overall'.

Building upon the existing good satisfaction ratings, an opportunity appears for accountants to extend their advisory services as:

The vast majority of owner-managers receive management advice or further analysis at the same time as the statutory accounts and more than a third receive additional detailed financial statements from their accountant. (Collis and Jarvis 2000)

Although this advice giving is notably related mainly to financial information, while the accountants have the attention of their SME clients they could broach other areas of service that could assist the SME managers in running their businesses. The accountants' role (as adviser, mentor or coach) would be to work with the operators as much as with their businesses. This requires flexibility and an understanding of the context and cultural environment in which the SME operates (Deakins et al. 2002).

Building relationships seems to be critical in extending the role of accountants to become effective business advisers for SMEs. In addition, to become effective coaches, accountants may need to develop empathy with the operators of these firms. Thompson and Downing (2007), explain 'where the enabler is able to think and behave like

an entrepreneur, it is easier to build credibility, empathy, trust and respect'. Stokes and Blackburn (2002) provide an interesting perspective on the learning of SME operators by examining business closure from the perspective of the owner. They find that the major learning from being in business relates to personal development, such as learning to cope with setbacks and change. SMPs, using their business knowledge, should be able to help SMEs cope with setbacks and change.

The heterogeneity of SMEs

Heterogeneity is a factor that is inherent in the SME classification; it arises from differences such as operator education, a firm's phase of development, and its industry or service sector. Advisers have to deal with varying educational backgrounds and levels of business expertise. The trend is towards well-educated, younger business owners and a growth of knowledge-based service industries. Many small business operators are better educated than the labour force as a whole (Carter and Mason 2006). This is important to acknowledge because the services need 'to be directed to the entrepreneur, not only the firm, because developing the skills of the entrepreneur also develops the whole firm' (Hurmerinta-Peltomäki and Nummela 2004).

SMEs will be in varying phases of development. Some will be at the point of inception, others at critical points of growth or expansion, and yet others will be at maturity or even in decline. Their business advice needs will differ depending on their phase of development. Research from the UK indicates younger businesses are more likely to seek business planning advice and marketing advice, and older businesses are more likely to seek Health and Safety advice as they add more employees (Federation of Small Businesses 2007). Those in the start-up phase are likely to be worried about the cost of support and avoid using advisers for this reason (Smallbone et al. 2002).

There are industry-specific problems, eg the hotel industry needs recruitment help and other employment-related services (Boter and Lundstrom 2005). Minority ethnic businesses prefer to deal with family, friends and other business people in the same community (Ram et al. 1999). Further, according to Dhaliwal (2006) Koreans are not communicative, and African-Caribbeans are likely to use support. Thus, services should be less routine and more customised.

The evolution of accountants' roles

The image of the accountant as bean-counter is becoming increasingly distanced from the work that accountants do (Parker 2001). Further, it is observed that:

the 'accounting firm' of the future is probably a misnomer because the expectation is that clients will want all their needs both locally and internationally to be met by one set of professionals, the so-called 'one-stop' professional shop! This one-stop shop will have to be multi-disciplinary if it is to meet the complete needs of a business. (Howieson 2003)

Berry et al (2006) indirectly raise the question 'What is business advice?' This question has to be addressed in considering *what* is to be offered and *how* it should be offered. Ideas can be gleaned from the literature but, ultimately, the needs of the potential clients and the capabilities of the accountants must be addressed. While Kahan (2001) observes that accounting firms are 'straying' from their conventional roles to provide advisory services, Matthews (1998) calls them 'Business Doctors' and notes that British accountants have always been involved in businesses and used the professional training as preparation for general business and management roles.

The literature shows that accountants are used to provide a wide range of services beyond compliance and audit functions. A selection of those services is shown in Table 2.3.

Table 2.3: Services being provided by accountants to SMEs and supporting literature

Inheritance/generation transfer/owner transference
Business structure (company set-up)
Budgeting
Pension schemes
Marketing/sales/strategic planning
Secretary to company boards
Administrative routines/IT
Management/organisation/HRM
Training and skills development
Remuneration schemes/salary administration
Valuation of firms/mergers/demergers
(Doving and Gooderham 2005)
Tax/tax planning
Type of company entity
Debt administration
Closure of firms
Recruitment advice
(Doving and Gooderham 2008)
Advice on employment and payroll
(Blackburn et al. 2006)
Regulatory compliance, health and safety, environment
(Leung et al. 2008)
Planning and review of operations, systems, risk management and financing
(Carey et al. 2005).
Facilitate expansion, survival, recovery or re-orientation of the firm
(Smallbone et al. 1993).
Help with tenders and quotes
(Carter and Mason 2006)
Help with succession planning
(Martin 2005)

An increased demand by SMEs for advisory services in areas such as tax, payroll and employment matters has been experienced by UK accountants (Blackburn et al. 2006), indicating that opportunities exist for accountants who wish to extend their range of services.

In order to cope with the extended range of services, Doving and Gooderham (2005) suggests that accountancy firms should employ more non-accountants and develop alliances with other complementary service providers. Staff shortages have increasingly become a problem as older practitioners retire, and accountancy skills are very portable, so that attracting and retaining staff is a big problem for SMPs (Haylock 2005). Mole (2004) recommends that to increase efficiency and effectiveness, advisers should reduce their focus to two themes: control and strategy. That is, control of the cash and financial stability, planning processes for high quality data, and strategies including those for marketing and product development. Both themes are close to the expected expertise of practitioners in financial management.

The roles of external accountants used by 140 SMEs in the UK show that the predominant use of accountants, in total and by both the manufacturing and services sectors, is for providing statutory advice (Table 2.4).

Table 2.4: Roles of external accountants as reported by operators

Roles of external accountants	Total		Manufacturers		Services	
	No. (n=140)	%	No. (n=42)	%	No. (n=98)	%
Active member of management team	6	4.3	2	4.8	4	4.1
Business advice for management	46	32.9	12	28.6	34	34.7
Source of emergency advice	52	37.1	16	38.1	36	36.7
Financial management support	44	31.4	10	23.8	34	34.7
Statutory advice	98	70.0	30	71.4	68	69.4
Other	9	6.4	3	7.1	6	6.1

Source: Berry et al. (2006)

The second major use of external accountants was for what has been described as 'emergency advice' (Berry et al. 2006). This implies that the accountants are a trustworthy and credible source of advice to be called on in emergencies. It also suggests that accountants need to be prepared to deal with various contingencies that could form an emergency for the SME. The profession appears to be changing quite dramatically and practitioners are facing a challenge to become technically specialised and at the same time 'more strategic and central to business performance' (ACCA 2008).

Alternatively, the SMP could become a business referral service, linking clients to external business advisers (McLoughlin 2007). This already occurs in Australia, where 51% of accounting firms indicated that they used specialist advisers to assist their SME clients and 79% referred their clients to external advisers for regulation-related advice (Leung et al. 2008).

The evolution of accountants' roles has not always been without resistance. Greenwood et al. (2002) track the development of the Canadian profession over the period from 1977 to 1997 and note that practising accountants needed considerable time to accept the change to providing a wide array of business services beyond the traditional compliance offerings. The 1995 advertising campaign 'Strength beyond Numbers' illustrates the drive by the profession to support Canadian accountants entering the broader field of business advice. Furthermore, regional and local accounting firms servicing the SMEs have been enabled to provide additional services through Canadian legislative changes that support multidisciplinary practices so that other professionals, such as lawyers and business consultants, can join accounting firms. The Canadian Institute of Chartered Accountants designed advertisements to: 'convey a message that chartered accountants maintain a broad base of expertise, enabling them to contribute to the success of business beyond accounting and auditing services' (Greenwood et al. 2002).

In this way, Canadian professional accountants were encouraged to expand their range of services to respond to the needs of businesses for advice. Similarly, the accountants of Malaysia could reconsider their role in the development of SMEs and at the same time reap the rewards of expanded services and contribution to the nation.

2.4 SMEs – AN UNDESIRABLE CLIENT?

The amount of small business failure in the early years is well documented, eg Storey (1994) and Danson (1996). The factors that lead to success are not well documented and the growth goals of SMEs are not well understood. SMPs are not guaranteed that their advisee will survive or grow to support fee generation, and differing perspectives may mean 'unchartered territory' for the SMP.

Growth goals

The goals of the operators of SMEs do not seem to be widely understood. Research approaches have tended to assume rational, logical, flow-based decision making (Rae 2004) that ignores the contextual work-life reality of the operators. The small business entrepreneur pursues a range of goals (Jarvis et al. 1996) that includes, but is not limited to, profit maximisation, growth and profitability (Baines and Wheelock 2000; Greenbank 2001).

SMEs are noted for their tendency to avoid growth (McMahon 1998; Devins et al. 2005; BERR 2008). SME growth is a key to achieving long-term national economic performance, but experience from the UK shows disappointing results.

- Although there has been some improvement, large numbers of businesses still have no ambition to grow. Only 65% of all UK businesses with employees reported that they intend to grow in the coming two to three years.
- Even among those businesses that aspire to grow, a large number are not successful in their ambition. Only one in five of all businesses achieve employment growth in any given year and fewer than 10% achieve sustained growth (BERR 2008).

Devins et al. (2005) comment on the challenges of providing support services to SMEs in light of their owners' lack of desire to expand their businesses: 'the lack of growth of many smaller enterprises and their lack of propensity to become involved in external supplied training and development activities lie at the centre of the policy challenge'.

Larsson et al. (2003) note this same growth-averse behaviour but argue that these SMEs may just be defending their current level of achievement, rather than being afraid of expansion. These writers appear to assume that the barriers to SME growth lie within the business operator – a challenge for the SMPs endeavouring to support and assist SMEs. By contrast, Shane (2009) advocates that resources should be directed towards businesses that have high growth potential rather than all SMEs, ie be selective. Although there is an absence of empirical evidence from the Malaysian context, Yusoff (2006), recognises the need to conduct research to understand the critical needs of SMEs and identify service areas that can be nurtured.

Part of the problem may be that SME operators have limited ability to understand financial information – their limited management skills may prevent them from using or asking for additional services that accountants may offer, which could help them to expand their businesses (Marriott et al. 2008; Sian and Roberts 2009). In developing countries where operators tend to use informal procedures for record keeping and spend little time on forward planning, the low level of training of the operators can be a problem (Alattar et al. 2009; Ihua 2009). Even for small businesses in the UK, however, the visit to an accountant has been likened to a visit to the dentist, to be avoided unless absolutely necessary (Marriott et al. 2008). With a mindset like this, it is no wonder that SMEs pose issues with fees.

Gathering the fee

BERR (2008) offers insightful comments on the difficulties of providing business advice to SMEs.

Smaller businesses find it difficult to assess the benefits of well-tailored advice and support without experiencing it, therefore, they under value it. As a result they either do not use advice services or under use them, and have a low willingness to pay the market value that good quality impartial advice might cost.

Research reveals that many accountants consider SMEs to be unattractive clients for various reasons, such as being time-consuming, and paying low fees in a tardy manner (Gooderham et al. 2004). Low expectations may constrain accountants in expanding or changing their roles. Chaston and Mangles (2001), discussing e-commerce support for SMEs, notes a minority of accountants (12% to 35% depending upon the specific question) 'expected their clients would seek their assistance' and further, 'neither accountants nor small firms currently perceive accountants as an important advisory source on e-commerce' (Chaston and Mangles 2001).

Small business operators perceive it to be difficult for those who have not owned a business to understand or empathise with situations they face (Carter and Mason 2006), but those in the start-up phase are more likely to seek advice from accountants than those in later phases (Breen et al. 2003). Once advice is received, there seems to be general satisfaction with it (Boter and Lundstrom 2005). Further, Carey et al. (2005) note that those who purchase business advice perceive their performance to be better than that of their competitors.

Uncharted territory

For many SMPs, extending their practices by offering business advice could mean moving into uncharted territory. The literature provides some insights for dealing with SMEs.

- The available information about the business may be in an unstructured form, unlike information usually seen by an accountant (Deakins et al. 2001).
- The general market conditions may be the main determinant of the kinds of advice needed (Robson and Bennett 2000).
- The intention to expand appears to underlie the operators' needs to develop competencies (Gooderham et al. 2004).
- The assessment of client expectations is difficult 'because it depends on prior client experience and knowledge levels' (Bennett 2007).
- The adviser should expect the operator to challenge the advice provided. 'Baby depends on you...but the grown-up child is going to fight' (Dyer and Ross 2007).

Gibb (2000) argues that a gap exists between the significant 'parties' (SMEs, policymakers, advisers, and other stakeholders) in developing programmes that would be beneficial to SMEs and assist them in becoming empowered:

there are substantial differences relating to: beliefs, values and 'ways of doing things'; sets of assumptions about the way the world works or indeed should work; 'theories' underpinning behaviour; the language in which assumptions, theories and beliefs are couched; the dominant information flows which influence decision-making; and broadly, the culture of the very different kinds of organizations. Gibb (2000)

A number of dimensions, identified in the literature, show a change in the nature of the relationship with the client.

- The accountant is advised to work with clients on their problems. 'The client owns the problem and the solution...But the consultant and client jointly own the enquiry process' (Schein 1997).
- A long-term relationship should be envisaged, so that advice can match the evolutionary change and behaviour of the client (Deakins et al. 2001).
- Accountants should expect to deal with the 'soft aspects' of being in business, and work to increase the capacity of the operators to cope with problems, and to increase their ability to manage, and to overcome uncertainties and insecurities (Ramsden and Bennett 2005).
- Accountants should be prepared to deal with the consequences of the isolation and self-dependency of the operator (Deakins et al. 2001).
- The accountant must become an artist, an educator and a visionary! To identify what needs to be done and relay that information in an appropriate manner to the client requires the adviser to schedule time for thinking and analysing before entering into open discussion with the client (Reeb and Cameron 1996).

The FSB in the UK has been particularly active in surveying its members; its May 2007 survey solicited views on the business support that was then available (Jaffa 2007). Although the survey focused on government-provided support, accountants could learn from respondents' comments about business support. For example, the respondents identified the main barriers to accessing business support as being cost and time constraints and advisers' lack of understanding of business reality.

For a real expansion of skills in Malaysia to take place, as intended by 9MP, SME owners would have to be fully involved in the development of their businesses. Development should be a joint activity with much personal interaction and not merely a matter of producing a ready-made plan (even if customised to each SME's situation). Advisees 'do not just receive advice, but they play a crucial role as searchers for and assimilators of advice' (Ramsden and Bennett 2005). Is this possible in Malaysia? Are there enough professional accountants in Malaysia to undertake the extended role? Are they sufficiently spread across the country to be able to offer holistic, local services to the SMEs in Malaysia? These are questions for further research.

2.5 LIMITATIONS OF THE LITERATURE

In assessing the value of the findings of research, it is often appropriate to consider the data collection base, such as the number of informants and the response rate of surveys. Sixteen studies provided both sample size and response rate information (see Table 2.5, listed in order of response rate). The sample sizes ranged from 55 to 18,939 respondents and the response rates from 4% to 95%.

Table 2.5: Survey sample size and response rates

First author name	Year	Location	Sample size	Response rate
1. Gooderham	2004	Norway	305	95%
2. Boter	2005	Sweden	1,022	71%
3. Bagchi-Sen	2000	US	55	30%
4. Robson	2000	UK	2,474	25%
5. Bennett	1999	UK	2,547	25%
6. Chaston	2002	UK	224	22%
7. Carey	2005	Australia	469	21%
8. Doving	2005	Norway	254	21%
9. Ramsden	2005	UK	194	19%
10. Isa	2007	Malaysia	76	15%
11. Stokes	2002	UK	407	14%
12. Carter	2006	UK	18,939	11%
13. Everaert	2006	Belgian	126	11%
14. Blackburn	2006	UK	318	9%
15. De Faoite	2004	UK + Netherlands	100	6%
16. Jay	2003	Australia	68	4%

The response rates have a high of 95%, a median of 21.2% and average of 24.5%. When the two outlying high scores of 95 and 71 are removed, the median response rate falls slightly to 20.1% (average 16.1%). Response rates for SME research are typically low, and SMPs are themselves SMEs. Participation by small businesses in survey research has been somewhat problematic for researchers. Although response rates typically range between 25% and 39% (Samujh 2007), Chittenden et al. (1998) regard a 14% response from a single mail-out with no follow-up, as satisfactory. Nonetheless, given the low response rates, the results from the studies should be considered as only tentative or indicative findings of the phenomena under study (Jay and Schaper 2003).

It appears that most researchers provided an unadjusted response rate for their questionnaire surveys based on the number of usable responses as a percentage of the number of questionnaires distributed. Some do, however,

adjust the sample sizes to try to reflect a 'true' response rate. For example, Bagchi-Sen and Kuechler (2000) removed the returned mail from the sample size to calculate a 'corrected sample size' before calculating the response rate. Similarly, Boter and Lundstrom (2005) started with an original sample of 1,769 and then removed non-operating, missing and duplicate companies to calculate a 'net sampled group' of 1,428 companies, and from that net sample 1,022 responded (a response rate of 71%). It appears reasonable to make corrections to provide a more accurate response rate, but a direct comparison with unadjusted response rates is not appropriate.

The empirical work grounded in the advisers' perspective is not extensive or based on large numbers. There appear to be seven quantitative studies (shown as '1' on Table 2.6) with 55 to 678 respondents, and four qualitative studies (shown as '2' on Table 2.6) with 10 to 53 informants. Table 2.6 lists the works by year of publication, and shows that the studies are informed by 2,322 voices, of which 1,409 (61%) are from the UK.

Table 2.6: Research examining advisers' perspectives

Location of Study	Research method	Sample size	Author(s)
UK	1	398	Sian and Roberts (2009)
Australia	1	130	Leung et al. (2008)
UK	2	10	Dyer and Ross (2007)
UK and Canada	1	678	Blackburn et al. (2006)
UK and Hong Kong *	1	481	Berry (2006)
Australia	2	10	Gurd (2006)
Norway	1	254	Doving and Gooderham (2005)
UK	2	53	Martin (2005)
UK	2	29	Mole (2004)
UK	1	224	Chaston et al. (2002)
US	1	55	Bagchi-Sen and Kuechler(2000)
Total number of informants		2,322	

* Berry's study also included a total of 17 accountants from the US, Spain and Germany.

The IFAC paper *The Crucial Roles of Professional Accountants in Business in Mid-sized Enterprises* (Krell 2008), sets out to explain the unique challenges that mid-sized enterprises confront and how professional accountants in business help address these challenges. It provides insights drawn from interviews with 10 senior-

level professional accountants in the US, as 'experts' in business, on their experiences in mid-sized enterprises and how to create value for those businesses. In all, only a small number of accountants participate in surveys on their dealings as business advisers to SMEs.

The context of Malaysia may also raise doubts on the generalisability and applicability of the findings of research from other countries. Studies that have used samples from different countries have noted country-related differences in the way that accountants are used (Berry 2006) and the effects of infrastructure on business needs (Ihwa 2009). Furthermore, racial differences affect business behaviours; for example, Scott and Irwin (2009) note that Asians sought advice from friends and family before approaching accountants.

Much of the research conducted in other countries is not directly related to the provision of advice by accountants.

- Several articles appear to be relevant but are not grounded in research data. For example, Swindle and Luteman (2005) discuss the qualities needed by trainers without supplying any empirically based evidence for their claims.
- Consideration of Asian cultural factors is limited. Three exceptions are the works of Ram et al. (1999), Ram and Carter (2001), and Dhaliwal (2006). The research undertaken predominately in European countries may not be relevant to other regions.
- The one Malaysian work (Isa et al. 2007) included in this literature review did not examine the provision of business advice beyond the traditional management-type financial reports and budgets.
- A survey (Ong et al. 2008), to canvass the opinions of SMEs on their purchasing patterns of business advice, was commissioned by MIA at the same time that our research for ACCA began. Relevant portions of this work provide context for our research and are incorporated in Chapter 3.

A gap in the literature has been established, first in relation to the role of accountants as business advisers to SMEs, and secondly in relation to the particular role of professional accountants in Malaysia. There is an urgent need to explore the role of professional accountants in small and medium practices in assisting the SMEs to become empowered. There appears to be an assumption that it is desirable for accountants to take up this role. No discussion has been found in the literature from the accountants' perspective on whether accountants want to do so, how new skills could to be developed or what training or support the accountants may need. Research on accountants and SMEs in Malaysia is notable for its absence.

2.6 CONCLUSION

There is a considerable volume of literature on the supply of business advisory services by accountants to SMEs, although much of this has been from the perspective of the SME. The Malaysian government has committed to making support available to SMEs, but we could not find any published research sharing the accountants' perspective on providing advice to SMEs in Malaysia. There appears to be the need for reassessment by accountants of the opportunities for providing advisory services to SMEs. Working with SMEs in an advisory capacity requires a change in mindset. Additionally, offering extended services will require more skills, particularly in the human relations area, for all accountants.

The findings from our search of the literature indicate that very little empirical research has been published providing the perspective of accountants in their dealings with SMEs, although several studies have been undertaken that provide the views of SMEs on the provision of accountancy services. No studies were found using Malaysian SMPs as the source of field data.

In conclusion, it appears that accountants have an advantage in the marketplace, through being the most frequently used source of business advice for SMEs, giving them the opportunity to extend their practices to provide additional business support to SMEs. They have established contacts and gain trust by virtue of their professional standing and through their compliance and audit work for the SMEs. They are credible business advisers. Nonetheless, it appears that SMPs may need to enhance their relationship skills to be able to handle the intangible nature of advice and be selective in choosing their SME clients. The literature also indicates that SMEs need to be educated about the value and range of services that accountants can offer.

Additional specific literature is introduced in subsequent sections as the findings of our research unfold and specific issues emerge in line with the methodological approaches of this research. The next section provides the context for our research by providing an overview of Malaysia's business environment and the regulatory requirements for practising accountants.

3. The Malaysian context

3.1 INTRODUCTION

The work and aspirations of SMPs in Malaysia in doing business with SMEs are affected both by the social and economic environment of the country and by government initiatives to assist SMEs. Accordingly, this chapter introduces the Malaysian business environment and government initiatives to stimulate SME growth. The regulations and constraints under which accountants operate are then discussed. Finally, we introduce the findings of the 2008 MIA survey (Ong et al. 2008), which provides the perspective of Malaysian SMEs on the services offered by external accountants.

