

# Usage of Accounting Information among Malaysian Bumiputra Small and Medium Non-Manufacturing Firms

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## Abstract

This paper reports the results of a descriptive study which investigates usage of accounting information and computerized accounting information system (AIS) among non-manufacturing bumiputra small and medium sized firms (SMEs) in Malaysia. Using mail questionnaire survey, data was collected from 136 firms. Findings from this study suggest that uses of accounting information among the firms are varied, while uses of computerized AIS is minimal. Only a very small percentage of firms that prepared accounting information internally use computerized AIS. Furthermore, very few firms seek financial advice from accounting firm. This study provides important insights into the practice of financial management among bumiputra SMEs, which has received little attention thus far from academic, governmental and professional bodies.

**Keywords** Accounting, financial management, small firms, Malaysia

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## 1. Introduction

Business strategy is one of three main components that contribute towards growth among SMEs (Storey, 1994). However, firms need resourceful business information to effectively implement their strategy (Chang & Jevons Lee, 1996). Previous studies reported that accounting reports were the principle source of information for the management of SMEs (Nayak & Greenfield, 1994; Mairead, 1997; McMahan, 2001b; Son et al., 2006). As a prime source of information, effective AIS especially computerized AIS is crucial to generate relevant information to help firms manage their business (Ismail & King, 2006).

In the context of SMEs, accounting information is important as it can help the firms manage their short-term problems in critical areas like costing, expenditure and cash flow, by providing information to support monitoring and control (Mitchell et al., 2000; Son et al., 2006). Accounting information is also useful for firms operating in a dynamic and competitive environment as it can help them integrate operational initiatives within long-term strategic plans (Ismail & King, 2005).

However, despite the importance of accounting information for their survival, many researchers found SMEs lack accounting information (Marriot & Marriot, 2000; Perren & Grant, 2000; McMahan, 2001b; Son et al., 2006).

SMEs were reported to have poor control and make business decision based on ad-hoc basis. Due to lack of internal expertise (Berry et al., 2006; Alasadi & Abdelrahim, 2007) most SMEs acquire accounting information and control via informal means (Perren & Grant, 2000). Marriot and Marriot (2000) found financial awareness among the managers of SMEs in the United Kingdom varies considerably and the use of computers for the preparation of accounting information is not at its full potential. A more recent study by IFAC (2006) revealed that SMEs are actually aware of the importance of accounting information and use it for variety of purpose. Son et al. (2006), however, reported that while most SMEs' owners/managers in Vietnam acknowledged the importance of accounting information such as cash flow information and forecasts, the reports were normally unavailable

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or poorly presented. Son et al. (2006) also noted that external users such as banks and tax authorities were concerned with the reliability of financial information provided by SMEs.

In Malaysia, anecdotal evidence suggests that the failure rates among SMEs are quite alarming (Jamaludin & Mohamad Hasun, 2007). Poor financial management was found to be one of the deciding factors to the survival of these firms especially bumiputra SMEs (Jayasankaran, 1999; Mohd Harif & Osman, 2008; Abdullah et al., 2009). Bumiputra is a Malay term widely used in Malaysia, embracing ethnic Malays, Javanese, Bugis, Minang and other indigenous ethnic groups such as the Orang Asli in Peninsular Malaysia and the tribal peoples in Sabah and Sarawak. Furthermore, Ismail et al. (2003) reported that usage of computerized AIS is also minimal among Malaysian SMEs, thus insufficient to generate important indicators of the firms' financial performance. The above discussions raised two important questions especially in the context of Malaysian bumiputra SMEs. First, how well do owners/managers of SMEs understand the importance of accounting information. Second, to what extent do owners/managers of SMEs use accounting information to help them make business decisions? This issue is important as prominent researchers and entrepreneurs stressed on the importance of financial management for the survival of SMEs (Gorton, 1999; McMahan, 2001a; 2001b; Ismail & King, 2007; Abdullah et al., 2009).

