



## A-Technologies: Challenges in SMEs Technology Company

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### Abstract

A-Technologies (A-Tech) is one of the established small medium enterprises (SMEs) owned by husband and wife, which operated since 1998 in Kuala Terengganu, Terengganu, Malaysia. The company's core business is producing and distributing fiberglass tanks, the Fiber Reinforced Plastic (FRP) tank and the High Density Polyethylene (HDPE) tank. A-Tech has well-experienced workers who worked almost 10 years at the company that contributed to the success of the company's establishment. A-Tech also has a good business network and contacts especially with those in the semiconductor industry. These networks also had helped the company during the start-up stage until gaining its position in the market. A-Tech business potential depended on their product's performance as the new technology added-up a better performance of its products. However, like any other business venture, A-Tech also facing several issues and operational challenges. This case study will look at the management and operational challenges and issues faced by A-Tech.

**Keywords:** Business challenges, technology, SMEs, business advisory services.

### Introduction

Here is was the 3<sup>rd</sup> week of December, 2013 and a moonson season rain was hit Kuala Terengganu areas with a heavy rains for five consecutive days. While many looked this moonson season as a time to take a break from any business activities, but not for Mr. Amran Ahmad. For him, the moonson season was just one more weather element that would further complicate his schedule to meet few potential clients during the week.

Running a SMEs company that focuses on fiber glass tank technology has totally change Mr Amran Ahmad's life. Though the idea of being an entrepreneur seemed very ideal for him at the first place, running the business was totally different ball game. The company, A-Technologies (A-Tech)'s sales 100% came from the local market. The company had a broad product line of fiber glasses tank for home and industrial usage. While, looking forward for 2014 strategic plan, Mr. Amran Ahmad had to define how the company could strategically expand into export market instead of local market currently. Was the current breadth of product line at optimum level to support such expansions? What kind of strategic focus should the management of A-Tech gives across the various departments in the organization in order to support such growth plans? All these questions puzzled Mr Amran Ahmad as he was about to prepare a strategic expansion plan proposal for 2014 fiscal year.

### Overview of the Organization

A-Technologies (A-Tech) was established on 8 March 1998. The owner of this company are Mr. Amran Ahmad and his wife Mrs. Zakiah Rahim. They have five departments which are finance, operation, marketing, human resource and administration. In the early stage, he opened this business as a partnership venture. But, due to some circumstances, his partner resigned from the company and opened his own company selling fiberglass tank too. It can be considered as a small medium enterprise or SMEs.

Then, Mr. Amran Ahmad became a Mechanical and Engineering (MNE) Consultant and allows Mrs. Zakiah Rahim, his wife to handle the company from the year 2007. The company was set up with an authorized capital of RM200,000 and a paid-up capital of RM250,000 by both Mr. Amran Ahmad and his wife Mrs. Zakiah Rahim. Actually, Mrs. Zakiah Rahim does not have any knowledge about fiberglass. The person that knows a lot about fiberglass is Mr. Amran Ahmad while Mrs. Zakiah Rahim is an accounting teacher. So, she does not know much about the administration of this company.

Located at Gong Badak Industrial Area, Kuala Terengganu, Terengganu, Malaysia, A-Tech has a factory to build the tank. There are two products manufactured by A-Tech. The products are the Fibre Reinforced Plastic (FRP) tank and the High Density Polyethylene (HDPE) tank. FRP tanks are used for water tank and HDPE tanks are used as septic tank.

### The Business Challenges

Based on the company's financial analysis, A-Tech shows promising sales in 2010-2013, but unfortunately, the profit margin for the company is below average. It is due to the company high production costs. The rise in cost occurred because of the expensive raw materials for the production. While the costs of raw materials are high, there are also wastages of the raw materials when producing the products. One obvious example is, the workers just let used resin to produce the products become frozen and dispose it without any further action such as recycling it for future usage. So, they have to buy the resins many times. Furthermore, the environment in the factory is also harmful for the workers. The Environmental Department gave warning to the company once because the company does not provide basins for the

operational workers to wash their hands after using chemical substances. There are also a lot of unused tools in the factory undisposed because the operational workers said that “it might be used in future”.

To decrease the operation costs of the company, Mrs. Zakiah Rahim had made some changes in the factory. But, because of her lack of experience and knowledge, there are some problems for Mrs. Zakiah Rahim in handling their workers. A-Tech has 25 workers and 9 of them had worked there more than 10 years. It shows that the workers had more experience and knowledge about fiberglass industries compared to Mrs. Zakiah Rahim. So, it is quite hard for her to make changes in this company.