3.2 THE MALAYSIA BUSINESS ENVIRONMENT

Social and economic environment

In September 2008, Malaysia's total population was estimated at 27.73 million, which makes it the forty-third most populated country in the world (DOSM 2010). The population comprises three main ethnic groups: the Malays and other Bumiputra groups (65%), the Chinese (26%) and the Indians (8%) (with 'others' only 1%). A unique Malaysian characteristic is the political favouritism based on informal ties with the political ruling parties by firms run by Malay, Chinese and Indian businessmen (Gul 2006). These relationships arose because the Chinese business community actively solicited and developed ties with politically influential individuals in order to advance their business interests (Jesudason 1990). Given this scenario, the accounting profession has several challenges in mitigating the effects of the relationship-based system and spearheading enhanced transparency and accountability in the delivery of professional services.

Key demographic features of Malaysia indicate that it is relatively well developed, as measured by the ease of doing business, number of Internet users, unemployment rate, and quality of life (Table 3.1). On the other hand, Gross Domestic Product (GDP), the perceived levels of corruption and press freedom are out of line with the other indicators.

Of Malaysia's 516,855 SMEs, 86.5% are in the services sector (SMIDEC 2006). In Malaysia SMEs play an important role in pushing the country towards continuous economic growth. There are approximately 45,000 manufacturing companies registered with the Companies Commission of Malaysia, of which more than 22,000 are active establishments. SMEs constitute nearly 90% of these active establishments. SMEs' market share of exports is about 20% (Malaysia SME 2008). Table 3.2 shows SMEs' contribution to the economy in 2005.¹

Table 3.1: Demographics of Malaysia

Indicator	Rank	Measure	Source
Ease of doing business	20th	10 factors **	IFC (2010)
Number of Internet users	23rd	14,868,000	MMG (2010)
Unemployment rate	31st	3.5%	Trading Economics (2010)
E-readiness	34th	6.16 ***	Economist Intelligence Unit (2008),
Quality of life	36th	6.608 ***	The Economist (2005)
Corruption*	51st	5.1***	Infoplease (2010)
Life expectancy	57th	73.03	GeoHive (2010)
Literacy rate	60th	91.5%	Human Development Reports (2010)
Human development index	63rd	0.823	UNDP (2009)
GDP (PPP) per capita	69th	\$14,400	Coutsoukis (2010)
Press freedom	124th	41.00	BENAR (2008)

* Transparency-International Corruption Perceptions Index. A higher score means less perceived corruption.

** The ten factors are: 1) starting a business, 2) dealing with construction permits, 3) employing workers, 4) registering property, 5) getting credit, 6) protecting investors, 7) paying taxes, 8) trading across borders, 9) enforcing contracts, 10) closing a business.

*** A score out of 10.

1. The next survey is expected in 2011.

Table 3.2: SMEs' contribution to the economy (2005)

Contribution	(%)
SMEs' contribution to GDP	32.0
SMEs' contribution to employment	56.4
SMEs' share of total exports	19.0

Source: SMIDEC (2008)

SMEs have the potential to contribute significantly to the nation's GDP. In other Asian countries, for example Japan and PR China, SMEs' contribution to GDP is already above 55% compared with 32% recorded by Malaysian SMEs (SMIDEC 2008).

There is a rising national interest in making support available for SMEs, as evidenced by the Malaysian government initiative, which is seeking more effective support for the SME sector as one of the focus areas under the *Ninth Malaysia Plan 2006–10* (Economic Planning Unit 2006).

Malaysian government strategies for growth

The commitment to the SME sector is well reflected in the following message from the Honourable Prime Minister on 24 July 2008.

It is important for small and medium enterprises (SMEs) to increase efforts in their drive to become one of the main drivers of economic growth...the Malaysian Government continues to stand committed towards the development of a robust and competitive SME sector as a key national development strategy...let me reiterate the Government's commitment to create a conducive business environment for SMEs to grow. (SMIDEC 2008)

The Ninth Malaysia Plan (9MP) and the Third Industrial Masterplan (IMP3) have outlined key strategies and thrusts to help SMEs develop (SMIDEC 2008). Under the 9MP Entrepreneurship scheme, programmes are being set up that include advisory services 'to equip SMEs with new and improved management and business practices, methods in production, quality improvement, marketing and distribution' (Bank Negara Malaysia 2007). Accountants in Malaysia have the opportunity to take up the invitation and challenge from government to assist with providing some of these business advisory services. Table 3.3 summarises the key strategies for growth in 9MP.

Table 3.3: Key strategies for SME growth outlined in 9MP

Strategies	Implementation
Outsourcing	Programmes will be implemented to nurture SMEs as research and development partners. Collaborative ventures among Multinational Corporations (MNCs), Government Link Corporations (GLCs) and SMEs will facilitate technology transfer and skills development and marketing opportunities.
Inter-firm linkages	Creating business links between SMEs, GLCs and MNCs would enable SMEs to be more competitive and become reliable suppliers for global outsourcing networks, which would expand Malaysia's trade with new export markets.
Entrepreneurship programmes	Programmes, including advisory and outreach services, will be expanded to equip SMEs with new and improved management and business practice methods in production, quality improvement, marketing and distribution.
Knowledge skills	Further development of technical skills among SMEs, especially in generating innovation and creating economic value from knowledge application.

Source: SMIDEC (2008)

A total of RM171 million was spent on the implementation of 121 programmes to increase the capacity and capability of SMEs, with a focus on entrepreneur development and human capital development as well as the marketing and promotion of SMEs and their products (SMIDEC 2008). In 2007, 135 programmes with a total financial commitment of RM945 million were reported (Bank Negara Malaysia 2007). As seen in Table 3.3, there are opportunities under 9MP for SMPs to expand their services to their SME clients as well as to enhance their own capacity and capability.

3.3 THE SMP ENVIRONMENT

The chartered accountant in Malaysia operates in a highly regulated environment, including the Accountants Act 1967 (the Act), MIA rules and bye-laws, licensing, and company audit requirements.

The Accountants Act 1967

The Act authorises MIA to regulate the practice of accountancy in Malaysia. The Act specifies the rules and bye-laws for the conduct and administration of MIA and the regulation of its members, respectively. The Act provides for three different classes of membership: chartered accountants, licensed accountants, and associate members. Additionally, within the category of chartered accountant and licensed accountant, there are members who are in public practice (and are required to have a valid practising certificate) and those members who are not in public practice.

Public practice is governed by the Act, the rules and the bye-laws (on professional conduct and ethics) of MIA. A member, in most instances, can engage in public practice as a sole practitioner or in partnership only with another member(s) as the Act and bye-laws prohibit the sharing of profits with non-members. The corporate body structure is prohibited except where it is allowed by other statutes for limited areas of public practice, namely tax. Thus, the practice of tax accounting may be carried out under a corporate body. However, it has to be established as a separate entity from a public practice and may not be referred to as a tax consultant or tax adviser.

Only members registered as chartered accountants with valid practising certificates can describe and hold themselves out as chartered accountants in public practice, and set up firms providing public practice services. Members in public practice may carry out public practice services such as accounting, audit, liquidation, tax and other related services. The practice of audit, liquidation and tax accounting are licensed under other legislation (see Licences section below). At 30 June 2007 there were 23,558 (in 2008, 24,734) members of whom 24% (in 2008, 24.7%) were in public practice. At the same date, 2,400 members were practising certificate holders. The size of firms by number of partners in practice, as at 30 June 2008, is as shown in Table 3.4.

Table 3.4: Size of audit firms by number of partners

Number of partners	5/3/2002 %	30/06/2008 %
Firms with 1–2 partners	91.4*	91.4
Firms with 3–8 partners	7.5*	8.0
Firms with more than 9 partners	1.1*	0.6
Total	100.0	100.0

* Source: Lee (2002b); 2008 data from membership department of MIA.

The Malaysian Institute of Accountants

MIA is empowered by the Act to provide training and education to ensure that all members have professional competence. Any person in Malaysia who wishes to be an accountant must first be admitted as a member of MIA. Several routes are available for those who aspire to practice accountancy in Malaysia, catering for those who wish to follow either a local or foreign stream. Both streams require work experience and academic qualifications. The different routes are illustrated in Figure 3.1.

Graduates with accounting degrees from seven Malaysian universities and members of ten professional bodies (including the Institutes of Chartered Accountants of England and Wales, Scotland, Ireland, Australia, and India, and ACCA) are eligible to become members of MIA. Membership of MIA can be obtained, first, through membership of a professional body recognised in the Act and, secondly, through obtaining a Bachelor's degree in accounting from recognised local institutions of higher learning and then fulfilling three years' relevant work experience. Efforts are currently being made to introduce a comprehensive competency assessment framework for Malaysian chartered accountants (MIA 2008).

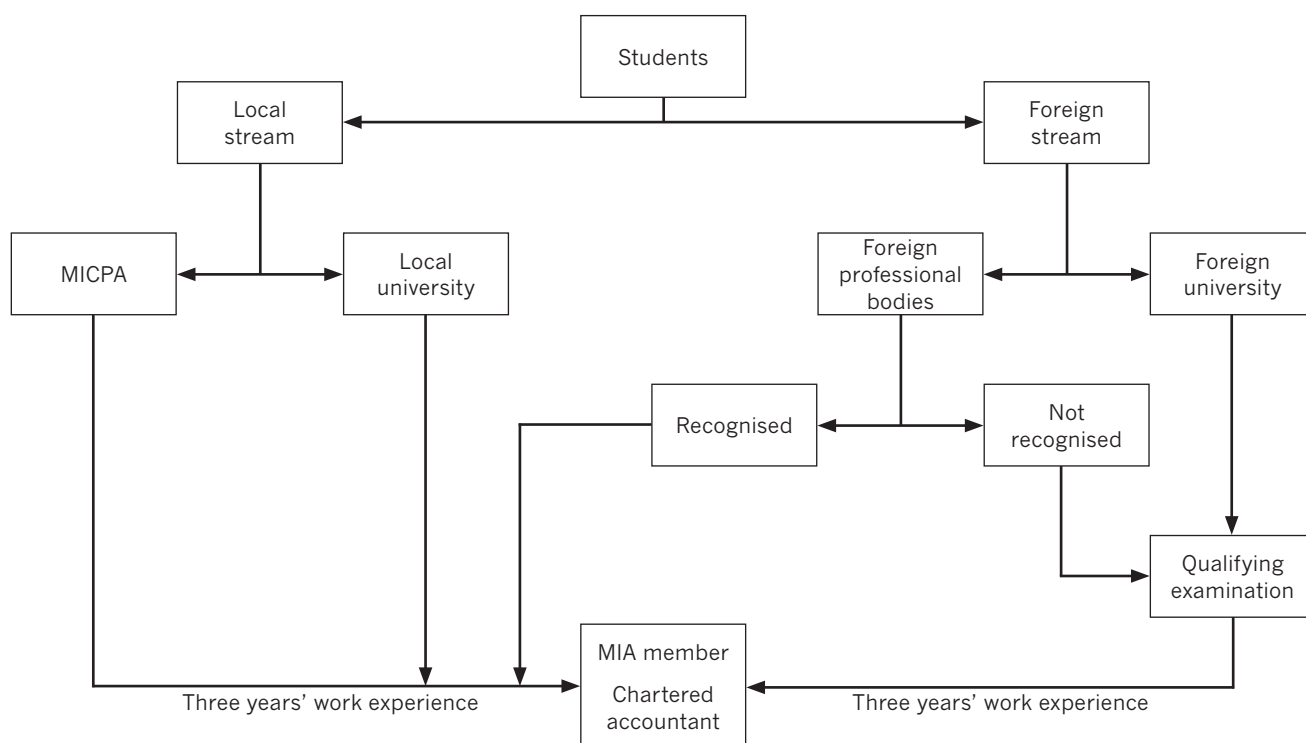
Licences

Several licences are required, depending upon the types of service undertaken by the professional accountant, such as auditing, liquidation, tax, and certain other services.

- Audit**
An audit licence is granted by the Treasury, pursuant to the Companies Act 1965, to members who are chartered accountants with valid practising certificates, have the requisite audit experience, and who have passed an interview conducted by the Treasury. Firms of auditors need to be registered with the Companies Commission of Malaysia as well as MIA.
- Liquidation**
To be a liquidator, an individual has to possess an audit licence for at least one year and then pass an interview conducted by the Treasury, which issues the licences, pursuant to the Companies Act 1965.
- Taxation**
The Income Tax Act 1967, governs tax licences. Holders of audit licences are tax agents pursuant to the Income Tax Act 1967.

Members who do not hold an audit licence may apply to the Ministry of Finance to be a tax agent. A licence is only granted after the applicant has passed an interview conducted by the Inland Revenue Board.
- Other related services**
Where other related services, such as management consultancy and secretarial services, are provided by an accounting firm (or tax firm or audit firm) no additional licences are required. If members undertake management consultancy and certain corporate services other than secretarial services,

Figure 3.1: Routes to becoming a Chartered Accountant in Malaysia



they are, however, required either to incorporate a limited liability company pursuant to the Companies Act 1965 or to practise as a sole proprietorship or partnership pursuant to the Registration of Businesses Act 1956.

Chartered accountants without a valid practising certificate may set up corporate entities to provide management and corporate consultancy services but they cannot be registered as member firms of MIA and should not purport to be chartered accountants when describing their corporate activities. (The resultant companies are not allowed to be described as an entity of chartered accountants.)

To provide the desired services to their clients, members frequently hold more than one licence. Alternatively, members may elect to restrict their range of offerings to avoid licensing fees and requirements. No additional licensing requirements are needed for general accounting work, but members who do not possess an audit licence (issued by the Treasury, Ministry of Finance) can register their firms only as non-audit firms.

At 30 June 2007 there were a total of 2030 accounting firms operating across the 14 states of Malaysia (See Table 4.1, page 28). These comprised 1373 audit and 657 non-audit firms. The number of firms had grown overall by 3.40% from the previous year but the non-audit firms grew faster (8.60%) than audit firms (1.30%). This may reflect a broadening range of services being offered to clients (MIA 2007).

Statutory audit

The Companies Act 1965 mandates companies to keep and maintain their company accounts in compliance with approved accounting standards, to have the accounts audited and to file the accounts with the regulatory authorities. As at 31 December 2007, there were 799,585 registered companies in Malaysia.² These companies have to submit audited financial statements to the CCM annually, except for exempt private companies (SSM 2009). It was estimated that at the end of 2004, there were 65,500 exempt private companies or 9.5% of registered companies.

Notwithstanding the relief accorded to the private companies, exemption from filing audited accounts to CCM, the Eighth Schedule of the Companies Act requires private exempt companies to lay their audited accounts before the annual general meeting. In other words, at least 90.5% of companies in Malaysia are required under the law to be subjected to audit and to file audited financial statements with the CCM. A significantly large majority of these are SMEs.

Owing to the limited resources of small private limited companies, those that are not subsidiaries of public listed companies tend to be audited by SMPs. The issue of audit exemption is of special interest to SMPs, because an exemption regime would mean loss of audit revenue. In

2. During the first quarter of 2008 there was an increase of 10,565. (SSM 2008).

2003, approximately 66% of the revenue of such firms was found to be dependent on providing audit services (MIA 2003).

The Malaysian environment has been noted as providing a unique setting in which to examine the interplay and effects of macroeconomic changes and institutional factors on accounting institutions (Gul 2006). The interplay of these components is shown to affect the audit profession (Gul 2006). Further, Johnson and Mitton (2003) provide evidence that auditors are also probably affected by the dynamics of changes in the social contract. Although these studies draw from the experience of the big accounting firms, the implications for SMPs are also considerable and worth exploring. A fundamental characteristic of the East Asian economic system is the relationship-based system (Gul 2006). The economic system of Malaysia, as in other East Asian countries, is identified as such a system (as opposed to an arm's length system) by Rajan and Zingales (1998). This system, which is characterised by 'cronyism' and low levels of transparency, is said to work where there are weak corporate governance mechanisms and poorly enforced contracts. Since the East Asian financial crisis, however, Malaysia has adopted best-practice corporate governance measures and a new regime of enhancing transparency has evolved. The government-linked companies have come under closer scrutiny.

This research on the relationships between accountants and SMEs is being carried out at a time of great anxiety among practitioners about the outcome of the audit exemption discussion. The Corporate Law Reform Committee was set up in 2005 with the aim of creating an environment conducive to business, which will also promote accountability. The Committee was concerned about whether the existing statutory requirements unduly burdened small companies, and consequently commissioned a survey to ascertain the value of a statutory audit from the perspective of directors of SMEs (SSM 2009). SME directors were mostly of the view that statutory audits are beneficial, necessary and worthwhile for enhancing transparency, corporate governance and internal control, and these factors surpassed the benefit of using such audits for tax and bank financing purposes. Most perceived that the benefits of audit outweigh the costs. The results also showed that most of the directors who responded to the survey would be willing to carry out audits voluntarily, if audits became optional for SMEs.

Minimum audit fees

In the 1990s there was much concern expressed about audit fees and the occurrence of undercutting. MIA introduced a standard guideline to determine minimum fees for audit services. The ruling became effective from 1 April 1993. The main objective was to have a standard scale of fees for audit services 'to prevent undercutting, thus protecting the image and well-being of the auditing industry as a whole' (MIA 1993).

In the submission of the council of MIA it was noted that it took the Institute a period of three years of careful study to

arrive at the methodology on which to base the guidelines (MIA 1994). Prior to the introduction of the guideline, public accountants/auditors were said to be charging unrealistically low audit fees, which could only be justified through lowering or compromising professional standards. The issue of unregistered 'bogus' accountants and concerns about fees were raised during the 1990s. Even so, whether this minimum fees guideline has assisted in overcoming the problems is not clear as no subsequent studies have been noted nor was the schedule revised.

To give further understanding of the Malaysian context we draw on the Ong et al. (2008) study commissioned by MIA, which aimed to identify the ways SMEs use business services. The findings of the MIA survey have been included as part of the context for our study, because they provide SMEs' views on the work of accountants in Malaysia. Although the views of SMEs were not sought during our research, the MIA survey provides additional insights to how SMPs provide services to SMEs in Malaysia.

3.4 MIA SURVEY

The objective was to enable MIA to identify and expand the range of services that external accountants could provide to SMEs (Ong et al. 2008). The respondents were SMEs in the manufacturing and distributive trade sectors in Klang Valley (close to the capital city of Kuala Lumpur). A total of 145 usable responses were received (12% response rate).

Ong et al. (2008) identified 11 types of professional and business support service that SMEs use. Of these, the most widely used were accounting, market research, tax, legal, corporate services and assurance services. Those generally outsourced were legal services (89%), tax (86%), assurance services (85%), corporate services (68%), accounting (32%), and market research services (8%).

Accounting services

The study conducted by Ong et al. (2008) showed that in 2007 the majority (82.1%) of SMEs maintained their own accounts while 16.6% hired external accountants for this purpose, but about 32% outsourced the preparation of their financial statements. Private limited companies are more likely to outsource their financial statement preparation function than are sole proprietors and partnerships, probably because they have to prepare their statements in accordance with approved accounting standards that are increasingly complex and subject to much change.

Reasons for outsourcing

The reasons for outsourcing research and development (R&D) and procurement/inventory management services were cost savings and increased productivity from R&D. For legal, accounting, tax, assurance, corporate services, corporate finance and business consulting, the SMEs believed they required specialist knowledge that they did not have in-house.

Business consulting services

Although SMEs prefer to use accountants as their service providers for accounting, tax and assurance services, they look to consultants to provide business-consulting services. SMEs appear to view accountants as having a role only in the traditional specialist functions, while consultants are viewed as distinct and separate from professional accountants.

Reasons for selecting service providers

Accountants were chosen for provision of accounting, tax and assurance services owing to their technical knowledge, and consultants for business consulting were chosen on the basis of their technical competence. Nonetheless, cost considerations dominated the choice for corporate finance services, such as fund raising and financial management services.

SMEs perceive professional accountants as being specialists only in accounting, tax and assurance services. Even company secretarial services were outsourced to other trade professionals (eg members of Institute of Chartered Secretaries and Administrators), who were not accountants.

Behaviour of SMEs in purchasing services from external accountants

Ong et al. (2008) examined the current and future purchase behaviour of SMEs with respect to services from external accountants. The overall results are encouraging and support the view that there is scope for professional accountants to engage in more business advice services. The highest two intended purchases from each of the five types of service are indicated in Table 3.5.

Table 3.5: SMEs intention to purchase business services

Services	Highest need	Second-highest need
Accounting	Financial planning	Customer profitability
Taxation	Tax planning	Tax incentives application
Assurance	Internal control review	Financial due diligence
Corporate	Business restructuring	Mergers and acquisitions
Consulting	Business strategy	Internal control systems

Source: extracted from MIA survey (Ong et al. 2008).

Why do SMEs purchase business services from external accountants?

The MIA survey identified 12 factors that influenced SMEs' purchase of business services from external accountants (Table 3.6). A competitive price was the fourth most highly rated factor, following the strength of technical knowledge, responsiveness, and knowledge of the SME client's business in making the purchase decision.

Table 3.6: Factors influencing the purchase decision

Rank	Factors	No. (%)
1	Strength in technical knowledge	94 (75.8)
2	Responsiveness	89 (72.4)
3	Knows my business needs best	87 (69.6)
4	Competitive cost/price	84 (67.7)
5	On time delivery	80 (65.0)
6	Competence/ expertise	79 (63.2)
7	Perceived best quality	76 (61.3)
8	Trustworthiness	68 (54.8)
9	Established relationship	49 (39.5)
10	Networking ability	41 (33.1)
11	Creativity and innovativeness	36 (28.8)
12	Branding	14 (11.2)

Source: MIA survey (Ong et al. 2008)

Branding was the lowest-rated factor. This may be because SMEs are unaware of any branding activities undertaken by external accountants in an environment where only modest advertising of accountants' services is permitted.

Satisfaction with external accountants

Ong et al. (2008) required SME clients to rate their satisfaction with external accountants' services across nine indicators (Table 3.7). Accountants scored highest on knowing their clients' business well.