This paper reports and discusses the results of a study which investigates the usage of accounting information and computerized AIS in the specific context of non-manufacturing bumiputra SMEs. The focus on non-manufacturing SMEs is a departure from prior studies which have almost exclusively examined financial management issues among manufacturing firms. Further, studies on financial management practices of bumiputra SMEs are very scarce, thus findings from this study would be interesting to the relevant government agencies responsible for bumiputra SMEs. Since very little has been researched about the development of accounting information in developing economies, this setting will provide a focused insight into the level of knowledge and usage of accounting information in the specific context of non-manufacturing SMEs. Further, several authors such as Raman and Yap (1996), Thong (1999), Singh et al. (2007), and King (2006)

pointed out that developing countries like Malaysia are very different from those of developed economies, in particular the extent and type of government interventions on accounting and information system-related issues. Therefore, findings from this study would provide important insights into the current profile of accounting information and computerized AIS usage among the firms to help relevant government agencies prepare a more comprehensive plan for bumiputra entrepreneurs.

## 2. Methods

SME in this study refers to non-manufacturing bumiputra firms with sales turnover between RM1m - RM5m or employees between 20 - 50. A comprehensive list of non-manufacturing bumiputra SMEs was gathered from Majlis Amanah Rakyat (MARA) directory. The directory provides detail address including the owner/manager's name. A total of 100 firms were randomly selected for the pilot survey. The main purpose of the pilot survey was to achieve more clarification regarding the wording of both questionnaire instructions and questions (Oppenheim, 1992). A total of 11 questionnaires were returned after duration of about one month. This represents a response rate of 11%. Since no reminders had been issued, this return rate was considered sufficient to continue with the main survey. No alterations were made to the questionnaire since the overall impression from the answers given by the respondents was that the questionnaire was satisfactory. Finally, a total of 890 firms were selected for the survey using a stratified systematic sampling approach. After duration of three months, 136 usable questionnaires were returned, representing about 15% response rate.

## 3. Results and Discussions

### a. Profile of Responding Firms and Respondents

Sixty-six percent of the responding firms are sole proprietorship, followed by partnerships (20.6%) and limited companies (13.4%). The finding suggests a dominance of sole proprietorship type of firms in the non-manufacturing sector. Categories with larger percentages of firms are construction (19.1%), retail (17.6%), and food (13.2%). Seventy-two percent of the firms were founded more than 5 years ago, which implies that most of the responding firms are relatively mature firms that have accumulated a substantial amount of experience in business. The questionnaires

were addressed to the owner of the sample firms. About 70% of the respondents are young entrepreneurs below the age of 40 years. Ninety

percent of the respondents had at least secondary school certificates.

Table 1: Frequency of Reporting

	N	W	M	Q	H	Y
Income statement	26 (19.4)	8 (6.0)	34 (25.4)	16 (11.9)	12 (9.0)	38 (28.4)
Balance sheet	52 (38.8)	8 (6.0)	20 (14.9)	10 (7.5)	8 (6.0)	36 (26.9)
Cash flow statement	28 (20.9)	40 (29.9)	26 (19.4)	16 (11.9)	2 (1.5)	22 (16.4)
Bank reconciliation	50 (37.3)	10 (7.5)	38 (28.4)	14 (10.4)	6 (4.5)	16 (11.8)
Aging schedule	54 (40.3)	10 (7.5)	32 (23.9)	12 (9.0)	10 (7.5)	16 (11.9)
Financial ratios	66 (49.3)	12 (9.0)	10 (7.5)	8 (6.0)	10 (7.5)	28 (20.9)

N = not prepared; W = weekly; M = monthly; Q = quarterly; H = half yearly; Y = once a year

**b. Profile of Accounting Information**

To understand the profile of accounting information usage in SMEs, respondents were asked to indicate the frequency of six basic accounting reports and analysis generated by their firms. Table 1 shows quite an alarming result. While nearly half of the firms prepared the reports at least quarterly, about 20% of the responding firms do not prepare income and cash flow statements. Almost 40% do not prepare bank reconciliation and balance sheet, while more than 40% do not prepare aging schedule and financial ratios. Nearly

30% of the firms prepared income statement and balance sheet on an annual basis, probably for income tax purposes.