Other than that the company's challenge is their marketing strategy. A-Tech classified their customers into three categories, which are individual, contractor and government. Based on an interview with the salesmen, staffs in the marketing department are lack of marketing effort. This is because the salesmen do not implement their marketing strategy properly. For an example, the target sales for marketing department in a month are RM200 000. But, based on the company monthly sales, it shows that the targets are not met in some months.

However, there are several external factors for A-Tech success. Business network and contacts especially with those in the semiconductor industry had helped the company during the start-up stage and in maintaining its position. In the beginning, Mr. Amran Ahmad obtained the help of multinational corporations (MNCs) to test the product in their laboratory and later they became his first customers. Mr. Amran Ahmad managed to seize the opportunity for the future of the product even when he was working with the MNCs. Mr. Amran Ahmad formulated the product because he saw the potential and the initial picture of how the product would work.

Furthermore, he was very lucky because his former bosses from National Semiconductor and ASE gave him the chance to test his product at their factories, and if successful, they would buy the product from him. So, at the time of start-up, A-Tech already had obtained a potential client that willing to buy the company's products. This was a turning point for the A-Tech. Although they had potential customers, they did not know whether the customers would accept their concept because the polymer product created was produced from a new formulation and at the same time other factories already producing products which provide the same function as A-Tech's product. Nevertheless, in contrast with the same kind of products produced by others, A-Tech had come up with a new technology offering better performance at a lower cost. Their company's potential depended on their product's performance. Thus, with the added advantage of their product, Mr. Amran Ahmad managed to seize and capitalize the opportunity provided to them to ensure the sustainability of the company.

### **Does a Business Advisory Service Help?**

A-Tech engaged in the accounting firm services for the sole purpose of fulfilling the mandatory statutory requirements for accounting, tax and secretarial. A-Tech also seeks advice from Business Advisors from local university on technical matters because they works a lot with universities especially on its products. In addition to that, the company is also a member of the Malaysia Manufacturer Federation (FMM). To A-Tech, external advice like those from its audit firm only contributes 20 percents towards the company's success because it is used for compliance purposes. In fact, A-Tech expects the firm to help them with at least 50 percents on the business side. Throughout its years of operation, A-Tech had change its auditors three times because the audit firms were small and not professional enough. One of them stopped halfway through the auditing process because of incomplete records from A-Tech when the company was first incorporated. Another firm was irresponsible; when A-Tech documents were lost in the mail when they were sent back, the audit firm did not follow up on the matter. Another reason why A-Tech was not satisfied with the external services of the audit firms was because of the performance of the staff sent by the accounting firms.

Basically, most of the SMEs in both the “fast growth” and the “global enterprise” categories used taxation and secretarial services. These two services are high in demand as the companies need to submit their yearly tax returns and it is a legal requirement for every company to have at least a company's secretary to handle all enquiries and correspondence when the company and interact with the public regarding company matters. In addition to taxation and secretarial services, the SMEs also purchase accounting services. To smaller companies it is more affordable to outsource this service as they cannot afford to employ and retain permanent accounting personnel.

The critical financial information that is mostly needed by the SMEs to increase their competitiveness or success can be divided into four groups: (i) taxation, (ii) financial accounting, (iii) management accounting and (iv) strategic planning and these services differ between “fast growth stage” and “global enterprise” companies. SMEs in both stages of growth faces challenges in tax planning and they need to be equipped with the latest management tool to help improve their business performance. As for “fast growth” companies, they need assistance on how to market their products in terms of packaging, branding, and promotion to increase their chances in getting investment or funding to help the growth of their business. Apart from that, the SMEs need assistance in accounting services to help them investigate more into their financial strength in order to provide a better understanding of their financial position.

A-Tech seeks advice from external sources like their external auditors regarding financial, technical, training and statutory compliance. Besides, A-Tech's management also seeks advice from auditors' on a corporate exercise such as shares split, bonus issues and merger & acquisition.

### **Questions of Concern**

- 1) Are outsourcing accounting, tax and auditing functions to the external parties must be continued by A-Tech?
- 2) How can A-Tech deal with an experienced workers?
- 3) How can marketing department achieve the sales target?
- 4) Will A-Tech able to decrease their production costs?
- 5) How can A-Tech prepare itself for the business sustainability and competitiveness for long-term success?

## Conclusion

With the recent problems and issues that took place, A-Tech had not taken the best strategies to encounter them. Having experienced workers was an advantage for A-Tech, however, the company must develop an effective ways when dealing with experienced workers. Indeed, meeting sales target was also a concern for A-Tech, having better performance products at low cost should give benefits for A-Tech in gaining more orders from customers, if otherwise, any related marketing issues must be dealt with. For A-Tech to remain a successful producer, A-Tech need reevaluate its current strategies, perhaps reemphasize strategic planning dealing with management and operation related issues.

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