Table 3.7: Satisfaction among SMEs

Satisfaction indicators	Mean*
1. Knows my business needs well	3.91
2. Timeliness of response	3.82
3. On-time delivery	3.79
4. Knowledge of staff	3.76
5. Overall quality of service personnel	3.76
6. Perceived best quality	3.74
7. Competitive cost/price	3.73
8. Networking ability	3.59
9. Creativity and innovativeness	3.36

Source: MIA survey (Ong et al. 2008)

* Based on five-point scale where 1=not satisfied at all, 5=very satisfied.

External accountants received least satisfaction in the ratings on creativity and innovativeness and networking ability. Nonetheless, accountants received satisfactory ratings on all the indicators (3.0 being a neutral position).

Reasons for not engaging external accountants

The reasons given for not engaging the services of external accountants cause some concern. Security of company information appears to be the biggest concern (Table 3.8), which is in line with the finding that accountants' trustworthiness is ranked only eighth (Table 3.6). It shows that practitioners need to work on gaining the trust of SMEs.

Table 3.8: Reasons for not purchasing 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 able 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

Source: MIA survey (Ong et al. 2008)

* Based on a five-point scale where 1= not at all important, 5=very Important.

The reason for these puzzling results may be that the respondents were providing reasons for purchasing from external accountants, rather than reasons for not purchasing. It could be argued that it is the same decision but in a reverse order. It is interesting to observe that the MIA survey assumes the reasons for purchasing (Table 3.6) are quite different to the reasons for not purchasing (Table 3.8). This point illustrates a fundamental issue with questionnaires in that they provide the indicators to be used by the respondents – the respondents can only rate the criteria they are given.

3.5 CONCLUSION – THE MALAYSIAN CONTEXT

SMEs make a significant contribution to Malaysia, which has a very open economy and offers a good quality of life to its citizens. The government has undertaken to pour significant resources into the SME sector to stimulate growth and exports. The accounting environment is highly regulated through the membership of MIA and the need to acquire licences for public practice and to undertake services such as audit, liquidation, and tax. Traditionally, professional accountants provide mainly compliance services to SME clients. One key service is audit, but there is an increasing trend towards introducing audit exemptions in many countries (Nor Azimah 2002; Collis 2003; Davies 2003;).

The legal environment in Malaysia in which both the accountants and SMEs operate differs somewhat from those of the UK, Australia and New Zealand. For example, all companies have to file financial accounts (regardless of size) and have those accounts audited. With the advent of an audit exemption regime and significant government support for SMEs, it is timely to explore whether professional accountants can provide more value-added services to SMEs.

From the study conducted by Ong et al. (2008), it appears that SMEs need to be 'educated' in the value and range of services that accountants can provide, as they perceive professional accountants as being specialists only in accounting, tax and assurance. Further, SMEs are influenced in their decision to employ an external accountant by the strength of technical knowledge, responsiveness and knowledge of their business. Overall, the SMEs perceived services from accountants as satisfactory. There appear to be opportunities for SMPs in Malaysia to consider diversification into business advisory services, particularly if audit exemptions are introduced.

In the next section, the design and methods of the present research will be outlined.

4. Methodology and research design

4.1 INTRODUCTION

This chapter explains the mixed-method approach used in this research, based on initial data gathering from focus groups followed by a questionnaire survey. The rationale for using focus groups and the processes employed to gain participation of the SMPs and the subsequent data analysis are discussed. The questionnaire survey is outlined and the survey respondent profile is presented.

4.2 MIXED-METHOD APPROACH

Quantitative and qualitative studies were performed, incorporating focus groups and an email-based questionnaire administered to accounting practitioners registered with MIA. Although quantitative and qualitative methods were initially associated with different disciplinary traditions, it is now seen that using both methods can assist in answering complex questions for which either the quantitative or the qualitative data alone would be insufficient. Combined they can offer more insightful analyses (Sechrest and Sidani 1995).

Mixed methods of data collection were used to increase confidence in the findings by providing validation of data and results, introducing the opportunity for creativity by offering fresh perspectives on the phenomena and including contextual aspects of the SMPs' situations. There are merits in starting with qualitative studies, such as focus group discussions, when doing exploratory work in a field, using a grounded type of research that is steeped in the context and culture of the situation and therefore more likely to help in developing concepts and language for the field. The qualitative approach is particularly helpful when there is not a lot written about the topic or the population being studied, as is in our case of studying SMPs in Malaysia, as it enables the researchers 'to listen to the participants and build understanding based on their ideas' (Creswell 2003: 30). Deakins et al. (2001) reflect on previous research and remark that postal questionnaires are 'remote, static in nature and limited in depth of insights'. Jay and Schaper (2003) call for more qualitative studies to help understand the advisers' perspective: 'It would be desirable to employ qualitative research techniques to help understand not just what advisors are used but also why'. Qualitative studies are heralded as providing rich data for understanding the reality of the respondents' life-worlds, including working conditions, environment and needs (Coviello 2005).

4.3 GROUNDED THEORY APPROACH

There is a dearth of literature, particularly from developing countries and specifically from Malaysia, presenting the advisers' perspectives on this topic. The grounded approach facilitated revealing the issues that SMPs face. There exist few well-developed theories to be tested or extended in the area of SME support and advice by SMPs, so any outcomes are heavily dependent on the data gathered from the field. The grounded theory (GT) approach is seen to be particularly appropriate for allowing theories to 'emerge' and be developed.

Theory is emergent and must arise from particular situations; it should be 'grounded' on data generated by the research act. Theory should not precede research but follow it. The investigator works directly with the experience and understanding to build his [sic] theory on them. The data thus yielded will be glossed with the meanings and purposes of those people who are their source. (Cohen and Manion 1985)

Thus, the findings of this research were grounded in the data. The research attention was on revealing what the data 'say' and on retaining the richness of the data (Glaser and Strauss 1967). The literature was used, first, to identify the gap in knowledge about SMPs as business advisers to SMEs, particularly in Malaysia; and secondly to assist in understanding the phenomena found in the data. The use of focus groups to precede the questionnaire provided confidence in obtaining a range of perspectives and guarded against possible bias from a researcher seeking confirmation of pre-held beliefs when constructing a questionnaire.

4.4 DATA COLLECTION – FOCUS GROUPS

Focus groups

Focus groups are often used by social scientists to generate rich qualitative data providing insights to practices or behaviours (Fallon and Brown 2002; Jowett and O'Toole 2006) and to provide a foundation and appropriate language to use in questionnaire surveys (Powell and Single 1996; Blackburn and Stokes 2000).

Focus groups produce a very rich body of data expressed in the respondent's own words and context. There is a minimum of artificiality of response.... Thus, responses have a certain ecological validity not found in traditional survey research. (Stewart and Shamdasani 1990)

In exploratory work, the focus group insights are seen to be very effective in providing 'impressions rather than numerical counts, although general trends or strength of feeling about an issue are typically given' (Cameron 2005).

The rationale for using focus groups is that they provide opportunities to:

- examine a wide range of topics with a variety of individuals and in a variety of settings
- obtain large and rich amounts of data in the respondents' own words
- clarify responses, for follow-up questions, and for probing of responses, and
- observe nonverbal responses such as frowns or gestures, which may carry information that supplements or contradicts the verbal response (Stewart and Shamdasani 1990; Blackburn and Stokes 2000).

The researchers recognise that for SMPs doing business is a subjective experience, which takes place in their social context, location and time, and accordingly we were 'concerned about uncovering knowledge about how people think and feel about the circumstances in which they find themselves' (Thorne 2000). In addition, the focus groups provide a grounded basis for choosing what to include in the questionnaire, especially because the groups of people of interest are relatively homogeneous, with respect to the issue at hand and with the wider population to be sampled in the questionnaire survey.

Characteristics of groups

Eleven focus groups (with five to six participants in each) of SMPs were drawn from six states of Malaysia, in the localities of Kuala Lumpur (Federal Territory and Selangor), Penang (Penang), Johor Bahru (Johore), Kuching (Sarawak) and Kota Kinabalu (Sabah). The locations were chosen to represent different business sectors and ethnic concentrations. The local branches of MIA supplied access. English was the language used – all practising accountants in Malaysia have been trained in English and are comfortable discussing business transactions in English. The focus group approach teased out the local idiosyncrasies and identified issues that were then investigated in a wider context.

The choice of the locations for the focus group interviews is shown in Table 4.1, which also shows the spread of audit and non-firms across the 14 states of Malaysia. The focus groups were conducted in the six states with the highest number of firms.

Table 4.1: Accounting firm location by state in Malaysia

State	Number of firms at 30 June 2007			No. of focus group
	Audit	Non-audit	Total	
Federal Territory	541	192	733	1
Johore	123	80	203	3
Kedah	25	16	41	
Kelantan	12	6	18	
Malacca	30	17	47	
Negeri Sembilan	20	17	37	
Pahang	23	5	28	
Penang	104	36	140	2
Perak	53	48	101	
Perlis	1	1	2	
Sabah	82	29	111	3
Sarawak	81	26	107	1
Selangor	267	180	447	1
Terengganu	11	4	15	
Total	1373	657	2030	11

Source: Firms and locations from MIA (2007)

Conduct of focus group interviews

The focus groups were used to ascertain how SMPs perceived they could provide support and advice to SMEs. The SMPs discussed their interactions with SMEs and the challenges in providing them with business advice. The two researchers moderated the groups; the interviews were audio recorded and subsequently transcribed. The participants were not remunerated. Each focus group lasted approximately two hours. Probe questions were used (See Appendix 1: Focus group prompts) to introduce the discussion and so that topics and questions were standardised across all focus groups. The participants validated the transcripts.

Analysis by QSR NVivo 7 Software

Data analysis was conducted using QSR NVivo 7 Software (NVivo) to reveal major themes, which were then incorporated into the questionnaire survey. For example, questions were added on shortages of staff within the SMPs and the SMEs and regulatory requirements that hampered the SMPs in extending beyond traditional service offerings. NVivo is seen to increase the rigour of the research process by checking the researchers' impressions (Welsh 2002), as well as having the ability to handle large quantities of qualitative data (Basit 2003). The results of the NVivo data analysis are presented and discussed in Chapter 5.

4.5 DATA COLLECTION – QUESTIONNAIRE SURVEY

An email-based survey was chosen to allow respondents to answer the questions in their own time and space. Email questionnaires are gaining acceptance by researchers and busy professionals as they can be delivered and responded to at low cost and high speed, with ease of access and convenience, and can be dealt with at times suitable to the recipient (Stokes 2001).

The limitations of such a method could include low response rate, computer mishaps and changes of email addresses (McCoyd and Kerson 2006). A 2001 survey to compare postal and email surveys revealed that, at that time, email surveys provided the lowest response rates while the postal survey responses were slow and contained the most invalid responses (McMahon et al. 2003). It was thought that the current technology and familiarity of SMPs with email would overcome the drawbacks of an email survey.

The questionnaire

A self-administered, predominately closed-end online survey was developed to collect data. The 77-item questionnaire (see Appendix 2) consisted of five main sections:

- Section 1: Service/advice offerings to SMEs (8 items)
- Section 2: Business advice supply to SMEs (24 items)
- Section 3: Barriers, problems or issues in dealing with SMEs (19 items)
- Section 4: Role of MIA (11 items)
- Section 5: Demographic characteristics (15 items).

The survey concluded with an open-ended item offering the respondents an opportunity to provide other comments on the survey as they wished. Further, each section provided a blank space for respondents to add 'other comments'. These responses are detailed in Appendix 3: Survey open-ended question responses from SMPs.

To measure the level of agreement, a five-point Likert-type scale was used, which ranged from 1= strongly disagree to 5 = strongly agree. In addition, the option No opinion/Do not know (=0) was included in each of the rating scales to accommodate those respondents who had not formed an opinion or really did not know. These respondents were thus distinguished from those who had an opinion that was insufficiently strong for them to either agree or disagree (neutral). This distinction is often overlooked by researchers who use Likert-type scales (Albaum 1997).

Sample frame

The sampling frame for the data set consisted of a list of 2,441 MIA practising certificate holders as of 12 September 2008.

Table 4.2: Practising certificate holders (12 September 2008)

State	Number
Federal Territory	762
Johore	228
Kedah	55
Kelantan	22
Malacca	60
Negeri Sembilan	39
Pahang	111
Penang	33
Perak	190
Perlis	3
Sabah	124
Sarawak	151
Selangor	632
Terengganu	18
Others	13
Total	2,441

Source: Membership department, MIA.

Of these, 2,324 provided email addresses and these practitioners received a mailing from MIA inviting them to participate in the study. In the opening of the letter, we stated our purpose and invited respondents to fill out the questionnaire online.

To ensure the highest possible response to this study, we took the following steps.

- (1) On the basis of a preliminary analysis of the focus groups interviews, we drafted the pilot questionnaire.
- (2) A pilot-test was carried out to ensure understandability and completeness of the questionnaire. A total of 12 practitioners participated in the pilot test. The pilot was carried out during the ACCA Public Practitioners meeting on 7 August 2008 and at the office of Azman, Wong, Salleh and Co. on 8 August 2008. The feedback was useful in streamlining the contents of the online questionnaires, making it easier and more appealing to complete.
- (3) An email was sent to 40 selected practitioners providing a URL link to the online survey. When respondents logged in, the first page of the questionnaire introduced our research goal and informed participants that all information received online would be confidential and protected. Respondents took approximately 20 minutes to complete the online questionnaires. Unfortunately, the weblink proved to be unstable and only 11 completed questionnaires were received.
- (4) Since the response to the online questionnaire was dismal, soft-copies of the questionnaire were emailed on 2 December 2008, followed by a reminder on 15 December. This yielded an additional 11 email responses.
- (5) 400 hard copies of the questionnaire were distributed during the National Accountants Conference on 25 and 26 November 2008. This yielded 54 completed responses.
- (6) 80 copies were sent to branches and these returned 20 completed questionnaires.
- (7) 20 questionnaires were distributed during the MIA SMP briefing on 23 December 2008. This yielded 18 completed questionnaires.

In summary, the response rates were: 22 out 2324 emails (0.95%) and 92 out of 500 questionnaires distributed (18.4%). A total of 114 respondents took part in the survey. The low response was particularly disappointing in light of a survey to a sample of 250 accounting practitioners in Australia (Leung et al. 2008), which returned 130 usable responses (a response rate of 52%).

Analysis by SPSS

All data from the survey were analysed using the Statistical Package for the Social Sciences (SPSS). Descriptive statistics such as simple frequencies and mean ratings were computed on the demographic characteristics. The questionnaire was designed to provide additional opportunities for understanding SMPs' real situation. Nonetheless, despite strategies employed to gain participation from respondents, a tendency of SMPs not to engage was demonstrated – only 114 valid questionnaires were returned. The small numbers consequently limited the level of useful statistical analysis. They have also constrained generalisation of the survey results to a wider population of SMPs. The results of the analysis are presented in Chapter 6.

4.6 SURVEY RESPONDENTS' PROFILE

The profile of the respondents includes details of location, age, race, and qualifications. Details of the firms and their clients are also presented.

Location

The largest number of respondents was from the Federal Territory, which includes Kuala Lumpur, the capital of Malaysia (See Table 4.3).

Table 4.3: Respondent profile: location

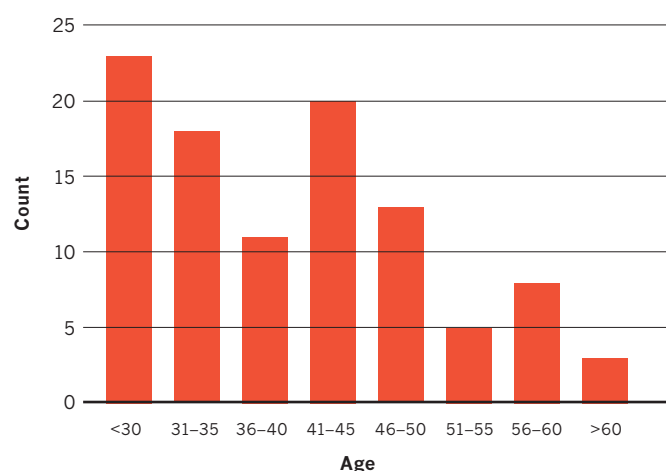
State	Number	%
Federal Territory	44	34
Johore	23	18
Kedah	2	2
Kelantan	9	7
Malacca	5	4
Negeri Sembilan	1	1
Pahang	4	3
Penang	5	4
Perak	6	5
Perlis	0	0
Sabah	2	2
Sarawak	7	5
Selangor	17	13
Terengganu	3	2
Total	128*	100

* Some respondents operate in more than one location.

Age

The largest age group of respondents was of those under 30 years of age as shown in Figure 4.1.

Figure 4.1: Respondent age



Further examination revealed that those respondents who are below 30 years old are also members of MIA. It is also accepted that these respondents are either principals or directors of small accountancy practices.

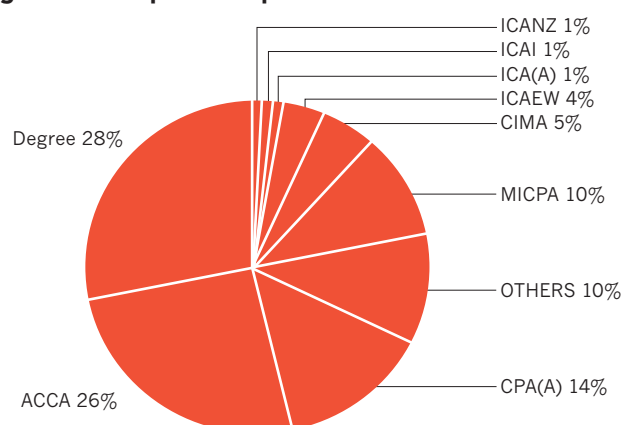
Race

The Chinese provided the highest number of responses to the survey. They almost represent 50% of the total respondents. Malays and Indians form equally 23% of the respondents and 'others' account for 4% of the remaining. 'Others' are mostly those who chose not to reveal their racial origin.

Qualifications

The respondents recorded a diverse range of qualifications, but the most common qualifications held were a degree or ACCA membership (see Figure 4.2). As noted in Figure 3.1, Malaysian chartered accountants have two principal routes to attaining membership in MIA.

Figure 4.2: Respondent qualifications



The practitioners each had qualifications from at least one of the eight professional bodies.

Partners/principals

Approximately half (52.6%) of the SMPs had either one or two principals as shown in Table 4.4.

Table 4.4: Respondents' firm size by number of partners

No. of partners	Frequency	%	Cumulative %
0	4	3.5	3.5
1	35	30.7	34.2
2	21	18.4	52.6
3	8	7.0	59.6
4	3	2.6	62.2
5	6	5.3	67.5
6	2	1.8	69.3
7	2	1.8	71.1
8	1	0.9	72.0
9	4	3.5	75.5
10	1	0.9	76.4
Total	87	76.4	
No response	27	23.6	
Total	114	100	

Graduates employed

Forty-nine firms (43%) had no more than five graduates on their staff (See Table 4.5).

Table 4.5: Number of graduates employed

No. of graduates	No. of firms	%
≤ 5	49	43.0
6–49	31	27.2
>50	9	7.9
Missing/no response	25	21.9
Total	114	100

Employees

Over 60% of the firms employed fewer than 50 staff. This tends to reflect the number of partners and number of graduates (Tables 4.5 and 4.6) and indicates the size of typical SMPs.

Table 4.6: Number of employees

No. of employees	No. of firms	%
≤ 10	42	36.8
11–49	32	28.1
>50	17	14.9
Missing/ no response	23	20.2
Total	114	100

Licences

According to Table 4.7, of a total of 230 licences held, the dominant licence was the tax licence, which is issued by the Inland Revenue Board, closely followed by the audit licence, issued by the Treasury (see, section 3.3, page 22, for a discussion on licences).

Table 4.7: Number of licences

Type of licence	No.	%
Taxation	74	32.2
Audit	68	29.5
Secretarial	56	24.3
Liquidation	19	8.3
Other licences	13	5.7
Total	230	100

SME clients

Almost 60% of the firms had 300 or fewer SME clients, as shown in Table 4.8.

Table 4.8: Number of SME clients

	SMP firms	SMP firms
No. of clients	No.	%
≤ 300	66	57.9
301–500	17	14.9
> 501	14	12.3
Total	97	85.1
Missing	17	14.9
Total	114	100

SME client size by employees and turnover

In Tables 4.9 and 4.10, the number of responses is greater than the total number of respondents (114) because several respondent SMPs had SME clients that fell in more than one size category.

Client size, measured by number of employees, is widely spread, from 65 respondents having up to 50 clients, each with up to 50 employees, to three respondents having more than 100 clients, each with more than 100 employees. The majority of the respondents (56.1%), however, worked with SME clients having up to 50 employees. Further, the majority (56.5%) of respondents themselves each worked with up to 50 clients.

Table 4.9: SME size by number of employees

No. of clients	≤ 50 employees No. (%)	51–100 employees No. (%)	> 100 employees No. (%)	Total No (%)
≤ 50	65 (25.3)	38 (14.8)	40 (15.5)	143 (55.6)
51–100	38 (14.8)	16 (6.2)	10 (3.9)	64 (24.9)
> 100	41 (16.0)	6 (2.3)	3 (1.2)	50 (19.5)
Total no of responses	144 (56.1)	60 (23.3)	53 (20.6)	257 (100.0)

The largest percentage of respondents (23.7%) worked with clients with annual turnover not exceeding RM5 million while 17.7% have more than 100 clients with annual turnover up to RM5 million. Only one respondent had more than 100 clients exceeding RM10 million annual turnover.

Table 4.10: SME size by annual turnover

No. of clients	≤ 5m No. (%)	>5m–10m No. (%)	>10m No. (%)	Total No (%)
≤ 50	55 (23.7)	29 (12.5)	35 (15.1)	119 (51.3)
51–100	41 (17.7)	13 (5.6)	11 (4.7)	65 (28.0)
> 100	41 (17.7)	6 (2.6)	1 (0.4)	48 (20.7)
Total no. of responses	137 (59.1)	48 (20.7)	47 (20.3)	232 (100.0)

It was expected that SMPs would be dealing with the smaller SMEs, but given that some SMPs are working with larger clients (measured by either number of employees or annual turnover) there appears to be potential for more SMPs to expand by working with the larger SMEs.