When asked about the preparer of the reports, 60% of the firms prepared them internally, while 40% outsourced the tasks to their accounting firms. The results in Table 2 indicate that 72 (53%) firms, including those that prepared the reports internally, also sought financial advices from accounting firms. However, almost two-third (64%) visited accounting firms only once a year.

Table 2: Frequency of Visit to Accounting Firm

Frequency of Visit	Frequency	Percent
Every week	4	5.6
Every month	8	11.1
Every 3 months (quarterly)	6	8.3
Every 6 months (half yearly)	8	11.1
Once a year	46	63.9
Total	72	100

Table 3 show that the frequency of visit to accounting firms were influenced by several factors such as time, cost, benefits, and owners/managers' accounting knowledge. However, when asked whether increasing the frequency of visits to the accounting firms would give more benefits to the performance of their companies, 72% of the respondents agreed.

Table 3: Factors Influencing the Frequency of Visit to Accounting Firm

Factors	Agree	Disagree
Costs	44 (62.9)	26 (37.1)
Time	54 (77.1)	16 (22.9)
Benefits	50 (73.5)	18 (26.5)
Company performance	42 (63.6)	24 (36.4)
Accounting knowledge	48 (72.7)	18 (27.3)

### c. Profile of Accounting Software and Accounting Information Generated

Companies that prepared accounting information internally were asked whether they use computerized AIS. Only 14 out of 74 (19%) firms that prepared accounting reports internally use specific accounting software, while others do it manually. Two popular accounting software used are UBS (33%) and Mr Accounting (17%), while the other half use custom-developed packages. Three important factors that influenced their decision to adopt accounting software are customers, suppliers, and banks. Other factors include vendor, accounting firm, and business partners. Those using accounting software agreed that the software is easy to use and its usage has facilitated their financial management and companies' accounts. Almost all firms also agree that the software have had positive impact on their businesses. However, several firms think that accounting software is expensive to use and not stable. When asked

about other technologies used in addition to accounting software, about 86% of the firms have access to the Internet. However, only half of them have email accounts and Web page to display business information.

### d. Factors Influencing Decisions not Using Accounting Software

Companies that do not use accounting software were asked whether their decisions not to adopt computerized AIS were influenced by some factors. The results in Table 4 indicate that over two-third of the respondents believe that existing manual system is already sufficient to record and prepare financial-related information for their business use. More than half of the respondents also agree that lack of financial resources, lack of IT and accounting knowledge, cost and benefits of accounting software, and unable to find appropriate software, influenced their decisions for not using accounting software.

Table 4: Factors Influencing Decisions not Using Accounting Software

Factors	Agree	Disagree
Lack of financial resources	52 (61.9)	32 (38.1)
Lack of IT knowledge	52 (60.5)	34 (39.5)
Lack of accounting knowledge	56 (68.3)	26 (31.7)
Costs of accounting software exceed the benefits	48 (60.0)	32 (40.0)
Manual system is already sufficient	62 (75.6)	20 (24.4)
Have yet find a suitable software	44 (55.0)	36 (45.0)

The respondents were then asked about the potential factors that can change their mind to adopt computerized AIS. Nearly 90% of the respondents agree that they might change their mind to use accounting software if they receive free advice and training from relevant government agencies. Other major factors

that could influence their decisions are tax reduction, financial subsidy, and advice from their accounting firm. Interestingly, only 66% of the respondents think that increase in business competition would influence their decisions.

Table 5: Factors that can Influence Decisions to Use Accounting Software

Factors	Agree	Disagree
Government incentive in form of tax reduction	68 (82.9)	14 (17.1)
Financial subsidy from the government	66 (80.5)	16 (19.5)
Free advice from relevant government agency	74 (88.1)	10 (11.9)
Free training from relevant government agency	72 (87.8)	10 (12.2)
Increase in business competition	54 (65.9)	28 (34.1)
Advice from company's accountant	66 (80.5)	16 (19.5)

### e. AIS Knowledge and Usage

To further understand the variations in the profile of accounting information usage, respondents were asked to rate their knowledge and usage level of 12 accounting

information based on a five-point scale (1= no knowledge; 5 = very knowledgeable and 1 = do not use; 5 = extensively used). The mean values of the responses for each of the 12

items for accounting knowledge and usage

variables are shown in Table 6 below.