Time spent on non-compliance business service/advice

Thirty-seven SMPs spent between 11% to 20% of their time providing non-compliance business services to their SME clients as shown in Table 4.11.

Table 4.11: Time spent providing non-compliance services to SMEs

Time with SMEs	No. SMPs	% SMPs	Cum. %
≤20%	52	45.7	45.7
21–40%	26	22.8	68.5
41–60%	8	7.0	75.5
61–80%	1	.9	76.4
>80%	3	2.6	79.0
Total	90	79.0	

Overall, almost 70% of the SMPs spend less than 40% of their time on non-compliance services for their SME clients.

Fees from non-compliance business services to SMEs

Fifty-seven SMPs earned up to 20% of their fees from providing business services to SMEs. Compliance work provides the bulk of fees for SMPs, and only 6.1% of the SMPs earned more than 60% from rendering non-compliance business services (see Table 4.12).

Table 4.12: Fees from non-compliance business services

Fee proportion	No. of SMPs	% SMPs	Cum. %
≤20%	57	50.0	50.0
21–40%	20	17.5	67.5
41–60%	7	6.1	73.6
61–80%	4	3.5	77.1
>80%	3	2.6	79.7
Total	91	79.7	

Comparing fees generated with the time spent with the SMP clients (Tables 4.11 and 4.12) shows that the proportion of time spent on SMEs' work is roughly equal to the proportion of fees generated by business services to SMEs: 68% of the SMPs spend up to 40% of their time on non-compliance services and they generate approximately 40% of their fees from those business services. This finding indicates that SMPs are charging fees for business services on a time basis.

4.7 CONCLUSION

This chapter outlined the mix of qualitative (focus group interviews) and quantitative (questionnaire survey) methods that were used to generate participation from 174 SMPs in this research into their services to SMEs. The profile of the most likely survey respondent would be Chinese, under 30 years of age, from the Federal Territory, holding a degree and operating in a one-principal business. This SMP would probably have fewer than 10 staff, with fewer than five graduate employees, hold tax and audit licences, and have fewer than 300 clients.

Chapter 5 provides an analysis of the focus group data gathered during the research, while Chapter 6 analyses the questionnaire survey data and implications thereof.

5. Focus group findings and implications

5.1 INTRODUCTION

This chapter details the processes of analysing the data gathered from the focus group (FG) interviews conducted at five locations in Malaysia – Kuala Lumpur (KL), Penang (PG), Johor Bahru (JB), Kuching (KCH) and Kota Kinabalu (KK). It also shares the themes and issues that emerged from the participants' discussions. Through the focus group discussions we were able to gather specific examples of issues of concern and gain understanding of the issues that should be included in the wider questionnaire survey.

5.2 FOCUS GROUP ANALYSIS

A total of 11 focus group interviews were conducted and a total of 60 practitioners' voices were heard and recorded during these sessions. The analysis was carried out using QSR NVivo 7 software, which allows the selection of large sections of text, in which codes are embedded. It can summarise vast amounts of text under a limited number of codes that are counted for each focus group interview and it records the number of words coded.

More detail of the focus group analysis is found in Appendix 4.

Major themes

Eight major themes emerge from the analysis (see Appendix 4):

- (1) personal attributes of interviewee practitioners
- (2) practitioners' attitudes
- (3) features of SMPs
- (4) attributes of the interviewee firms
- (5) challenges
- (6) opportunities
- (7) MIA's role
- (8) barriers.

As part of the thread of the discussions (barriers theme) on the prevalence of unregistered 'accountants', one participant articulated the concerns from the Kota Kinabalu group: 'there are many and they are not regulated at all. They can do whatever they like. It is a very severe problem here' (KK 1 FG).

A group of 'accountants' can go out to the market and market themselves with whatever stories and promises they can make...whereas we don't do that. We don't go around promising people things we can't do. Some of the SME bosses are not that educated. Sometimes there are accountants, acting as the middle man and arrange for the accounts to be audited. SMEs say: 'As long as I

comply with requirements, my banker accepts my final statements, and the accounts are audited, I am happy.' They never know who is doing the in-between work. (KK 1 FG)

Maybe they have experience; maybe they have worked in an audit firm before...No licence. There are a lot in the market and they do charge high fees in certain cases but from what I see the Inland Revenue Board is very active in field audit...when they get into trouble, the SMEs will have to approach a tax agent and that is where they will cut off from other parties and really want to engage a fully qualified person to help them. We hope that with this kind of awareness, the SMEs will come to know they really need a fully qualified person. (KK 1 FG)

Emerging issues

Ten issues emerged from the interviews, ranging from fees and strategic alliances to future accountants and gender.

- Fees issue (55)
- Strategic alliances (42)
- Licence issues (36)
- Perception of profession (26)
- Fee payment (21)
- Client growth (20)
- Gender issues (5)
- Future of accountants in practice (4)
- Quality of accountants (10)
- Big 4 issue (10)

The fees issue dominated discussions. The emerging issues provided a range of concerns that the focus group participants tended to address as opportunities and challenges rather than as threats and insurmountable barriers. Selections from the transcripts illustrate the dialogue.

a. Fees issues

SMEs expect that once they have paid for tax and compliance services, advisory fees are already included. Once they pay audit fees, they expect the fees to cover the accounting as well as the advisory also. This is the challenge that we face daily. Their ability to pay is also limited. (KL 2 FG)

There are some clients who go around shopping for the best price. Come back to say, 'Price not different but services more/different'. Some try to be very cunning by saying others are paying a lower price. No fees increase over years – difficult in the face of rising prices. (PG 2 FG)

The problem is that they are looking for instant advice. For instance over a cup of coffee at Starbucks and Coffee Bean. Basically, your drink with them is the fee they pay you. Anything more professional, once you quote a fee over RM100 in total, they will say 'Oh sorry'. This is the main obstacle that we face. They prefer instant advice at Starbucks or Coffee Bean, costing RM11 for the cup of cappuccino! (KL 2 FG)

b. Fee payment

No matter how good your relationship is with them, only 10% will pay automatically. But the 90% will tell you, 'well you already charged me interest'. Audit fee is always the last to be paid – slowly. Then we have to show them a blank face and say 'sorry, we can't do more work for you. You have owed me for one whole year'. We even had clients raising their voice on this issue. (JB 1 FG)

From my experience, the moment they engage you as an accountant, they will put everything totally onto you, whether it is legal issues or tax – everything...They look upon you as an adviser for everything and most of the time you don't get paid as an adviser. It could be a question over the phone...sometimes the income tax department call us and say they called our client, but 'the client asked us to call you'. All we get is additional responsibility. (JB 3 FG)

c. Perception of the profession

The public are not aware who the accountants are. Whoever does the accounts is the accountant. (KK 1 FG)

If I offer additional services, I think my client will still look at me as an auditor. They look at me traditionally as an auditor. (JB 2 FG)

Entrepreneurs are quite arrogant. Sometimes they think all professionals are just talk only. (JB 3 FG)

d. Client growth

These few years I see a lot more opportunities. There is a lot more demand in Malaysia for internal audits, especially from the Big 4. A lot of them are external auditors of the listed companies, so they are not allowed [since 2008] to undertake internal audit jobs, so I am moving into this area...I find it more satisfying than traditional compliance work. But, how we are going to capitalise on this opportunity...how are we going to get our staff force? (JB 3 FG)

The participants presented a mixture of optimistic and pessimistic attitudes. They were aware of opportunities for offering extended business services but raised a large number of issues that needed to be overcome if they were to achieve their goal of assisting SMEs to grow and develop. Overall they saw great scope for professional accountants to work with SMEs.

Basically they are more of operations kind.... Whatever happens at the back of the room is not relevant to them. Because of their experience, they may have to look at the fastest strategy – they may not use their cash flow correctly. As long as the bank grants them a loan, they are happy. They do not look at the terms of it, etc. This has created an avenue for all of us to give feedback [on management reporting] on the SMEs. Are they on the right track, gearing level, parameters,...? Is there any indication for bankruptcy? I think this is the role: to be their finance manager, rather than their compliance officer. (KL 2 FG)

e. Quality of accountants

We don't have the staff – the good staff. The days I was in the Big 4, we used to be able to recruit the cream of the crop; the top university students. Now the problem is, the Big 4s are recruiting the local graduates, if they are lucky. We are left, sadly left with the bottom of the barrel: recruits do not understand what we tell them. They do not know what is impairment...and they mistake deferred tax, for income tax. (JB 2 FG)

There were issues raised about the amount of regulation, the quality of enforcement, the non-enforcement for unqualified or 'bogus' accountants and the licensing process. These concerns appear tied to the status of the profession and the ability to attract new recruits.

I think we need a title in front of our names. Engineers have IR, Doctors have Dr, surveyors have SR, even financial planners have...Lawyers and accountants don't have titles. We need that....They address themselves as so and so. Our CA, it is at the back, not like Dr so and so. More professional – not just 'an accountant'. (KK 1 FG)

While each focus group had issues that were similar, there were important differences in their emphasis on certain issues. For example the JB group (from the southern city of Johor Bahru, closest to Singapore) raised issues such as the 'brain drain'; perceptions of differences between races that affect attracting SME clients; and concerns about audit exemption. This group emphasised MIA's role and a need for more education and training. These focus group discussion findings accord in part with that of Falck (2007), who finds that regional characteristics play an important part in business access to knowledge and resources.

5.3 KEY CHALLENGES

The key challenges for SMPs are in changing both their own and their clients' mindsets, dealing with clients' cost concerns, establishing fair fees, coping with a lack of resources, developing clients' perception that SMPs give value for money, and responding to the threats of unregulated suppliers.

Changing the mindset of SMPs

Our qualitative inquiry results show one of the key themes arising is that of 'mindset change'. The following are excerpts from focus group interviews coded under the free

node 'change mindset' shown as the 'top three emerging themes' (see Table A4.2, page 76).

Accountants are trained to have a square mind. Everybody says they want to change, but you don't see any accountants stepping up. If you look at it realistically, we only talk...We should try and execute other areas of service. We need training, in all areas. We need to have experts as well...We need tools and some affiliation with consultants. (JB 2 FG)

...the new generation like us, we move beyond this perspective of traditional accounting firm services. (JB 3 FG)

Nonetheless, the following comment captures the sentiment of almost one-third of the respondents, who are resigned to doing only compliance work: 'The clients pay because of compliance. They don't see the need to do other things' (KCH 1 FG).

The SME mindset

A clear message arising from the participants is that the SME mindset appears to be a significant barrier to enhancing the SMP role. Several Johor Bahru participants described a sense of self-satisfaction and an 'I know' attitude.

They go through trial and error. Sometimes it is very difficult for them to accept new things. They have been using a certain tactic to be successful. They already believe in their methodology. So when you ask them to change, it is difficult. (JB 3 FG)

I think some of the SMEs (basically owner operated)...feel they have the level of education and knowledge that they should have...The challenge is in educating them...to understand what is required of them. (JB 3 FG)

The value of accountants' advice and the practice of seeking advice may be different in different countries; as Blackburn et al. (2006) note, SMEs in the UK are not reluctant to seek advice.

Other participants alluded to the generation gap.

If those younger ones move in, normally they can accept something like quality standard ISO 9000. Now I believe the SMEs [whether or not they understand], need to improve the quality and productivity, and how [they should do that] is a critical issue. So that is why we are moving towards helping them improve their quality and productivity so they can survive and grow for the next 10 to 20 years. (JB 3 FG)

There is a different mindset for JB clients and KL clients. The KL clients, they appreciate internal audit as part of the service and something to be done for them. But, for the JB clients, the mindset is that they are not going to get some young upstart to come and show them how to run their business and pay money for it! (JB 2 FG)

SME expectations were often seen to be out of line with SMPs' perceptions of how their relationships with their clients should be.

Even though you explain to them there is a law and 'you have to comply with this, you have to follow this, you have to follow public rulings'. They say 'But, in the past we have been doing it, so we can't stop now. Others are doing it and how come you are not?' (JB 3 FG)

The clients here do not appreciate other services...they look more to a tax angle. Tax is the first interest. They are not so keen on audit. They are more interested on advice that can save them tax. (KK 1 FG)

Well, we are lucky to get them to do an audit, they say, 'just sign my accounts and let me move on'. That is the sad part. Also, we have the ownership and management [by] the same people – probably the husband is running the show, the wife is doing the accounting after 6pm This is a potential problem, as they are not going to listen to you. (JB 2 FG)

I believe that business advisory is a very strong issue. So is succession planning. Having the right advisory [service] is something...[for which] we as accountants are not highly regarded yet. (KL 2 FG)

A Canadian study of the use of public sector assistance to SMEs, comments that the perceptions of the SMEs needed to be changed regarding the nature and quality of services available (Audet et al. 2007). Similarly, Dyer and Ross (2008) advocate a change in mindset so: 'Advice seeking is [seen as] smart business behaviour'. The IFAC (2008) observes that qualified accountants are best equipped to assist businesses in managing through these uncertain times. Given the mindset of the SMPs and SMEs, a lot has to be done to ensure the accountants can play the role for which they are qualified.

Costs concerns

Generally, participants see themselves being in a good position to offer support to SMEs but are concerned that SMEs may not be willing or able to pay for this support.

Smaller firms, normally they may want it but they cannot afford to pay. So it is very difficult for us to try and cater for them because if you add the time-cost plus the software and everything I think it is beyond their budget. It is not that small enterprises do not need [help] – it is a matter of affordability. (JB 3 FG)

Yet another participant did not wholly agree:

yes, cost is usually a concern for small businesses, but it is more about awareness. Once they are aware, what the thing can do for them, maybe...their mindset will be different; they may want to pay for it. (JB 3 FG)

This is similar to observations by other researchers (eg Burke and Jarratt 2004; Blackburn et al. 2006), who argue

that the cost of business advice is a barrier for SMEs. They claim that SME clients would not be prepared to pay for extra advice from their accountant, whereas, Breen et al. (2003) find cost is not a critical factor as only 26.1% of their sample listed cost as an impediment to holding more meetings with their accountant.

Part of the problem may relate to the SMEs' record-keeping abilities.

For SMEs, not many of their staff [are] qualified; it is time consuming to redo the work. We have to make a lot of adjustments. The SME clients don't appreciate our work. They just want to get the job done for the IRB or a bank. We are not able to charge more. (KCH 1 FG)

An issue with fees

There was much discussion about fees, such as how they are viewed by the SMEs, how the competition, particularly bogus accountants, practised price-cutting, and how adept SMEs were at bargaining. Some of the extensive discussion is shared here.

Unfortunately, we have to know more about the client psychologically rather than financially. We need to know what they want...their comfort level and...their risk level. If we cannot find out where they are, it is difficult to charge fees. If their comfort level is low, they will need a lot of assurance from you – higher fees. If they know their subject matter, if they know what to do, they tend to only require you to do compliance – they expect you to charge lower. I'm not a doctor but I know a lot of things that can make me feel good. So when I go to a doctor, it is more of a symptomatic consultation rather than one that requires a major surgery. So it is my perception that I pay less to the doctor, a specialist who says I need to go for a bypass! (KK1 FG)

If you look at some of our bigger clients, they don't mind paying the fees that we charge for the services, so that offsets my other smaller clients, so at the end of the day we still survive. But for the amount of effort that we put in the bottom line is poor. (JB 1 FG)

For our clients there are a few other issues as well, one client may pay me on time, but many clients don't pay me on time: they take six months, 12 months...so I need to survive. I need to have all sorts of client forms A to Z (numerous forms I have to complete) in order to survive; if this one don't pay, B will pay, if B takes three months, C will pay me at six months. So I need to have that kind of cash flow. Some of the big clients, they pay very big fees but they take some time. The smaller clients, sometimes they pay very fast. So I have to have a mixture of good, small, medium, big, complicated, and uncomplicated in order to survive, for the cash flow stream. (JB 1 FG)

This way we have been operating in Malaysia all this while. Most of the SMEs pay the fees for the tax and other compliance work (say RM2,000 to RM3,000), and we provide them service for 7 x 24 over 365 days. (KL 2 FG)

They will just pay you the basic compliance fee and for the rest of the year whatever question they ask you, whatever time they take, it is your responsibility to fulfil. They expect no further charge. (KL 2 FG)

MIA has introduced a recommended minimum fee structure (MIA 1993) and participants commented on this issue as well.

Though there is a recommended audit fee, that only serves as a guide, we cannot implement as it is not mandatory, and when comes to that, the audit fees and other fees are fluctuating in the market. So, we want to charge higher fees but they [SMEs] tend to compare [us] with other accountants or non-accountants [who are not regulated by any of the laws], so it is very difficult for us to charge higher fees. (JB 1 FG)

If there is an auditor that poaches your job, and there is a 30% difference, we can take action. But things can get ugly, and we do not want it to be that way. These are issues that do not come out...our client will tell us, 'either you take it or you leave it. I will go to your neighbour'. (JB 2 FG)

A consistent complaint from participants is that SMEs are not good payers.

As a professional, we promise people that we finish the job for them, so we should deliver on time for them. We should not retain the accounts. If they owe for more than one year, you can say 'if your last year's bill is not settled, for this year I won't touch your job, or I won't do it for you.' You cannot say that you did everything, but you don't want to deliver because they didn't pay you. (PG 1 FG)

It is also clear from their responses that the Malaysian SMPs have long pampered their SME clients by including free services, and have created an expectation of these free services, as is noted in the following comments.

The clients prefer it when you throw in additional services. Clients are loyal, stick with us. (KK 2 FG)

SME clients over here expect us to give them services without having to pay anything. That is one of the most difficult problems we are facing. (PG 1 FG)

Sometimes we have to oblige because we want to retain them. Either retain or sustain...Pressure...it also depends...if it is a big assignment, we will have to tell them in advance that we have to charge extra. (PG 1 FG)

Low fees also created a lack of ability to pay staff well.

The low audit fees are also a problem. We can't charge the client much, so we can't pay the staff well. (KK 3 FG)

In general, the SMPs believe they are entitled to a fair fee for the work they undertake, but competition from unregulated service providers undermines their ability to

maintain a firm regime of fee setting and collection of fees. They may be losing ground in their ability to provide a quality service and to pay staff.

Studies reveal that developing countries have low audit fees (Chung and Narasimhan 2002) and the size of the firm being audited affects the audit fees (Carson et al. 2004). In the context of Malaysia, Gul (2006) provides evidence of audit fee issues that arise from political connections and cronyism – just an additional dimension with which SMPs must cope.

Lack of resources

The main resource problems are apparently staff retention, staff shortages and skills. The retention and shortage of staff issues have received much attention recently, and various reasons have been provided for the current situation.

- Graduates are moving to areas of higher earning potential, such as banking (ACCA 2008).
- People are changing their career aspirations (IFAC 2008).

The participants close to Singapore experienced these problems acutely.

Here we pay our audit manager RM8,000. But they say they prefer to work in Singapore, where they get RM16,000 and more. Or they go to Australia, where they get RM16,000 or more and go home everyday at 6pm! Often they go to Singapore and then, after a few years, they go to London to earn...[the equivalent of] seven times more ...in Malaysian currency. (JB 2 FG)

It is very difficult to train them. Further, they work for one year, then move to Singapore. (JB 2 FG)

The advent of globalisation and convergence to IFRS adds more pressure.

We face an ever-growing problem of staffing, finding quality staff, training them and recruiting them. We don't have the resources, like the Big Four, to do research. Our accounting standards keep changing every day. (KL 2 FG)

The reason that people leave is that all use FRS standards now, you learn it here, you can apply it in [the] UK. Unlike before, [when] Malaysian standards could only be used here. (JB 1 FG)

Staff retention and recruitment are constant problems.

My problem is more with staff retention. I invest [in] training for them but they leave, making it un worthwhile. Further, I think MIA courses are for more high-level people, not for fresh grads. (JB 1 FG)

I think we are faced with the manpower situation here. Number one, I think the graduates and the professional people are attracted to more lucrative opportunities and positions. Even Kuala Lumpur is pinching our people but I think it's partly because they have studied there and they are not coming back to work down here. No point expanding when you can't get staff to assist you. (KK 1 FG)

The market for accountants is very good now, that's why they staff commitment and loyalty is very low now. ... Currently it is the employees' market. Even SMEs get their supply of accountants from auditors. (KL 1 FG)

New generation staff

Some focus groups raised the issue of the new generation of employees. The traditional accounting services may not be so attractive to the new generation, who see many career options. The participants shared their views.

Young people have a different aspirations; after working with us for a couple of years, they all think it is time to move on. They do not want to stick to one firm for too long. Go somewhere else to experience something else. (KK 2 FG)

The society is more affluent these days, better cost of living. Not like our time, when we really had to struggle. So unless you give them better training and a better salary, they won't stay. (KK 2 FG)

It is as though it is their right for them to be given a good job and good pay. Without knowing how much they know, they think they know a lot. (KK 1 FG)

The new generation, they do not know what they are doing. Their work is not up to quality. You really have to spend time to teach them the work in this field. (KK 2 FG)

The views of 11 prominent commentators captured in the *Firm of the Future* (CPA Australia 2007), illustrate the challenges of maintaining a professional accounting firm.

Staff recruitment concerns are the number one issue for one-in-two SME firms. What is the problem? Research suggests the marketing of tax accounting is not sexy, while audit services are not a staff magnet. The fear is that a tax and compliance overload is undermining accountants' job satisfaction and making recruitment and retention tougher. Staff turnover hovers at 15 per cent of personnel a year. The fact that young accountants no longer rate a partnership offer very highly also hurts the cause, while the lure of high salaries in commerce is lowering the appeal of public practice. (CPA Australia 2007)

Nonetheless, after studying a number of cases about staff retention in developing countries, Ready et al. (2008) conclude that 'a local company that creates genuine opportunities and exhibits desirable cultural conditions will often win out over a Western multinational that offers higher pay'. They identify four factors that assist with recruitment and retention in emerging markets:

- a brand that represents excellence and leadership
- purpose – being part of changing the nation and the world
- opportunity – career advancement without ceilings
- culture – one that rewards excellence and talent.

Although it is disputed whether or not branding is a factor in an SME's decision to purchase services from SMPs, potential staff may be attracted and present staff retained by using branding as one of an SMP's strategies.

ACCA has actively considered the changing profession and provides the following tips, which suggest that branding be used, along with other communication and development strategies, for dealing with accountants as staff members (ACCA 2008).

Issue

There is higher ambition and greater mobility of accountants and less employer loyalty.

Tips

- Review and if necessary restate your employee proposition. Many employers have excellent employee propositions, but don't communicate these effectively internally or externally.
- Invest in building your employer brand.
- Identify your top talent and key employees – develop specific retention strategies, based on career development, to ensure they are retained.
- Ensure career paths are documented, transparent and accessible – include rotation programmes and secondment opportunities where available.
- Incorporate the development of people as a key performance indicator through the performance appraisal process.

Source: ACCA 2008.

Although the profession has a positive reputation, there are factors that reduce the attractiveness of the work, such as work-life balance, legal liability and professional restrictions (IFAC 2008). The rules of MIA and licensing requirements may be regarded as restrictive, and so the existence of non-professional 'bogus accountants' may inadvertently be encouraged.

Threat of unregulated service providers

Unregulated service providers have created another set of challenges for the SMPs. The unregistered, unlicensed, uncontrolled 'bogus accountants' do not appear to be distinguished in the SMEs' eyes from MIA members, and this has caused problems over the perceived quality and roles of accountants. Participants recounted their experiences of unregulated service providers. Some argued that there could be a role for these providers – although not without some qualification.

A lot of them...you see the adverts in the papers. No names. They provide all services, 'Any problem? Call this number'. (KCH 1 FG)

To make things worse there are a lot of part-timers, they are unqualified persons....Sometimes I get clients who mention they don't know where to go and they don't know how to get their accounting issues solved. (JB 3 FG)

I think there must be better enforcement. It must be compulsory for the clients to engage the professional accountants to carry out these tasks. There is a need to pay for qualified people. (KCH 1 FG)

They are OK because they do solve some of our clients' problems. We have to tidy up. They take no responsibility. However, they also do pose a problem when they undercut. For example, they charge 50RM, [so] the client asks 'Why [do] you charge 500RM?' (KK 1 FG)

SMEs are not aware which service provider is qualified and registered and may not even care.

SMEs, they don't differentiate CA or not, as long as somebody can do the work, they will be OK. (KK 1 FG)

I think our level of awareness is important within the public. It's like doctors, they cannot simply advertise in the newspapers for work. If an unqualified doctor is in practice, it is also dangerous. (KK 1 FG)

We note that while the potential for providing business advice services is immense for SMPs, the associated issues for both SMEs and SMPs seem enormous; the participants explained the strategies they have adopted to mitigate the challenges.

5.4 STRATEGIES

Much of the discussion also focused on strategies (see Table 5.1). The top five strategies mentioned were:

- forming strategic alliances
- diversifying services
- focusing on relationship building
- focusing on market positioning, and
- outsourcing.

Interestingly these strategies mirror closely those outlined in 9MP as key strategies for SME growth in Malaysia (see Table 3.3, page 21).

Table 5.1: Focus groups' mentions of 'strategies'

	No of mentions
General mention of 'strategies'	91
Strategic alliances	42
Diversify services	25
Relationship building	17
Market positioning	16
Outsourcing	11
Segmentalise clients / selective client choice	10
Networking	8
Collaboration	6
Gain confidence in SMP	6
Maintain quality of service	4
Rebranding and repositioning	4
A matter of negotiation	4
Track foreign investors	4
Moving out of comfort zone	3

Strategic alliances

The most critical strategy contemplated by the focus group participants is that of building strategic alliances. Several participants from all locations remarked on their intentions to strike strategic alliances. In this way they can overcome their knowledge limitations and act, like the one-stop shop, to provide trusted referrals.

We have to be realistic. I think we can't do everything by ourselves. The only way is to have a strategic tie up with others. (KL 1 FG)

Rather than getting in-house expertise, we can do a collaboration where we [will] be the lead consultant and they [will] be the sub-consultant. Whoever you want to refer to should be related to your prior experience, you must know the person that you're working with. If we are a one-stop referral point and we say we can do it, then various external consultants in their respective areas become our consultants. (KL 2 FG)

Of course if we want to tie up with anyone, we have to be comfortable with them. There's no point if we form an alliance and they are not able to deliver; we are the ones who face the consequences. (JB 1 FG)

Diversify services

The qualitative inquiry reveals that practitioners recognise that they need to reassess their offerings. It was heartening to note that SMPs are also considering changing their business model.

These are not SME issues, these are SMP issues. SMPs are losing ground – our growth is slower than the SMEs'. One day the SMEs will move away from the SMPs, to the Big Four, big boys, big players. This is where the SMPs need to restructure their business model. (KL 2 FG)

If we are not comfortable being a lead consultant, or if risk management comes in, we get a direct referral, on a fee transfer kind of thing. The business model must be in place in order for us to gain advantage in the SME playground. This is where we really need to collaborate; the networking of the SMPs must be there to provide this structure. If I have a good lawyer in the area of due diligence and my client is doing something similar, I can always refer and share knowledge with them both. One of you has an immigration specialist; if I have a client who needs foreign workers, I can give you a call and you can sort him out for me. This collaboration is important among the SMPs. Otherwise we will forever be losing to the Big Four. (KL 2 FG)

Relationship building

The informants of our study appeared to be well aware of relationship building as a strategy for gaining and retaining clients. They appeared to understand the qualities of trust, comfort and rapport when building relationships. The focus group participants' voices showed (emphasis added) their understanding.

*As my client gets involved with work with me, they tend to ask a lot of non-accounting-related questions....one area [in] which I think I can help them is...financial planning, because financial planning is an area that they must be **comfortable** with whoever is willing to advise them...once they are **comfortable** with me, they treat me more like an adviser, rather than their accountant.*
(KL 1 FG)

*One of the problems that we face with SMEs is, unless the client **knows us personally**, it is difficult for us to convince them that we are capable of carrying out more sophisticated jobs.* (KL 2 FG)

***They trust us, they trust all our advice.** Our advice already has a certain degree of **credibility**; we must keep up to it. But what our clients fail to realise is that to become a resource centre, we must have the experts. They are very eager to tap on our network as they lack the credibility. They are biased [towards] certain products, and we have the credibility to assist them.*
(KL 2 FG)

Outsourcing

Several participants raised the issue of outsourcing as the immediate strategy that they are contemplating. Accountants can act as key bridging intermediaries in disseminating the knowledge required to use new accounting packages and financial information effectively. Their bridging role could include such activities as:

- transferring their specialised accounting knowledge
- sharing experiences and ideas across locations and contexts
- acting as a point of contact for accessing a wide range of specialist services (not provided in-house)
- helping users articulate and define their particular information needs.

Johnson et al.'s study (2007) examines why firms undertake outsourcing, identifying factors that influence a firm's propensity to use external business advice. They conclude that the influential factors appear to support a 'resource-based theory', ie the gap in internal resources causes the firm to seek outside expertise. Outsourcing can be a more efficient and flexible way to control costs in gaining knowledge resource or expertise when compared with taking on more staff. At the same time knowledge disadvantages can be reduced (Barrar et al. 2002).

The trend towards becoming a referral service has already been noted in Australia. Leung et al. (2008) record that owing to the diversity of business advice required by the small business sector, 51% of accounting firms in their survey indicated that they employed the services of specialist advisers to assist their SME clients, and 79% referred their clients to external advisers for regulation-related advice.

5.5 CONCLUSION

The qualitative inquiry provides many insights into the psyche of the practitioners and their concerns and strategies within the context of a rapidly developing country with its unique political economy. Many of the emerging issues are pertinent to understanding the environment in which the professional accountant operates. The results indicate expectation gaps and a need to change the mindset of SME clients and, further, to move the practitioners out of their comfort zone to take on the challenges of meeting SME client requests with more innovative and proactive strategies. We were principally interested in ascertaining the main issues for the practising accountants in Malaysia, so that these could be addressed in the questionnaire to be administered to a wider population.

6. Survey findings and implications

6.1 INTRODUCTION

The questionnaire survey provides rich data on various issues that practising accountants encounter in offering their services – and particularly non-compliance business services – to SMEs. This chapter discusses the service offerings (both current and future), expansion plans and strategies, perceptions of relationships with SME clients and the role for MIA and implications thereon.

6.2 DEMOGRAPHIC PROFILE OF RESPONDENTS

Section 4.6 (see page 30) disclosed the respondent profile by location, age, race, and professional qualification. It also provided organisational details, such as the number of partners, the age of the firm, and numbers of employees, graduates and partners. Details of the SME client base were also gathered, including the number of SME clients, client size measured by number of employees and annual turnover, and percentage of time spent on non-compliance work, such as business advice/services for SME clients, and the proportion of fees so derived. The profile of the survey respondents indicated that the typical SMP firm had fewer than 50 employees, with fewer than two partners and five graduates. The majority of their SME clients have fewer than 100 employees. The majority (68.5%) of the SMPs spend up to 40% of their time on non-compliance services for their SME clients. The amount of time SMPs spend providing non-compliance business services to SMEs approximately matches the fees generated by those services.

6.3 SERVICE OFFERINGS

Respondents were asked about their current offerings, intentions to outsource any current offerings and what services they intended to offer in the future. Table 6.1 summarises the current services, and highlights those intended to be outsourced and future additional services.

As reported in the focus group interviews, mostly compliance services are currently offered. Fewer than half the respondents (42.1%) intend to outsource any of the currently provided services. Bookkeeping is clearly the most common service to be outsourced followed by filing tax returns, IT system implementation and secretarial services. Sixty-two respondents (54.4%) said they intend to offer additional services in the future.

Bookkeeping, compliance filing, business formations, statutory audits, and secretarial services top the list of current services. Preparation of cash flow projections is quite prominent after these compliance services. Tax planning, negotiations with the Inland Revenue Board, design/review of internal control systems and business valuations are the next most prominent services. Of relatively less incidence are services such as business coaching and strategic planning, at slightly more than 20%.

Included in 'other services' are: providing consultancy on improving the public delivery system (one respondent); providing advice on risk management – informing client on the risks to their business and the ways to mitigate them, such as taking up an insurance policy to cover fire, flood and business loss (one respondent), and activities involving other insurance and real estate arrangements. In total, 34 types of service were identified.

It is encouraging to note that business coaching and business plans are the most favoured among the services that practitioners intend to offer in future. Overall there is a shift to more non-compliance work, such as providing internal reviews, internal audits, and profit improvement assistance, included in over 30 services mentioned.

The use of management consultants is not a new phenomenon – the number of consulting firms has been growing over the past 20 years and the market for management consulting services is becoming more competitive (Dawes et al. 1991). Yet low expectations may constrain accountants in expanding or changing their roles. For example, 22 respondents to our survey currently offer IT services, some planned to outsource the service they had been offering and very few (3.5%) planned expansion through IT system implementation. Malaysian SMPs may not have identified IT implementation as a profitable growth area. Chaston and Mangles (2001) observe that a minority of accountants (12% to 35% depending upon the specific question) 'expected their clients would seek their assistance' and further, 'neither accountants nor small firms currently perceive accountants as an important advisory source on e-commerce'. It seems that accountants are not proactive in marketing their services or creating value for money for the SME (Marriott et al. 2008).

The strategies of the Canadian profession may be worthy of a revisit. Two events appear to have assisted the move to offer more comprehensive services: the legislative changes that supported multidisciplinary practices so that other professionals such as lawyers and business consultants could join accounting firms, and the profession-sponsored advertising campaign 'Strength beyond Numbers' (Greenwood et al. 2002).

Table 6.1: Summary of services – current, outsourced and future

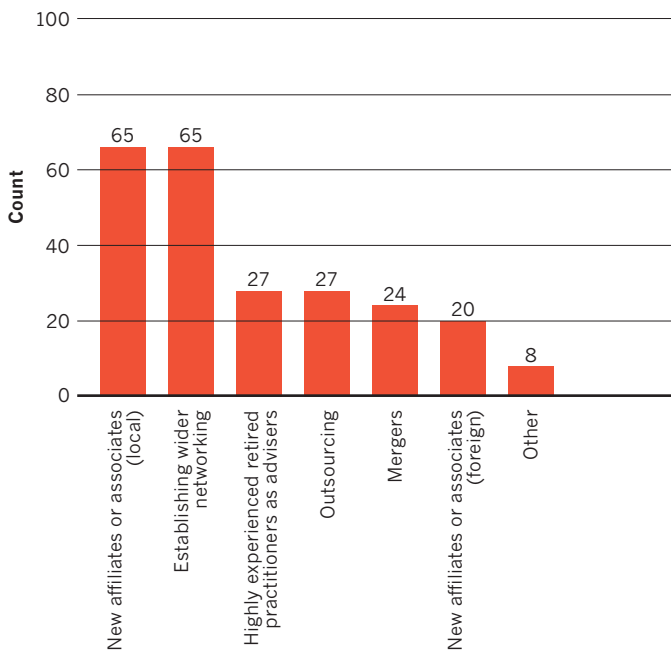
Services		Current services		Services outsourced		Future services	
		No. *	%	No. *	%	No. *	%
1	Bookkeeping	87	76.3	28	24.6	5	4.4
2	Business coaching	25	21.9	5	4.4	16	14.0
3	Business formation	70	61.4	6	5.3	5	4.4
4	Business plans	40	35.1	4	3.5	18	15.8
5	Business valuation	48	42.1	1	0.9	9	7.9
6	Cash flow forecasting	62	54.4	1	0.9	12	10.5
7	Company listing	17	14.9	4	3.5	10	8.8
8	Compliance filing of tax returns	84	73.7	9	7.9	7	6.1
9	Design/review of internal control systems	49	43.0	1	0.9	14	12.3
10	Due diligence	46	40.4	3	2.6	9	7.9
11	Grant application	23	20.2	6	5.3	5	4.4
12	IT system implementation	22	19.3	10	8.8	4	3.5
13	Internal audit	40	35.1	4	3.5	14	12.3
14	ISO standards compliance	9	7.9	7	6.1	7	6.1
15	Liquidation/corporate recovery	22	19.3	3	2.6	14	12.3
16	Loan application	41	36.0	5	4.4	9	7.9
17	Mergers/acquisitions	16	14.0	3	2.6	7	6.1
18	Negotiations with IRB	51	44.7	3	2.6	6	5.3
19	Payroll	35	30.7	5	4.4	8	7.0
20	Profit improvement	10	8.8	2	1.8	14	12.3
21	Recruitment	11	9.6	4	3.5	5	4.4
22	Secretarial services	66	57.9	9	7.9	6	5.3
23	Sourcing grant	12	10.5	3	2.6	4	3.5
24	Statutory audit	70	61.4	6	5.3	4	3.5
25	Strategic planning	23	20.2	1	0.9	10	8.8
26	Tax planning	57	50.0	4	3.5	3	2.6
27	GST	5	4.4	1	0.9	10	8.8
28	Offer loan monitoring	17	14.9	2	1.8	5	4.4
29	Forensic accounting	12	10.5	1	0.9	10	8.8
30	Financing arrangement	25	21.9	2	1.8	3	2.6
31	Others	6	5.3	1	0.9	4	3.5

* Number of respondents to the questions about these services

6.4 EXPANSION STRATEGIES AND BARRIERS

Respondents indicated that they are keen to expand their services, and shared several ideas on how they would provide additional business services. Figure 6.1 shows the most preferred strategies for expansion. Establishing wider networking and bringing in new affiliates or associates locally were the most favoured strategies. SMPs are also considering more outsourcing and using highly experienced retired practitioners as advisers.

Figure 6.1: How to expand business service



Bringing in new affiliates/ associates (local) and establishing wider networking as the strategy to expand the services currently offered was selected by 65 respondents (59%) as their prime strategy for expansion. Next, 27 (24.5%) selected the strategy of bringing in highly experienced retired practitioners as advisers and outsourcing, while 24 (21.8%) consider mergers to be a solution and 20 (18.2%) are planning to bring in foreign affiliates/associates.

Drawing from the focus group findings, we asked 22 questions in section 2 of the questionnaire about perceived barriers to expansion. Reliability test reveals a Cronbach alpha score³ of 0.865, which is acceptable (Nunnally 1978). Table 6.2 shows the number of survey respondents who answered each question and the mean of the responses to each question. The lack of the SMP’s personal touch when dealing with associates is seen to be the most important barrier to supplying business advice to SMEs.

Respondents who indicated ‘other’ specified a number of different strategies:

- form strategic partnership with other firms
- empower staff, who can do contract work and share profits
- recruit more senior management staff and partners
- invest more in staff training
- work with other associate firms
- draw from internal sources, and
- promote internal growth.

3. It is the most widely used measure of reliability.

Table 6.2: Perceived barriers

Barrier	No	Mean *
1. Personal touch is important when dealing with SMEs	103	4.476
2. Quality of service is important to SMEs	103	4.398
3. We need to spend more time with SME clients to build rapport	102	4.275
4. We need to spend much more time with SME clients to assess their needs	103	4.243
5. We need IT assistance and software that are affordable and able to speed up work processes	102	4.206
6. We need adequate resources to offer business advisory services	101	4.188
7. We experience a lack of supply of suitably qualified staff	104	4.163
8. Senior-level staff/partners must spend more time with SME clients to educate them	101	4.158
9. We need to convince SME clients of our technical competence	103	4.078
10. New generation staff desire to work on other than auditing services	106	3.877
11. Non-compliance work is more lucrative than compliance work	102	3.745
12. We struggle to meet the demands of our current workload	106	3.736
13. At this time we have insufficient senior-level staff/ partners	105	3.638
14. The legislation exposes the practitioners to prosecution for client misdeeds	104	3.587
15. SMEs are unsure if they receive value for money from business advice by accountants	102	3.549
16. We act as an intermediary to put SMEs in touch with other business advice suppliers	104	3.538
17. It is difficult to get audit licences to provide audit services	106	3.349
18. High staff turnover discourages us from providing training support	106	3.245
19. Compliance work is lucrative	104	3.000
20. We have too much compliance work to do, we do not want to offer non-compliance work	104	2.923
21. We frequently refer our SME clients to other consultants for business advice	102	2.912
22. We are not competent to provide business advice to SMEs.	104	2.337

* Mean response rated on the scale of 1 = strongly disagree to 5 = strongly agree.

Six factors relating to building relationships with SME clients were rated:

- providing a personal touch
- building rapport and trust
- assessing the client's needs
- educating the client
- providing quality service, and
- convincing the clients that they would receive value for money from business advice.

Each of these factors requires a time commitment that SMPs would find difficult to make as they struggle with the current workload and a lack of suitably qualified staff.

SMPs recognise that currently, because of their heavy compliance-type workload, they are not able to have this closer relationship with SMEs. This is aligned with their perceptions that they need to spend more time building rapport and trust, and convincing clients of their technical competence. This evidently corresponds to the issue that quality of service is important.

Concerns about staff loom large. Lack of suitably qualified staff is an issue, followed by the new generation's desire for work in sectors other than audit services. This is an issue because the practitioners experience difficulties in recruiting staff into audit firms, although they may wish to provide more non-compliance work. The solution may perhaps be to set up practices as non-audit firms to provide business advisory work. There is general neutrality about whether non-compliance work is more lucrative than compliance work. Respondents did not indicate that the amount of compliance work was preventing them from offering non-compliance services.

The respondents believed they were competent to provide business advice to SMEs. At the same time they recognised the need for better IT assistance and software to speed up work processes and a need to convince their SME clients that they had technical competence.

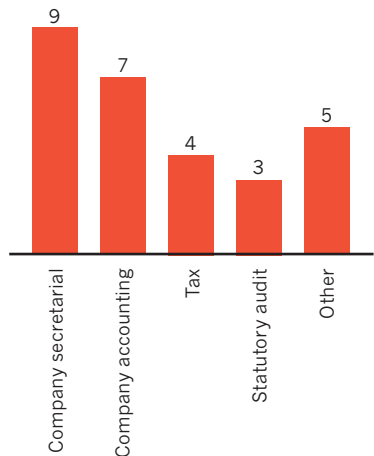
The shortage of trained accountants is expected to continue for some time and is seen to be particularly difficult for developing countries (IFAC 2008). Despite these dismal predictions, we find that some 54% of SMPs are planning to expand their services and find ways to retain, outsource or recruit new staff with appropriate skills.

6.5 CLIENT RELATIONSHIPS

Frequency and mode of communication with clients

Frequency of client contact with respondents about compliance work such as company secretarial services, accounting services, statutory audit and tax services is shown in Figure 6.2.

Figure 6.2: Number of client contacts in a year

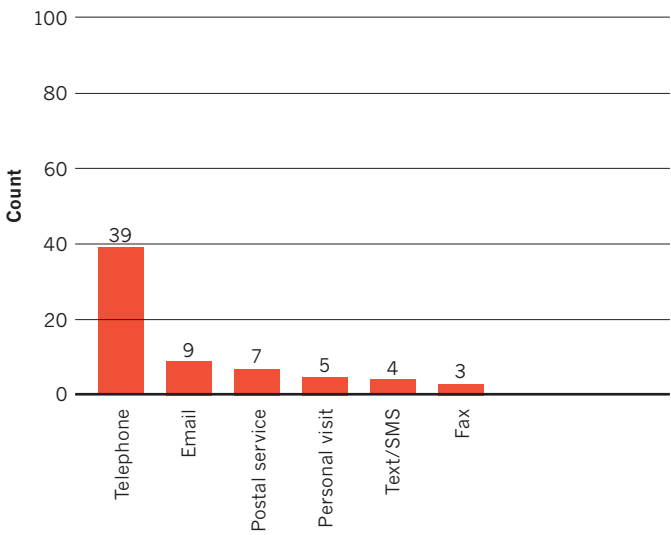


‘Other’ includes loan restructuring/loan request, due diligence, general business advice, grant/loan/corporate advisory. It is interesting to note that respondents are contacted more often regarding these other services than for audit work. This indicates that practitioners have to meet or deal with clients more often in the course of offering non-compliance work. The number of times the SME contacted the SMP was relatively low – for the non-compliance types of work it appeared to be on average five times a year.