Table 6: Mean Ratings for Accounting Knowledge and Usage

<b>Accounting Information</b>	<b>Knowledge</b>	<b>Usage</b>
Cash flow projection	3.69	3.55
Income statement	3.56	3.39
Financial budgeting	3.44	3.17
Balance sheet	3.27	3.17
Profitability ratios (e.g. gross/net profit margin)	3.22	3.06
Liquidity ratios (e.g. current & debt-to-equity ratio)	3.22	2.72
Product/service costing	3.19	3.06
Operational efficiency (e.g. return on assets)	3.13	3.08
Debt financing	2.97	2.89
Analysis of cost-volume-profit	2.67	2.55
Analysis of variance	2.56	2.42
Equity financing	2.56	2.45

The results show that the mean value for accounting knowledge items ranges from 2.56 to 3.69, which implies that most of the respondents perceive that they have an average knowledge of all 12 accounting information characteristics. Similarly, the results show that the mean value for usage of accounting information items ranges from 2.42 to 3.55, which also implies that most of the respondents perceive that they have an average usage of all 12 accounting information characteristics. Observation of the data in Table 6 reveal that usage of accounting information items always received a lower mean rating than the corresponding accounting knowledge item, which indicates a lack of alignment between the two variables. Considering the lack of internal expertise among SMEs, respondents were asked

whether they seek advice from external experts such as government agencies, accounting firms, vendors or consultants regarding their financial system or IT implementation. Table 7 shows the frequencies and percentages of yes responses of each question. Respondents that sought advice from the particular agencies were then asked to rate their level of satisfaction based on a four-point scale (1 = very unsatisfied; 2 = unsatisfied; 3 = satisfied; 4 = very satisfied). Column 4 in Table 8 shows the mean value of the responses. The results indicate that respondents are satisfied with the services offered by government agencies (3.06) and consultants (3.05). However, they are relatively less satisfied with the services offered by accounting firms (2.91) and vendors (2.82).

Table 7: External Expertise

<b>Expertise</b>	<b>Frequency</b>	<b>Percent</b>	<b>Satisfaction (mean)</b>
Government agencies	70	54.7	3.06
Accounting firms	72	56.3	2.91
Vendors	34	26.6	2.82
Consultants	38	29.7	3.05

#### 4. Conclusions

This paper examines the profiles of accounting information usage among non-manufacturing bumiputra SMEs. There are several interesting findings revealed by this study. Analysis of the frequency of reporting reveals several interesting but alarming results. For example, about 20 percent of the firms did not prepare income statement and cash flow projection, 40 percent did not

prepare aging schedules, and more than 40 percent did not prepare balance sheet. Important report such as income statement is only prepared on an annual basis. While about half of the firms sought advice from accounting firms, more than 60 percent of them visited accounting firms only once a year. The findings suggest that most bumiputra SMEs are still not aware about the importance of accounting information for

their businesses. Furthermore, only 14 percent of responding firms that prepared accounting information internally use accounting software. Those that do not use accounting software gave various reasons such as manual accounting system is already sufficient and lack of financial resources. However, most of them agreed that they would change their minds to use accounting software in the future if there are government incentives like tax reduction, free training and advice. This study has made important contributions by providing an important insight into the financial management practice of non-manufacturing bumiputra SMEs, which has received little attention thus far from academic, governmental and professional bodies. In conclusion, this study suggests that accounting information usage among the firms is still minimal. While some firms have built their information processing capability over the years to meet their firm's needs, most firms are still struggling trying to understand the importance of accounting information. Therefore, relevant government agencies need to play a more active role in creating awareness of the importance of accounting information among Bumiputra SMEs.

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