Although not directly comparable, two published pieces of research record the frequency of meetings held with accountants. Jay and Schaper (2003) report that home-based micro-businesses visit an accountant for advice on average 1.56 times a year. Breen et al. (2003) report that 61% of their sample met with their accountant at least four times in a year. Further, 41% of their respondents believed that there were no impediments to meeting more frequently with their accountant (Breen et al. 2003). This attitude may be prevalent in the developed countries as SMEs view obtaining external business advice as a way to access cost-effective specialised expertise (Everaert et al. 2007; Lewis et al. 2007), and to use an accountant for more than one service provides the opportunity to economise on information costs (Doving and Gooderham 2008).

Figure 6.3 shows the popularity of each mode of communication used by the sampled SMPs to approach SMEs.

Figure 6.3: Modes of communication



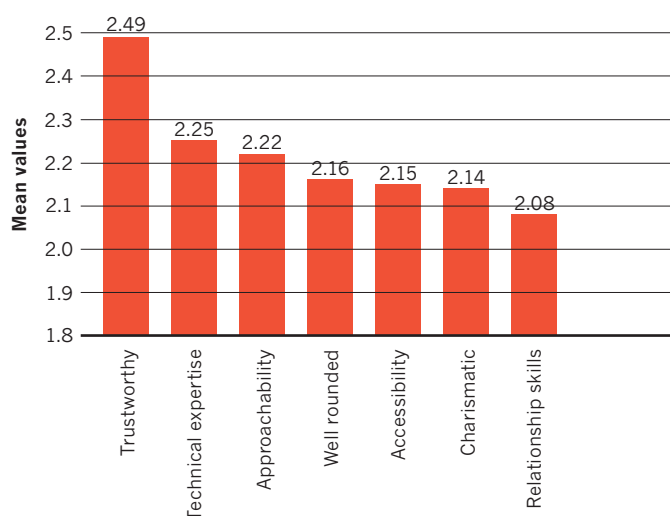
From the Figure 6.3 it is clear that the telephone is still the most preferred means of communication. In fact, 39 out of 114 respondents chose the telephone as the most frequent mode of communication with SMEs. The second most popular mode of communication with SMEs is email, followed by letter as the third most frequent among SMPs and also the most traditional means of communication.

It is questionable whether five or fewer meetings provide adequate opportunity for accountants to build up rapport with their clients or to provide effective advice to SMEs in any one year. Perhaps the SMPs should proactively initiate more contacts at relatively low cost by using their favourite method of communication, ie telephone.

Respondents' perception of how their clients' rate them

Respondents were asked how they perceive their SME clients would rate them for trustworthiness, technical expertise, approachability, accessibility, personality, and relationship-building skills, and overall ability as a competent business adviser. A reliability test reveals a Cronbach alpha score of 0.898. The respondents scored highest for trustworthiness while the lowest score was for relationship-building skills (Figure 6.4). This corresponds well with their perception that the barrier to winning more work is of having insufficient time for building rapport with clients.

Figure 6.4: SMPs perception of how their clients' rate them



Notes:

The values are mean values based on the scale of 0 =low; 1 =medium; 2 =high and 4 =very high.

The valid number of respondents is 100.

Unfortunately, the SMPs did not rank themselves very highly as all-round competent business advisers in the eyes of their SME clients.⁴ Reflecting on Figure 6.4 and the findings in Table 6.2, it is possible that although the SMPs perceived that competence was not a problem in providing business advice to SMEs, they also recognised that they need to convince the SMEs they are technically competent and give value-for-money services.

In the study conducted by Ong et al. (2008), it is shown that the SMEs perceive accountants' services as satisfactory, but the indicators for judging satisfaction are seen to be very different in our research: our respondents perceived that SMEs rated them highest on trustworthiness (figure 6.4).

Surprisingly, the MIA study investigating the SME perspective placed trustworthiness eighth out of 12 factors. This highlights the issue of differences in views that has been noted in the literature and extends to the views on the understandings gained from financial information (Dyer and Ross 2007; Marriott et al. 2008).

Table 6.3 compares ratings of SMEs' satisfaction with accountants from three countries (Leung et al. 2008) and the importance of those factors in influencing the SMEs' decision to purchase from an external accountant (Ong et al. 2008). Approximately 60% of respondents from the three countries indicated that value for money was either good or excellent.

Table 6.3: SME satisfaction with accountant's service

Aspect (excellent + good)	UK	Canada	Australia	MIA survey
Technical understanding	75%	82%	79%	1
Understands business	76%	80%	73%	3
Meets needs of business	78%	NA	78%	6
Value for money	59%	60%	58%	4, 5
Responsiveness	78%	80%	71%	2
Potential for long-term relationship	81%	NA	81%	N/A

Source: Based on Leung et al. (2008).

It may be surmised that the SMEs' perception of value for money from the accountant, although relatively high in the list of deciding factors determining whether to obtain service from the accountant (positioned fourth and fifth), is the least satisfactory aspect. Nonetheless, it is encouraging to learn that client perceptions of service quality appear to be 'affected by the type of service provided, but not the type of providers or by the interaction of provider type and service type' (Aldhizer et al. 2002).

4. A four-point scale rather than a five-point scale was used to prevent SMPs from selecting a neutral middle position in this self-assessment question.

Respondents' perception of their SME clients

Section 3 of the questionnaire contains 19 questions that aimed to reveal perceptions of SMPs towards their SME clients. Reliability tests reveal a Cronbach Alpha score of 0.888. The results show that practitioners perceive that SME clients want on-demand service and expect SMPs to be experts in many areas and to have technical skills (Table 6.4). The problem of a shortage of accounting personnel for the SMEs' in-house accounting is strongly acknowledged.

Table 6.4: SMP's perceptions of SMEs

Perception of SMEs (n=93)	Mean
1. SMEs expect accountants to know a number of areas and issues helpful to them	4.194
2. SMEs expect service to be available on demand	4.157
3. A shortage of skilled bookkeepers and accounts assistants is an issue for SMEs	4.155
4. SMEs bargain for lower fees	4.039
5. SMEs are reluctant to pay for additional services	3.961
6. SMEs trust their accountants	3.883
7. SMEs expect accountants to provide free business advice	3.804
8. SMEs shift to the lowest-fee service provider	3.755
9. SMEs are unwilling to make progress payments for services rendered	3.673
10. SMEs unreasonably delay payment for our service	3.670
11. SMEs are not good at record keeping	3.641
12. The accountant is the first person the SME turns to for business advice	3.602
13. SMEs cannot afford to pay for business advice	3.168
14. SMEs turn to the Big Four firms for specialist advice	2.725
15. SMEs do not accept business advice from accountants	2.723
16. SMEs prefer to use non-MIA members or non-member firms of accountants	2.602
17. SMEs do not expect to receive business advice from accountants	2.529
18. SMEs do not consider accountants capable of providing useful advice	2.505

There was general agreement that SMEs trust their accountants and they are the first to be consulted. There is also agreement that fee bargaining is common and that SMEs are reluctant to pay for additional services. Overall, SMEs are seen to be very cost conscious. The questionnaire contained six questions about fees and about paying for services. The responses (Table 6.4) show that the concerns expressed by the focus group participants are widespread. Our study revealed that SMEs can be difficult clients, expecting services on demand, bargaining over fees, expecting free advice and being likely to shift to the cheapest service provider. It confirmed the belief that many accountants consider SMEs to be unattractive clients for various reasons, such as being time-consuming, and low and late paying (Gooderham et al. 2004).

MIA's role

From the focus group analysis we find that MIA's role is seen to be critical in enabling practitioners to move ahead with expansion into non-compliance services. Ten questions were posed to gather SMPs' perceptions on the role MIA should play. The reliability test revealed a Cronbach Alpha score of 0.930. Not surprisingly, respondents perceive that MIA should play an important role in influencing SME perceptions on the value of services practitioners are capable of offering, especially their non-compliance services. This requires a portrayal of the accountant as more than a 'number cruncher'.

Table 6.5: Role of MIA

Tasks for MIA	Mean *
1. Educate SMEs on the value of accountants' services beyond compliance work	4.250
2. Promote the services of its members to relevant service users (eg SME Corporation)	4.090
3. Provide training in business advisory techniques and tools	4.079
4. Initiate branding so that professional accountants are valued	4.060
5. Provide business- and services-matching sessions to link service provider and user	4.010
6. Ensure effective enforcement of regulation	3.960
7. Provide templates on certain compliance procedures	3.921
8. Provide structured CPD programmes for each level of staff of member firms	3.911
9. Advertise the skills of professional accountants – 'more than a number cruncher'	3.888
10. Provide leadership in fee setting with recommended standard fees	3.700

*Based on scale of 0 = no opinion/do not know to 5 = strongly agree. (n = 95)

Respondents indicated that MIA's role in providing education and training was also important. Two other roles may need addressing: SMPs want MIA to ensure effective enforcement of regulations and to provide service-linking facilities. There was agreement on all the statements presented to the respondents.

6.6 IMPLICATIONS

In this section we discuss three themes: the outlook for business advice services, the gradual shift to providing business advice, and the key challenges. Our findings are related to the sparse English language literature resulting from studies in European countries, principally the UK, and from Australia.

Outlook for business advice services

The outlook for business advice services seems good as SMPs make a gradual shift towards providing those services, and the demand for advice is likely to increase. Malaysia has more rules and regulations for corporate governance than any other country in Asia (Koh 2007). The *Ninth Malaysia Plan* dedicates a whole chapter on good governance for development, and the Budget 2008 mandated internal audit for all listed companies as part of enhancement of the corporate governance regime in Malaysia. This has created opportunities for SMPs in internal audit and related internal control review. This was clear from focus group participants' enthusiasm for internal audit work.

Opportunities for SMPs arise both because SMEs are resource constrained but have to deal with increased corporate governance and because of a focus on SME development initiatives provided by the government. A quote from one focus group participant captures the situation.

I see SMEs are lacking in resources...if we can capitalise on the lack...I find that training is a good area, if we can really get into that area. Also, I find that a lot of companies don't have [the] help they need, because in Malaysia we don't have many good systems to support them. So I see opportunities. (JB 3 FG)

With opportunities come challenges for accountants providing business advice to SMEs. The strong compliance regime of Malaysia provides an avenue for accountants to work closely with SMEs but at the same time it spreads a perception that accountants are principally employed in, and limited to the knowledge needed for, compliance work. The need to obtain specific licences, which SMPs can display publicly, tends to support this perception. The provision of advisory services is, however, seen to be an area of opportunity relatively free from statutory restrictions (Doving and Gooderham 2008) and could be a 'window of opportunity' for Malaysian SMPs to offer extended services unhampered by laws and licences.

Gibb (1996) anticipates problems when serving SMEs, such as smaller fees and more costly access. Generally, advisory services are seen to be more remunerative than

compliance services (Doving and Gooderham 2008). In fact, the SMPs viewed remuneration as one of the barriers to extending business advisory services. In addition, our study shows that SMPs are finding that the fees they charge reflect the time they spend with their SME clients. Clearly, they are using a time-pricing strategy rather than a value-pricing strategy. They also believed they needed to spend much more time with their clients.

Gradual shift towards business advisory services

This study shows that currently SMPs focus more on traditional compliance type work such as bookkeeping, secretarial services and tax services (Table 6.1: Summary of services). Even so, accountants are providing a range of business services to SMEs beyond the traditional auditing, tax and accountancy services. Some firms appear to have reassessed their services and are offering their support as business coaches. In all, it was exciting to find that 34 different business services are currently being offered.

There is an understanding, revealed from the focus group participants, that in the Malaysian scenario the audit of SMEs provides an opportunity for SMPs to offer other non-compliance services.

I think the auditor for [an] SME also plays a significant role. Clients come to us not because of audit only, also for advisory [services]. The one that ties back to the auditor is not the theory, it is the compliance. If we take it out compliance factors, there is [an] advisory [role]. (KL 2 FG)

The Malaysian government's SME development initiatives have also provided increased opportunities for accountants (see page 21). We note that more services are to be offered in assistance for grant applications for SME clients (Table 6.1).

The International Federation of Accountants (IFAC 2008) Global Leadership survey identified the seven types of work most expected to grow as:

- external (financial) audits,
- (personal) financial planning and tax advice
- forensic accounting
- corporate recovery and insolvency services
- other types of external (financial) assurance
- risk and compliance related work, and
- business advisory/consulting services.

The first six areas may reflect the sense of impending financial crisis that had started to develop during 2008. Regardless of the economic environment, business advice was expected to be a growth area.

Key challenges

The Malaysian setting is that of a rapidly developing 'country in transition', which has an integrated culture. Its laws are inherently British with underlying customs drawn from the two dominant races: Malay and Chinese. Our study reveals that practitioners hold qualifications from at least one of eight professional bodies. Such diversity and variety may not be usual in other countries.

Consulting services have been the fastest-growing segment of public accounting over the past decade (Aldhizer et al. 2002). If Malaysian SMPs are to participate in this growing segment, they need to extend themselves beyond their current technical skill services. They need to prepare to be more actively engaged in strategic decisions, which require 'much greater levels of commercial instinct and entrepreneurial flair' (ACCA 2008). However, the findings of the study carried out by Ong et al. (2008) indicate that the strength of technical skills remains the main factor influencing SMEs' decisions to purchase business services from Malaysian accountants.

Our findings show that the SMPs do not rank themselves highly in several of the soft skills (eg relationship building skills and personality or charisma), yet these skills are becoming more valuable and necessary. The international study undertaken by ACCA (2008) identified the top six soft skills that were valuable in performing accountants' roles competently as communication (99%), analysis (96%), leadership (93%), time management (93%), team building (92%) and presentation (90%). This implies that these skills are not merely optional but necessary if SMPs are to attain competence at offering business advice services. SMPs might consider employing para-professionals, who are less technical but have the required soft skills, to work with them in their firms.

Unregulated service providers create a special challenge for the SMPs. The unregistered, unlicensed, uncontrolled 'bogus accountants' do not appear to be distinguished, in the SMEs' eyes, from professional accountants, and this has caused problems over the perceived quality and roles of accountants.

Although there is immense potential for SMPs to offer business advice services, the issues surrounding the relationship between SMEs and SMPs seem substantial in practice. The next section focuses on the strategies that SMPs have adopted to mitigate the challenges.

6.7 STRATEGIES

The immediate strategy appears to be to pursue outsourcing. Longer-term strategies are to learn to respond appropriately to the 'new generation' of staff, and to undertake regular personal and firm reassessment.

Outsourcing

Our results (Table 6.1) confirm that SMPs intend to outsource more of the traditional services such as bookkeeping and secretarial services. E-filing, IT systems implementation, and business advisory services such as

business coaching are also outsourced, possibly to take advantage of external expertise. In view of these intended directions it seems appropriate for the SMPs to build links and make associations with non-accounting firms. Several participants in the discussions among focus groups from all locations remarked on their intentions to strike strategic alliances. In this way they can overcome their knowledge limitations and, like the one-stop shops, act to provide trusted referrals.

Relationship building

Our study reveals that SMPs rank themselves as being highly regarded for trustworthiness. When seeking advice on regulatory matters the majority of SMEs in Australia (Leung et al. 2008) and the UK and Canada (Blackburn et al. 2006) consulted external accountants as their most common source of advice. Trust has been described as a critical factor in choosing a business adviser (Gooderham et al. 2004). Yet, the study of Ong et al. (2008) shows that SMEs rank trust as only the eighth factor influencing their decision to engage external accountants (Table 3.6, page 25).

Success factors for an ideal client-consultant engagement have been identified by Appelbaum and Steed (2005) on the basis of anecdotal views, conceptual frameworks and empirical studies. It is suggested that consulting engagements that possess the following success factors will lead to more favourable project outcomes:

- competent consultants
- an emphasis on client results versus consultant's inputs
- clear and well communicated expectations and outcomes
- visible executive support
- an adaptation to client's readiness in appreciating the advice
- prior investment in learning each client's environment
- defined in terms of incremental successes
- real partnership with consultants; and
- inclusion of the consultants through the implementation phase.

There is a sense that meetings with SMEs should enable shared conversations, with the adviser asking more questions than providing answers (Mole 2004). A mind-shift appears necessary if a 'traditional' SMP, accustomed to producing standardised and routinised outputs to clients, is to move successfully into the consultancy/advisory role.

The consultant's role has to be seen through the eyes of the client – success does not mean a job done but: 'would be better described as keeping promises (meeting client

expectations) by improving one or more of client performance, client capabilities, or organizational culture, without making any category worse' (McLachlin 2000).

Although the initial use of accounting services may be closely related to an SME's scale and financial activity needs, where the accountants are used to add credibility to the financial reports (Cassar and Ittner 2009), SMPs need to build rapport to the extent that their broader skills can be used. Our respondents recognised this would be time-consuming and they would need to strategise their efforts. The literature presents a number of appeals to be selective in building client relationships, to identify potential winners and to work first with those clients. The clients on which to concentrate are those who:

- use IT (Johnson et al. 2007)
- plan to expand their business (Johnson et al. 2007)
- have many different products, market segments and customers (Dyer and Ross 2008)
- experience a growing business (Klyver 2008) or high growth area (Shane 2009)
- are older entrepreneurs (Klyver 2008)
- are younger businesses, with limited liability and that are exporting (Mole et al. 2009)
- have both men and women in the leadership team (Mole et al. 2009).

The above factors indicate that potential lies with those SMEs that have diversity among employees and are growing or planning to grow. In order to take up the opportunities, SMPs need to rethink and restructure their current business model.

Restructure the business model for development

Throughout this report numerous references have been made to the need for the practitioner of the future to develop new skills, particularly the soft skills that are advocated as necessary for successful consulting tasks. Providing business advice places the practitioner in a new role providing an intangible service – advice. Advice giving is a different skill to preparing or auditing a set of accounts. New or additional skills are needed. Our findings suggest that MIA might be an initiator of such training.

Within this report we have provided lists of services gleaned from the literature as being offered by existing firms (see Table 2.3, page 14), and lists of services currently and expected to be offered by Malaysian SMPs (see Table 6.1, page 43). We also suggest that other useful sources exist that list potential kinds of business advice that a SMP might provide, such as the following list from Botherway (2005).

KINDS OF BUSINESS ADVICE THAT A SMP MIGHT PROVIDE

- Providing practical advice and encouragement for the entrepreneur
- Obtaining advice from others in similar businesses or undertaking research with different organisations, eg trade organisations, retailers
- Finding a mentor (a person who has experience or a background that would complement the entrepreneur's)
- Preparing a business plan, including budgets for cash flow and capital expenditure (remember, cash flow is king!)
- Liaising with banks and finance institutions about funding for the new venture or expansion of an existing business
- Advising on an appropriate legal structure for minimising risk exposure and establishing effective tax structuring
- Liaising with solicitors on legal matters, such as purchase or lease of premises, and with patent attorneys if patent protection is required
- Liaising with the appropriate authorities for consents, licences, etc
- Conducting regular meetings with all interested parties to keep the project on the rails and progressing
- Helping overcome obstacles and advising on organisational structure and the employment of suitable personnel
- Setting up a cash flow, budgeting control accounting system with regular monthly reporting and discussion to ensure that the project is on track – and if not, what courses of action are open

Source: Botherway 2005.

Of course, this list is not all-inclusive; but it may provide a basis for thinking about the business services currently being offered. Given the relationship-based context within which SMEs and SMPs operate, the challenge for MIA is to explore relationship-building strategies that are arm's-length-based for its members in the Malaysian context.

As part of the restructured business model, SMPs may need to alter their recruitment strategies to 'recruit and incorporate staff with education types that are less narrowly geared to the technical specifics of accountancy' and 'have routines and systems in place that ensure the regular development of their human capital' (Doving and Gooderham 2008). These recruits could be more able to deal with issues other than financial ones, such as marketing, strategy and specific opportunity development (Klyver 2008), and thus extend the business services offered in profitable and useful ways. It is recognised that accountants have increasingly portable skills, which are in great demand from offshore. The current primary concern of accountants in public practice is retaining and attracting staff. This is a nationwide (and international) problem. Further, 'baby-boomer' retirements could turn into a flood over the next decade (Haylock 2005), posing further shortages in the profession.

6.8 SUMMARY AND DISCUSSION

Thirty-four types of business services have been identified as being currently offered, and many respondents intend to offer additional services in the future. Overall, there appears to be a shift to more non-compliance work and an outsourcing of bookkeeping services. SMPs' expansion is intended to be achieved by developing new local affiliates or associates and by networking. Additional support may be needed to help them achieve their goals, particularly in light of the staffing issues raised by respondents.

SMPs indicated that they met with their clients from three to nine times a year – this suggests that SMPs are well acquainted with their clients' businesses. Contact with clients was surprising; the most common method was by texting or SMS – possibly because it is a convenient means of checking results or represents a reduction in formality that may suit the SME client. These suppositions need further testing.

The perceived barriers to working with SME clients tended to arise from staff issues and the need to convince SMEs of the SMPs' ability to provide additional services. They perceived their clients to be resistant to paying for additional services – this becomes one of the most important issues for MIA to address. Additionally, MIA was seen as the body that should assist with building capacity to achieve the desired expansion of services to assist SMEs.

It has been noted that there are opportunities for extending the SMP's role to providing business advice services to SMEs. The key challenges to being able to give the desired support and advice to SMEs are seen as:

- i. the need to change the mindsets of both the SMPs and their SME clients
- ii. the cost of providing such services to the SMEs, and their ability and willingness to pay for the services
- iii. the lack of skilled staff for the SMPs and the lack of perception of value on the part of the SMEs, particularly in the light of activities by unregistered service suppliers.

The SMPs are not without strategies to achieve their expansionary plans. They intend to outsource some traditional activities (such as bookkeeping) and form alliances with other professionals to make referrals as necessary where they do not have expertise. Further, they see opportunities to work with the preferences of 'new generation' staff on non-compliance types of work.

SMPs recognise the importance of relationship building and are urged to identify clients who are potentially receptive to business advice, particularly when an SME is expanding or planning to expand. There is a need to restructure the business model that SMPs use to include such strategies as recruiting staff without the traditional accounting education, who may not aim for membership of MIA.

6.9 CONCLUSION

This section has provided the results of the questionnaire survey of practitioners in Malaysia and explored the implications thereof for SMPs and MIA. The analysis provides support for the notion that there is scope for professional accountants to shift from providing traditional compliance-type services to more non-compliance-type services such as business advice services.

In addition, three main themes arising from the findings of our research have been discussed:

- the struggle of SMPs for resources to cope with the changing demands in the environment, particularly relating to the staff needs, when developing business advisory services
- the need to create a more favourable mindset among SME owners/managers about the capabilities of the practitioner to serve their wider business needs
- the need for SMPs to develop new strategies to meet the expectations of their clients.

The final chapter summarises the research and includes a re-examination of the role of institutional support in helping to prepare a way forward.

7. Recommendations and conclusion

7.1 INTRODUCTION

This chapter briefly summarises the key issues arising from the focus group and questionnaire surveys (Chapters 5 and 6) and provides recommendations for enhancing the SMPs' role in the Malaysian context.

7.2 KEY FINDINGS

This research set out to ascertain Malaysian accountants' views on the advice and services they offer to SMEs. The key findings are set out here as discussed in Chapters 5 and 6.

Services that are currently offered to SMEs

The respondents identified 34 types of service currently offered to SMEs. Traditional types of services dominate the non-compliance offerings by SMPs, such as bookkeeping, cash flow forecasting and tax planning. Some SMPs intend to restrict their bookkeeping services by outsourcing this work. A wide range of other services are offered, including business coaching, grant application, and strategic planning. Some firms are offering support in the relatively 'newer' areas of forensic accounting and ISO standards. However, SMPs spend 60% of their time on compliance tasks – principally tax filing, auditing and secretarial services – that are not deemed to be part of business advisory services.

Services SMPs perceive that they might offer to SMEs in future

Approximately half the SMPs did not intend to offer additional services in the future. Those who did plan to extend their services (54.4%) appeared to favour areas such as: business planning, business coaching, internal controls, liquidations or corporate recovery, and internal audit. In all, the respondents identified expansion of 34 services. The movement into internal audit would be in direct response to the requirement for all public listed companies to have this, either in-house or outsourced. In view of the discussions in Malaysia regarding statutory audit exemptions for smaller entities, the expansion of internal audit services has much potential.

Issues accountants believe cause barriers for their work with SMEs

The most significant barriers, from the SMPs' perspective, were staffing and the SME mindset. The SMPs were short of staff and this affected their ability to cope with the present workload and to spend time with SME clients (both to work with them and educate them). The Malaysian SMPs believed that they could not compete with the bigger accounting firms or deal with the global shortage of accountants, so they lost out in both recruitment and retention. The shortage of accounting staff also reduced the ability of their SME clients to maintain adequate records, and possibly fed the market for unqualified or 'bogus accountants,' which were seen as devaluing the professional status of registered accountants.

Awareness of the potential role of accountants in providing business advice was low. It would be desirable if the mindset of the SMEs could be changed, particularly with respect to the value of the services that SMPs offer and the attitude towards paying for those services. There appeared to be a high expectation that SMPs would provide additional services as part of the one fee charged for compliance work. Some SMPs believed that SMEs could not afford to pay for additional services.

Solutions to the barriers SMPs face in dealing with SMEs

SMPs were able to offer a number of solutions to the barriers they face, including:

- outsourcing lower-level activities, eg bookkeeping
- recommissioning retired accountants (the public sector retirement age is effectively 55 years)
- offering services in areas that could provide direct and visible benefits to the SMEs (such as profit improvement and grant applications) and more future-oriented services (such as business and tax planning)
- forming strategic alliances with both other SMPs (specialising in different aspects of work) and other professionals (such as lawyers and immigration specialists)
- becoming a 'one-stop' referral centre with a proactive approach arising from awareness of their clients' needs
- recruiting business graduates, without technical accounting skills, to deal with business issues such as marketing and IT for their clients
- persuading MIA to lead a campaign to inform SMEs of the value and range of expertise of accountants as leaders in business advice.

Training needs of accountants who wish to expand their offerings to SMEs

The role of MIA was seen to be critical in developing SMPs' present and future recruits. The SMPs want training in:

- business advisory techniques and tools, which include 'soft skills' development (at the level of the trainee and in response to local needs of the SMPs)
- fee setting/pricing techniques (moving beyond time-based pricing to value-based pricing).

The context of the SMPs, with their heavy compliance workloads, needs to be considered when developing an educational programme. The SMPs are likely to need updates in their non-compliance business techniques (using the latest computer software) and extra support for recently qualified and partially qualified or unqualified recruits to realise their potential as productive accountants.

7.3 IMPLICATIONS

Respondents saw three parties are critical in the development of support services provision for SMEs: professional accountants, MIA, and the government (via the SME Corporation). Their possible roles are outlined below.

Professional accountants' role

Professional accountants need to be aware of the differing approaches that consultants use in dealing with client needs and the difficulties that clients may have in articulating their needs. As a consultant, the accountant will need to move from providing prescriptive solutions to providing non-directive and catalytic 'advice' that is the outcome of shared problem solving and shared learning (Schein 1997). In other words, a collaborative style with high involvement on the part of the client is needed (Long 1999).

The SMPs have expressed genuine concerns about how they might expand into offering business advisory services, given the staff recruitment and retention problems existing in Malaysia. Through their discussions they also indicated a number of options for overcoming their lack of resources. Figure 7.1 incorporates those ideas into a working model, whereby the SMP moves into expanded services by starting with its existing expertise and bringing in new staff (such as para-professionals and business graduates in non-accounting fields) to complement these existing staff skills. SMEs could also be offered further services if the SMP joins with external service suppliers with whom it has developed a referral relationship.

The call to assist in the development of SMEs involves more than offering extended services. The concept of development requires the assistance provider to participate in the learning of the persons being assisted so they become able to operate without the initial assistance. This will require the SMP to alter and adapt the services offered as the SME clients develop, or even to grow as they do. Development is needed in the ability to self-manage, not mere growth of sales or increased profit levels. Therefore, the growth needed for development is a human learning process and brings with it a number of added dimensions that are not fully involved in the traditional compliance/audit work undertaken by accountants.

The highly regulated, rapidly developing environment of Malaysia contrasts with that of some more-developed countries and provides an interesting setting in which to examine the role that the regulatory bodies, MIA and the SME Corporation, can play in enhancing the role of professional accountants as business advice service providers. Respondents saw institutional support as necessary in assisting to pave the way forward.

Figure 7.1: Model for SMPs' expansion of assistance to SMEs

Internal (in house) service offerings		External service suppliers
SMP (traditional services) Core accounting	SMP (expanded services) Business advisory services	Expertise not available in house Advice and consultation
Specialist and licensed expertise eg tax and audit <i>Graduates, qualified accountants</i>	Future-oriented services eg planning, business regulatory compliance, grant applications <i>Graduates, qualified accountants</i>	Outside experts eg associated SMPs <i>IT software specialists, Web designers, lawyers, government agencies</i>
General services eg Bookkeeping and payroll <i>In-house trained staff, clerical workers, part-time or full-time positions, services offered in-house or at the client's location</i>	Extension work eg marketing, human resources, exporting, international trade, mediation <i>Para-professionals and non-accounting business graduates</i>	Referrals by goodwill arrangement, mutual referral agreements, commission basis, sub-contract <i>Trade associations</i>

Institutional support: MIA role

One main challenge that needs to be overcome is the changing of the practitioners' mindset. This is where the institutional support of MIA becomes critical, in envisaging programmes to enlighten members about the business opportunities available. Additionally, SMEs need to be educated on the services accountants can offer, and the worth of those services.

This is recognised by those surveyed in the study, and there is call for MIA to play a proactive role in developing the business advice capabilities of the SMPs. MIA has already implemented a number of initiatives to spearhead the expansion of non-compliance services offered by its members. MIA should do more to educate SMEs on the value of accountants. MIA could adapt the model of the Canadian profession's advertising campaign 'Strength beyond Numbers' to support accountants entering the broader field of business advice. The message conveyed was: 'chartered accountants maintain a broad base of expertise, enabling them to contribute to the success of business beyond accounting and auditing services' (Greenwood et al. 2002.)

Given that awareness of the potential role of accountants in providing business advice is low, MIA could join with the IFAC to promote the message to SMEs 'that qualified accountants are best equipped to assist businesses in managing through these uncertain times' (IFAC 2008). In

response to the growing economic challenges facing the SMPs themselves, MIA is encouraging smaller practices to investigate the possibility of merging or affiliating with their peers. To facilitate this, MIA has created a free online business register, *Member Firms Mergers and Affiliations Listing*, to help small practices in Malaysia identify suitable local partners (MIA 2006).

MIA has instituted the Practice Review and several measures have been taken to enhance the quality of audit practice among SMPs. The findings of the Practice Review have been discussed at several CPE programmes held during 2008 and more are planned for 2009 to discuss the International Standards on Quality Control 1 issued by IFAC. Yet the unregistered service suppliers, who pose as chartered accountants and who may or may not have any accounting qualifications, are unmonitored and can create a bad name for MIA members. There is a need for MIA to increase action to address the issue of bogus accountants and accounting service providers who do not hold valid licences.

Furthermore, MIA's proposed competency framework (MIA 2008) needs to be in place to address the skill-set gap acknowledged by the participants in the study. The observation was repeatedly made that while traditional compliance-based accounting and tax work would remain, that type of work was progressively being deskilled and delegated to lower-level operators by the advent of computer software and Internet systems. Hence, it was seen to represent a shrinking source of employment for accountants, who would require a broader suite of skills for survival in a multidisciplinary management future (Parker 2001). Chapter 5 reveals the SMPs' concern about the need for increased education and training.

The profession should explore strategies to enhance relationship-building practices by SMPs. It is suggested that consultancy activities be researched (examining the relationships) through the eyes of both consultant and client, using a cultural framework. Mohe (2008) provides a list of questions to use as part of his proposed framework for culture-based research.

SME Corporation⁵

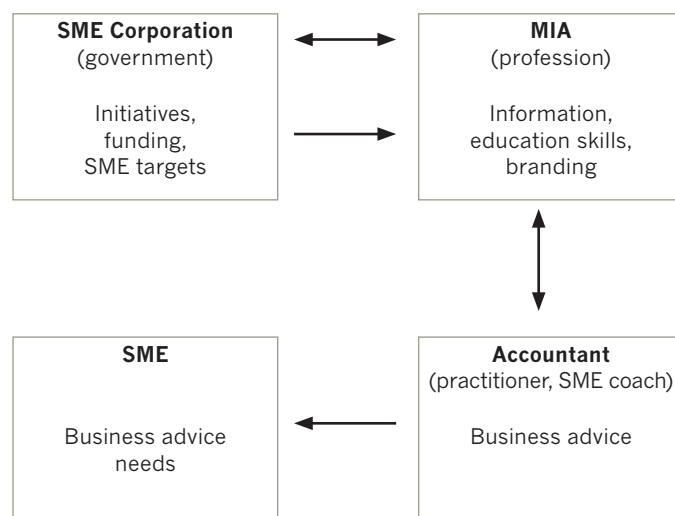
The National SME Development Council has identified capacity and capability building as the key strategic thrust for assisting SMEs to reach their full economic potential (SMIDEC 2008). Programmes that strengthen SMEs' capacity and capability are broadly classified as:

- entrepreneur development
- human capital development
- advisory services
- product development
- technology enhancement
- marketing, and
- awareness and outreach.

As shown in Figure 7.2, it can be suggested that MIA work closely with the SME Corporation to ensure that SMPs are given timely information about initiatives to enhance capacity and capabilities of both SMPs and SMEs. Most SMPs qualify to be given assistance by SME Corporation for improving their own capacity.

We envisage that the government (via the SME Corporation, Malaysia) and MIA will work closely, sharing information and policy development ideas. MIA can pass information (such as funding and other support initiatives) to SMEs through the member practitioners. The accountants, informed and provided with educational opportunities by their professional body, would be better able to support SMEs with business advice and coaching.

Figure 7.2: Working together



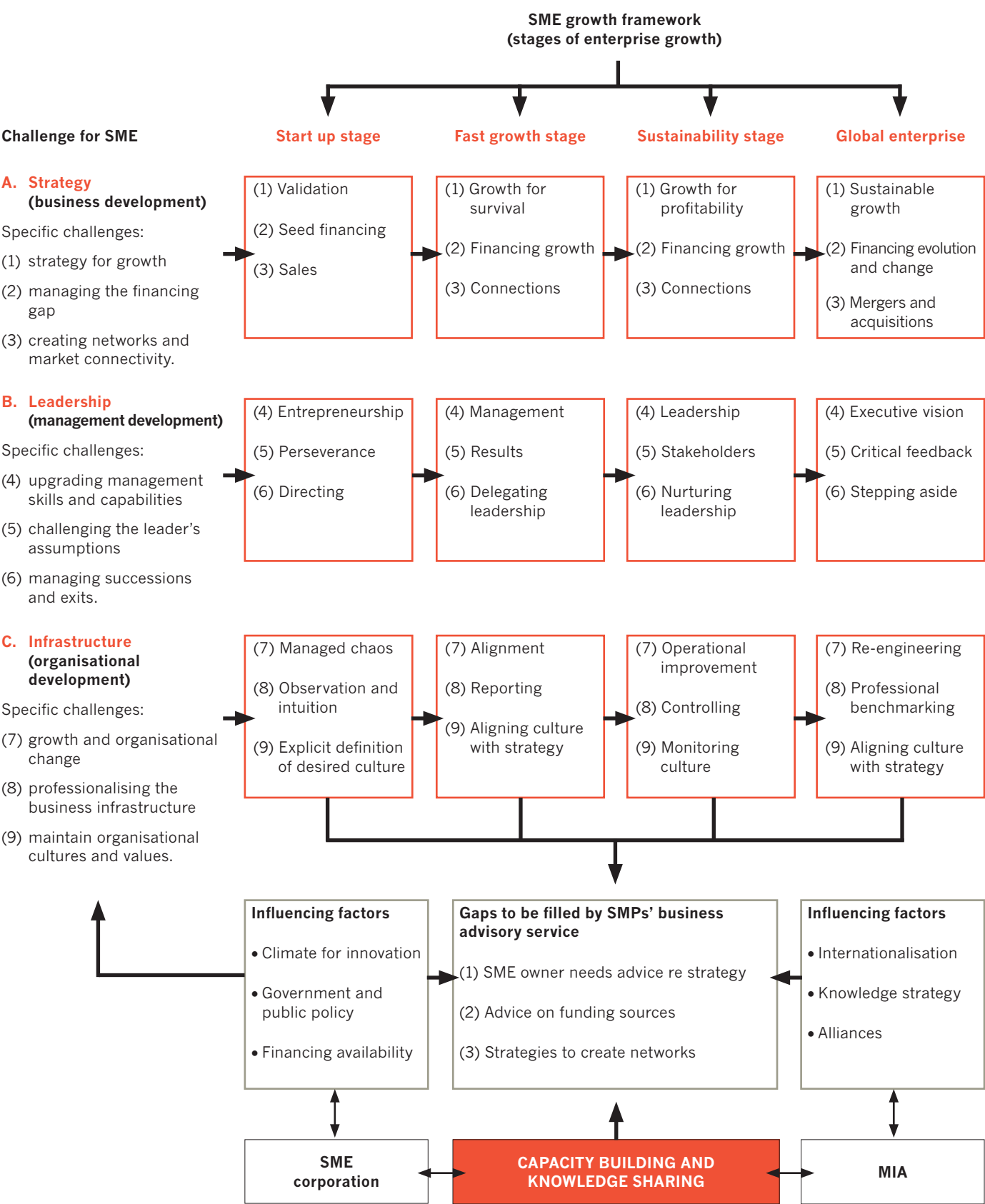
5. The SMIDEC was re-designated the Small and Medium Enterprises Central Coordinating Agency, to be known as SME Corporation, on 5 June 2009 (*The Star* 2008).

7.4 GOING FORWARD: AN INTEGRATED MODEL FOR EMPOWERING SMEs

SMPs in Malaysia are ready to take the challenge, as we note from the discussions above. They need a little nudging and encouragement from MIA, and SMEs need support from the SME Corporation. The results confirm the observation by Yusoff (2006) that the extent of the opportunities SMEs provide should be seriously considered by the SMPs. A new paradigm can be created where SMPs can be the dominant supplier of services to SMEs and will thus empower SMEs to reach greater heights. This requires changing present skill sets, enhancing experience and competence of accountants, and inducing a will to change complemented by a structured education programme. The roles of MIA and SME Corporation in this process are critical. Figure 7.3 integrates the findings from this study into the SME Growth Framework introduced by RCB Financial Group et al. as cited in Yusoff (2006) to illustrate a model that can be operationalised in the Malaysian context. It is critical that SMPs are engaged at the very onset of SME growth.

As discussed in Chapter 1, the challenging areas for SMEs are in business development (strategy); management development (leadership); organisational development (infrastructure) and having the right environment. We see a role for SME Corporation in inculcating the right environment by enhancing the climate for innovation, introducing appropriate policies and extending financing sources. MIA's role focuses on enhancing the skill sets of SMPs in strategy and leadership areas that will be used to facilitate SME growth. The proposed model, adapted for the Malaysian environment, from the work of the RCB Financial Group cited in Yusoff (2006) is shown in Figure 7.3.

Figure 7.3: Empowering SMEs through SMPs in Malaysia – a proposed model



7.5 LIMITATIONS

The processes and protocols observed during the research helped to build consistency and reliability into all stages of the research from data collection to distillation of the findings (as described in Chapter 4). The context and environment of the production of the data, supplied through the focus group interviews, were considered during the interpretative stages of the research. The combination of qualitative and quantitative research processes has assisted in providing more insightful analyses than if only one process had been used.

Because there is a considerable gap in the literature relating to the Malaysian perspective of accountants working with SME clients, this research is groundbreaking and provides rich data on a wide range of issues faced by SMPs. Nonetheless, as with several other studies, the response to a questionnaire survey that could add weight to findings was disappointing. Only 114 respondents returned valid completed questionnaires. Yet, we were able to use the Focus Group interviews to deepen understandings of the issues that the SMPs face. A follow-up questionnaire, based on the one used here, in three to five years' time, could provide a useful longitudinal perspective.

This research confirmed that accountants have an important role to play in the development of SMEs, and regulations ensure that SMEs are in regular contact with their accountant in order to meet their compliance requirements. This provides an opportunity for accountants to extend their services beyond compliance services, as indicated in the key findings.

7.6 RECOMMENDATIONS FOR FURTHER RESEARCH

This study has indicated several areas worthy of further research.

- i. Similar studies in the countries in transition in the Asia-Pacific region could highlight the special needs of accountants in those areas and provide a more global picture of the relationships between SMPs and SMEs.
- ii. A follow-up questionnaire, based on the one used here, in three to five years' time, would provide a longitudinal perspective.
- iii. Views of SMEs could be sought about obtaining external business advice and the impediments to holding more meetings with an accountant.
- iv. Communication methods that accountants use and SME preferences could be examined.
- v. Strategies could be created for developing countries to deal with the (current) perceived shortage of accountants.
- vi. Consultancy activities (examining the relationships) through the eyes of both consultant and the client, could be carried out using a cultural framework.

7.7 CONCLUSION

The study has revealed the potential for business advice service. It has further identified the barriers that exist. The key issue is the changing of mindsets of both SMPs and SMEs. This challenge has to be taken up by the accounting profession as well as the SME Corporation, which came into effect in 2009. One aspect of capability development is the issue of branding and gaining the trust of SME clients.

SMEs around the world are seen as having the potential to tackle sustainable development and poverty alleviation. This report has examined the role of professional accountants as business advisers to SMEs. An analysis of the literature shows considerable gaps in knowledge about the relationships of accountants and SMEs, particularly from the perspective of the accountant, and of the role of accountants in Malaysia. It appears that while accountants have the attention of their SME clients they could suggest other areas of service that could assist the SMEs in running their businesses. Accountants need to develop new skills and understandings to deliver the intangible product, 'advice'. To act as business advisers and provide effective support, accountants need to rethink their role as one of working with the SMEs, not merely delivering a service.

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Appendix 1: Focus group prompts

TOPIC: THE ROLE OF ACCOUNTANTS AS BUSINESS ADVISERS TO SMES

Objective: to ascertain Malaysian accountants' views on the advice and services they offer to SMEs, with an emphasis on future services and challenges in meeting the needs of SMEs.

FOCUS QUESTIONS

A. Current position

1. What services/advice do you provide to SMEs?

B. Future services

2. What additional services do you intend to offer within the next year?
3. Are there things that your clients ask you to do that you are currently unable to offer?
4. What do you think your clients would like to have assistance with?
5. What kinds of things do you currently provide clients with referrals for?
6. What opportunities/gaps do you see?

C. Problems/issues in dealing with SMEs

7. Are there any barriers, problems or issues you face in dealing with SMEs?

D. Capacity/challenges to meet support needs

8. Are there any gaps between what you would like to offer and what you feel you lack the expertise to offer? Staff? Training?
9. Are there areas in which your current staff have skills that are being under-utilised.

Appendix 2: Questionnaire survey

PROFESSIONAL ACCOUNTANTS AS BUSINESS ADVISERS SURVEY

This survey is designed to ascertain Malaysian accountants' views on the advice and services they offer to SMEs, with an emphasis on future services and challenges in meeting the needs of SMEs.

This survey has five sections. Please note you have the right to refuse to answer any particular question and to withdraw from the study at any time. Spaces have been provided after some questions for you to write additional comments if you wish. You have our assurance that information provided by you will be held strictly confidential and used solely for the purposes of this research. All data will be analysed in a collective manner.

SECTION ONE: SERVICE/ADVICE OFFERINGS TO SMEs

1.1 Which of the following services/advice do you or your firm currently provide to SMEs?

(You can select more than one)

Bookkeeping
Business coaching
Business formation/start-up
Business plans
Business valuation
Cash flow forecasting
Company listing
Compliance filing tax returns
Design/review internal control systems
Due diligence
Grant applications
IT system implementation
Internal audit
ISO standard compliance
Liquidations and/or corporate recovery
Loan applications
Mergers and acquisitions
Negotiations with Inland Revenue Board
Payroll services
Profit improvement programmes
Recruitment/Head hunting/sourcing staff
Secretarial services
Sourcing grants/incentives
Statutory audit
Strategic planning
Taxation Planning
GST
Loan monitoring
Forensic accounting
Financing arrangement and rearrangement
Other *(please specify)*:

1.2. Do you outsource any of the services noted in 1.1?

Yes *(Go to Question 1.3)*

No *(Go to question 1.4)*

1.3. Which service(s) do you outsource?

(You can select more than one)

Bookkeeping
Business coaching
Business formation/start-up
Business plans
Business valuation
Cash flow forecasting
Company listing
Compliance filing tax returns
Design/review internal control systems
Due diligence
Grant applications
IT system implementation
Internal audit
ISO standard compliance
Liquidations and/or corporate recovery
Loan applications
Mergers and acquisitions
Negotiations with Inland Revenue Board
Payroll services
Profit improvement programmes
Recruitment/head hunting/sourcing staff
Secretarial services
Sourcing grants/incentives
Statutory audit
Strategic planning
Taxation planning
GST
Loan monitoring
Forensic accounting
Financing arrangement and rearrangement
Other *(please specify)*

1.4. On average, how many times per annum does an SME client contact you in relation to the following types of work you do for them?

Company secretarial
Accounting
Statutory audit
Tax
Other *(please specify)*:

1.5. Which of the following methods of communication to SMEs do you use?

(Please rank, '1' being most frequent and '6' being least frequent)

Text/SMS
Fax
Telephone
Email
Letter (surface mail)
Personal visit to firm

1.6. Do you intend to offer additional services in the future?

Yes (Go to question 1.7)

No (Go to question 1.8)

1.7. What additional services do you intend to offer in the future?

(Please indicate by selecting the appropriate box provided. You can select more than one box)

Bookkeeping
Business coaching
Business formation/start-up
Business plans
Business valuation
Cash flow forecasting
Company listing
Compliance filing tax returns
Design/review internal control systems
Due diligence
Grant applications
IT system implementation
Internal audit
ISO standard compliance
Liquidations and/or corporate recovery
Loan applications
Mergers and acquisitions
Negotiations with Inland Revenue Board
Payroll services
Profit improvement programmes
Recruitment/head hunting/sourcing staff
Secretarial services
Sourcing grants/incentives
Statutory audit
Strategic planning
Taxation planning
GST
Loan monitoring
Forensic accounting
Financing arrangement and rearrangement
Other (please specify)

1.8. How do you plan to expand your services?

(You may select more than one box)

Bringing in new affiliates/associates (local)
Bringing in new affiliates/associates (foreign)
Bringing in highly experienced retired practitioners as advisers
Establishing wider networking
Mergers
Outsourcing
Other (please specify)

SECTION TWO: BUSINESS ADVICE SUPPLY TO SMEs

For each of the following statements generally made by practitioners, please indicate your agreement on the scale.

0 = No Opinion/do not know

1 = Strongly disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly agree

- 2.1. We experience a lack of supply of suitably qualified staff.
- 2.2. We struggle to meet the demands of our current workload.
- 2.3. High staff turnover discourages us from providing training support.
- 2.4. New generation staff desire to work on tasks other than auditing services.
- 2.5. At this time we have insufficient senior level staff/partners.
- 2.6. We are not competent to provide business advice to SMEs.
- 2.7. It is difficult to get audit licences to provide audit services.
- 2.8. The legislation exposes the practitioners to prosecution for client misdeeds.
- 2.9. We frequently refer our SME clients to other consultants for business advice.
- 2.10. We act as an intermediary to put SMEs in touch with other business advice suppliers (eg lawyers, bankers, production specialists).
- 2.11. We have too much compliance work to do and we do not want to offer non-compliance work.
- 2.12. Compliance work is lucrative.
- 2.13. Non-compliance work is more lucrative than compliance work.
- 2.14. We need adequate resources to offer business advisory services.
- 2.15. We need IT assistance and software that are affordable and able to speed up work process.
- 2.16. Personal touch is important when dealing with SMEs.
- 2.17. We need to spend more time with SME clients to build rapport and trust.
- 2.18. We need to convince SME clients of our technical competency.

2.19. We need to spend much more time with SME clients to assess their needs.

2.20. Senior level staff/partners must spend more time with SME clients to educate them.

2.21. Quality of service is important to SMEs.

2.22. SMEs are unsure if they receive value-for-money from business advice by accountants.

2.23. In your opinion, how do your SME clients rate you in the following aspects?

Low

Medium

High

Very high

Trustworthy

Technical expertise

Relationship building skills

Personality (charisma)

Accessibility

Approachability

As an 'all round' competent business adviser

2.24. Blank space has been provided for you to add other statements you believe are important in your relationship with SME clients.

SECTION THREE: BARRIERS, PROBLEMS OR ISSUES DEALING WITH SMES

For each of the following statements, please indicate your agreement on the scale.

0 = No opinion/do not know

1 = Strongly disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly agree

3.1. SMEs are not good at record keeping.

3.2. SMEs are reluctant to pay for additional services.

3.3. SMEs expect service to be available on demand.

3.4. SMEs unreasonably delay payment for our service.

3.5. SMEs bargain for lower fees.

3.6. SMEs shift to the lowest fee service provider.

3.7. SMEs are unwilling to make progress payments for services rendered.

3.8. SMEs cannot afford to pay for business advice.

3.9. SMEs do not accept business advice from accountants.

3.10. SMEs do not expect to receive business advice from accountants.

3.11. SMEs do not consider accountants capable of providing useful advice.

3.12. SMEs prefer to use non-MIA members or non-member firm accountants.

3.13. SMEs turn to the Big Firms for specialist advice.

3.14. SMEs expect accountants to provide free business advice.

3.15. SMEs trust their accountants.

3.16. The accountant is the first person the SME turns to for business advice.

3.17. SME expect accountants to know a number of areas and issues helpful to them.

3.18. A shortage of skilled bookkeepers and accounts assistants is an issue for SMEs.

3.19. Blank space has been provided for you to add other statements you believe are important in providing business advice to SME clients.

SECTION FOUR: ROLE OF THE MALAYSIAN INSTITUTE OF ACCOUNTANTS (MIA)

For each of the following statements, please indicate your agreement on the scale.

0 = No opinion/do not know

1 = Strongly disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly agree

4.1. Provide leadership in fee setting with recommended standard fees.

4.2. Advertise the skills of professional accountants as being more than a number cruncher.

4.3. Educate SMEs on the value of accountants services beyond compliance work.

4.4. Initiate branding so professional accountants are valued.

4.5. Provide training of business advisory techniques and tools.

4.6. Provide templates on certain compliance procedures.

4.7. Ensure effective enforcement of regulation.

4.8. Provide structured CPD programmes for each level of staff of member firms.

4.9. Promote the services of its members to relevant service users such as SMIDEC and MALTRADES.

4.10. Provide business and services matching sessions to link service provider and user.

4.11. Blank space has been provided for you to add other statements you believe are important for the profession to assist you in providing business advice to SME clients.

SECTION FIVE: ABOUT YOUR FIRM

5.1. Location. Please indicate area from the list below.

1. Federal Territory
2. Johore
3. Kedah
4. Kelantan
5. Malacca
6. Negeri Sembilan
7. Pahang
8. Penang
9. Perak
10. Perlis
11. Sabah
12. Sarawak
13. Selangor
14. Terengganu

5.2. Number of years your firm has been operating:

5.3. Your age

- Less than 31
31–35
36–40
41–45
46–50
51–55
56–60
More than 60

5.4. Your race

- Malay
Chinese
Indian
Other (please specify)

5.5. State your professional qualifications:

(You may tick more than one.)

- MIA
MICPA
ACCA
CPA(A)
ICA(A)
ICAEW
ICAS
ICA(Ireland)
ICA (India)
CICA
CIMA
Bachelor degree from recognised University
Others (please specify).

5.6. Number of partners/principals

5.7. Number of accounting graduates

(Including partners/principals)

5.8. Total number of staff

(Including working partners/principals)

5.9. What licences do you and your partners/associates/directors in the firm currently hold?

- Audit
Liquidation
Secretarial
Taxation
Other (please specify)

5.10. How many SME clients do you have?

- Fewer than 100
100–300
301–500
501–1000
Over 1000

5.11. If possible, please indicate the approximate number of SME clients that fall into the following size categories:
(We understand you may not have accurate figures but some estimation will suffice.)

No of employees of clients	No of SME clients			
	0	1-50	51-100	>100
Fewer than 10				
10-49				
50-99				
100-249				

5.12. If possible, on the basis of your total client base, can you indicate the following client size categories:

Annual turnover	No of SME clients			
	0	1-50	51-100	>100
Less than RM3 million				
RM3-5 million				
RM5-10 million				
More than RM10 million				

5.13. Approximately, what percentage of your firm's time is spent on providing non-compliance business services/advice to SMEs?

0%
1-10%
11-20%
21-40%
41-60%
61-80%
81-100%

5.14. Approximately, what proportion of your firm's fee income is derived from providing non-compliance business services/advice to SMEs?

0%
1-10%
11-20%
21-40%
41-60%
61-80%
81-100%

5.15. Blank space has been provided for you to add any comments you would like to make regarding this research or on the topic of accountants as business advisers to SMEs.

Appendix 3: Open-ended question responses from SMPs

We asked respondents to the questionnaire survey to comment at the end of sections 2, 3, 4 and 5 of the questionnaire. Their responses are captured below.

SECTION 2, Q 24: OTHER STATEMENTS YOU BELIEVE ARE IMPORTANT IN YOUR RELATIONSHIP WITH SME CLIENTS.

Respondent 1:

Don't have as much time to spend with them.

Respondent 4:

SME clients are not aware [of] /appreciate ... how accountants could be great help to them due to the growing numbers of non-qualified accountant-like-service providers offering service at very low rates.

Respondent 5:

To encourage SME [clients] to understand the importance of proper workflow and financial reporting in their business.

Respondent 6:

What they perceive as their problems may not be really their true issues. Business advisers have to understand the industry and business well in order to figure out what their problems really are.

Respondent 7:

With SMEs personal service is very important to build trust and comfort with the firm. Without trust and comfort it will be difficult to secure good fees, referrals and also the readiness to open up to the practice the SME's problems, situations, operations and hence the opportunity for the practice to advise and explore further possible services. In a firm, a partner typically has about 200–300 clients (dormant cases and very low activity cases included) and perhaps 100 active companies ranging from a few 'large' companies (in Malaysian context) and the rest being SMEs, from fairly large SMEs (turnover > RM15m) to medium SMEs (say turnover RM5m–RM15m) and smallish SMEs .

Respondent 8:

SME requirements are generally routine in nature and thus they expect you to know how to implement it or provide advice and also they expect fast response time.

SECTION 3, Q19: OTHER STATEMENTS YOU BELIEVE ARE IMPORTANT IN PROVIDING BUSINESS ADVICE TO SME CLIENTS.

Respondent 3:

SMEs sometimes do not distinguish [between] their business and personal matters.

Respondent 4:

SMEs like one-stop and the more comprehensive the 'one-stop service firm' is, [the] better, in their opinion. The thing for the practice to look at is capacity building to cope with SMEs' needs as much as possible and to remind their SME clients of areas where the practice can provide effective support and generally that the practice is able to redirect the SMEs to good service providers, where the practice does not have the requisite skills or where there is potentially a significant conflict. A big obstacle to business support to SMEs, however, is the regulatory and ethical standards of the profession itself in terms of significant conflicts where the SMEs are also audit and assurance clients. This seriously limits a firm's ability to develop advisory services, as existing audit and assurance clients are the best place to build but unfortunately [these] are also the cases where conflicts are most likely to exist.

Respondent 5:

SME [clients] generally build relationship over number of years and as such, expect to receive free advice from time to time.

Respondent 14:

SME clients also expect accountants to have and provide sound legal advice on commercial litigation before they consider engaging lawyers.

Respondent 114:

...must be relevant to their needs, they are willing to pay (reasonable sums) if they see the benefits, I believe this applies to everyone, not just SMEs.

SECTION 4, Q11 OTHER STATEMENTS YOU BELIEVE ARE IMPORTANT FOR THE PROFESSION TO ASSIST YOU IN PROVIDING BUSINESS ADVICE TO SME CLIENTS

(Only 1 respondent commented.)

Respondent 14:

The institute should make a proper study on the continuing need for small company audits without being unduly influenced by the views of the 'Big 5' and world trends, as SMEs are generally home-grown and their attitude to financial responsibility cannot be compared [to] those in developed countries.

SECTION 5, Q15: ANY COMMENTS YOU WOULD LIKE TO MAKE REGARDING THIS RESEARCH OR ON THE TOPIC OF ACCOUNTANTS AS BUSINESS ADVISERS TO SMES.

Respondent 2:

*Accountants should focus more on the **results** and **quality** of their services rather than the **fees** they are earning in order to differentiate themselves from the non-qualified service providers.*

Respondent 3:

Probably this survey should be extended to SME clients as well, to get their opinion of what they think about accountants and their services.

Respondent 4:

A good reminder to firms to look closely at capacity building specifically and to structure themselves generally to...be able to provide, outsource or refer; all of which adds to looking at providing quality and earning trust.

Respondent 5:

Clients need to understand [the] expectation gap between [the] role[s] of advisers and auditors. They tend to refer all accounting or tax matters to us and expect us to be able to answer to authorities as if we are their employees.

Respondent 14:

Unless special assignments are received, most non-compliance business advice given to SMEs clients [is] absorbed within the audit/accounting fee structure.

Respondent 22:

My company objective is helping the SME's entrepreneur [in] expanding their business by giving them financing and advisory services. From my view, I found that the SME entrepreneurs have...little skill [in] accounting or knowledge. They never know how to manage their money and they [may] not have updated information regarding

the accounting issues. Most of them [are] still using the traditional method to record all their daily transactions and they did not know how to get or generate information from financial statements when they look at it.

From my opinion, the problem[s] of SME's entrepreneurs are: lack of confidence; lack of knowledge in managing their business; can't stand with the problem that might effected their business (they cannot tolerate or deal with business problems).

Respondent 27:

Examine the role of SME boards/ top management to the accountants as business advisory/partner.

Obtain external opinion. ie external auditors and authorities [sic] [with respect to the role which accountants play in the SMEs]

Accountant's remuneration is to be specified and offered by SME which is included in the agreeable fee [meaning that accounting fees need to be mutually agreed upon]

Respondent 114:

I believe this is a very meaningful [piece of] research. SMEs form the majority [of firms] in Malaysia, by understanding their needs and bridging the expectation gap between SMEs and accountants, accountants can tap [in]to new opportunities, etc especially in the midst of [the] [sic] economic crisis [or] financial crisis, as the saying goes: there are opportunities in every crisis.

Appendix 4: Focus group analysis

The focus group interviews were transcribed verbatim and details are shown in Table A4.1.

Table A4.1: Coding of transcripts

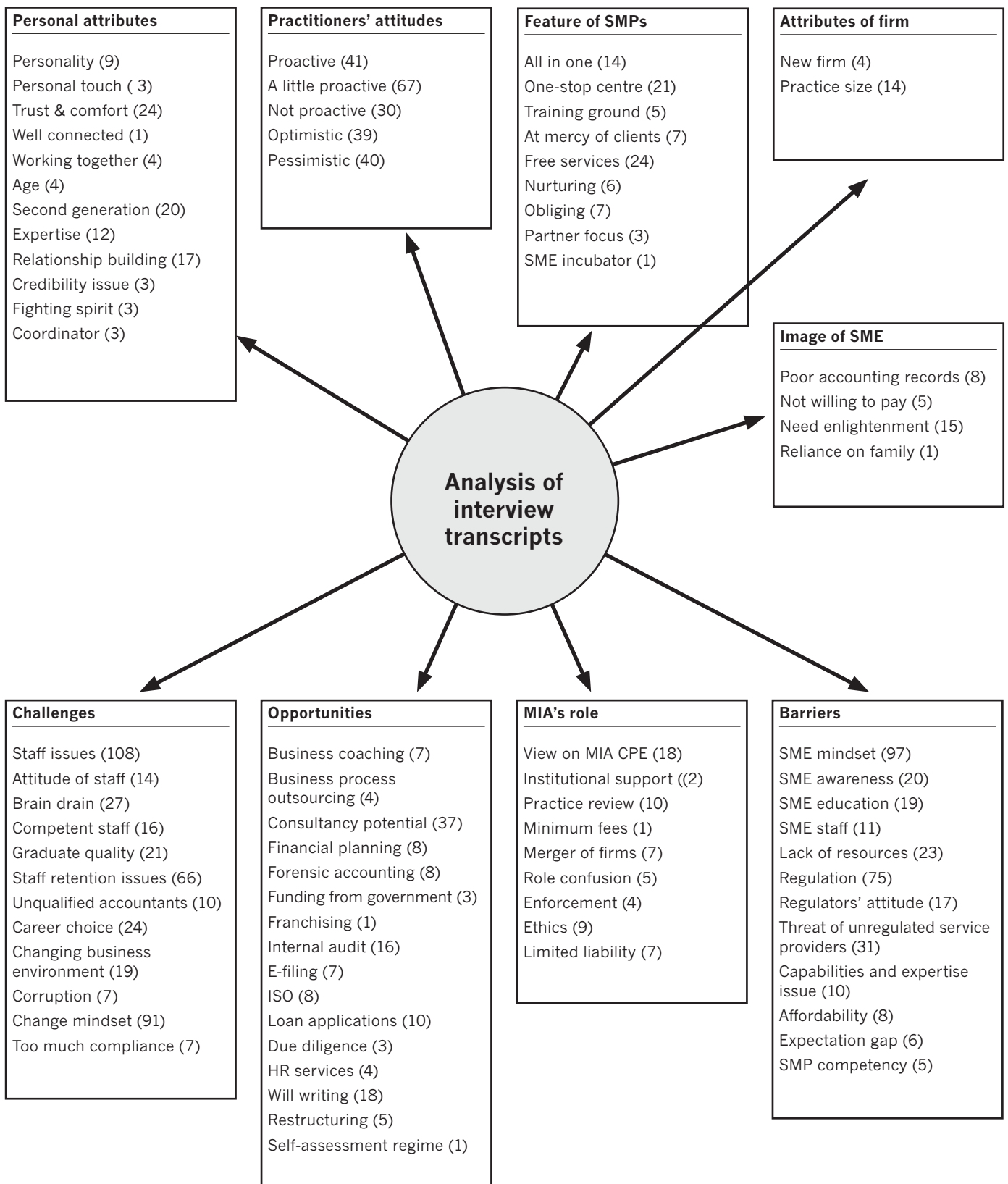
Name	No. of interviewees	Nodes	References	Length (words)	Paragraphs
JB 1	6	39	161	4,404	313
JB 2	5	46	296	5,228	261
JB 3	5	57	296	7,148	341
KK 1	5	53	429	7,464	349
KK 2	5	73	288	2,387	159
KK 3	5	65	291	4,773	416
KL 1	6	106	470	4,647	267
KL 2	6	130	462	6,893	157
Kuching 1	5	76	215	2,123	170
Penang 1	6	64	346	5,691	204
Penang 2	6	60	122	1,812	111
Total	60				

Open coding was adopted to allow the codes to emerge from the text instead of being predetermined. The coding is placed in nodes and each node has its assigned references. Using NVivo requires the researcher to start with open codes (or *in vivo* codes), which are derived directly from the data, and subsequently analyse for more abstract (second-level) categorical codes (Goulding 1998).

The open coding method resulted in a long list of themes that we coded as free nodes. The nodes were then grouped (see Figure A4) into a limited number of higher order categories within nine major themes.

In Figure A4, each theme has sub themes. The sub themes are shown with numbers in brackets. These numbers refer to the number of times the sub-theme is mentioned or alluded to by respondents in the focus group interviews.

Figure A4: Main themes



For further analysis, three themes, which were given the highest number of reference (Table A4.2), were selected from each focus group to view for topic differences across focus groups. We note that the themes raised differ between the focus groups.

Table A4.2: Top three emerging themes by focus group

Location	Nodes	References	Key themes or issues (free nodes)	Ref	COV%
JB 1	39	161	Audit exemption	10	13.60
			Corruption	7	8.05
			Race differences	7	12.20
JB 2	46	296	Brain drain	10	14.30
			Education and training	10	21.90
			MIA role	26	47.11
JB 3	57	296	Changing mindset	15	18.11
			Second generation	14	15.84
			Staff	13	17.33
KK 1	53	429	Changing mindset	26	66.57
			Fees	14	28.70
			Staff	16	31.75
KK 2	73	288	Career choice	13	35.52
			Changing mindset	14	36.54
			Staff	12	38.05
KK 3	65	291	Staff	12	13.40
			Strategic alliances	9	23.30
			Regulation	21	28.60
KL 1	106	470	Staff	11	6.97
			Regulation	11	17.57
			Lack of resources	10	12.26
KL 2	130	462	Capabilities or expertise	10	17.88
			One-stop centre	15	25.06
			SME mindset	23	44.81
KCH 1	76	215	Regulation	12	31.20
			Staff retention	8	15.09
			SME staff	6	15.39
PG 1	64	346	Regulation	10	13.60
			Staff	15	18.55
			Strategic alliances	16	22.62
PG 2	60	122	MIA role	7	21.73
			Unqualified accountants	6	28.5
			Fees issue	5	26.4

We grouped the top three categories according to location. The issues of staffing and regulation seem to dominate the SMP concerns. In some instances, respondents separately raised issues concerning lack of resources, including lack of competent staff and appropriate technologies to offer business advisory services, as noted in Table A4.3.

Table A4.3: Top three emerging themes by focus group location

Key themes	JB	KK	KL	KCH	PG
Audit exemption	✓				
Brain drain	✓				
Capabilities or expertise			✓		
Career choice		✓			
Changing mindset	✓	✓			
Corruption	✓				
Education and training	✓				
Fees		✓			✓
Lack of resources			✓		
MIA's role	✓				✓
One-stop centre			✓		
Race difference	✓				
Regulation		✓	✓	✓	✓
Second generation	✓				
SME mindset			✓		
SME staff				✓	
Staff issues (including retention)	✓	✓	✓	✓	✓
Strategic alliances		✓			✓
Unqualified accountants					✓

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