

ASSESSING VALUE CREATION THROUGH NAfMA: SELECTED CASE STUDIES OF MALAYSIAN FIRMS

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Abstract

This paper describes the National Award for Management Accounting (NAfMA) in Malaysia and illustrates its principles with three case studies of award-winning firms. The purpose of NAfMA is to assess, draw attention to and promote improvements in management accounting techniques that enhance value creation in firms. The paper contains an account of some features of management accounting practices in the case studies.

Keywords: National Award for Management Accounting (NAfMA); Case Studies; Value Creation; Management Accounting Practices

Introduction

Relevance Lost (Johnson and Kaplan, 1987) argued that management accounting has lost its relevancy. It was claimed that management accounting reports were too aggregated, lacked timeliness and irrelevant to a fast changing environment. Since 1987 there has been a burgeoning of “new” management accounting approaches, including Activity-Based Costing (ABC), Activity-Based Management (ABM), Balanced Scorecard, Target Costing, Value Engineering, etc. The National Award for Management Accounting (NAfMA) is designed to encourage organizations in Malaysia to adopt such modern approaches where it is believed they can improve the quality of managerial decision-making.

The objectives of NAfMA are:

1. To recognize organizations adopting best practices in management accounting and creating value that leads to business excellence and,
2. To promote the application of management accounting techniques and systems within organizations in Malaysia in the pursuit of world class business performance.

NAfMA's framework was developed by a team of assessors, including (Suzana Sulaiman, Normah Omar and Ibrahim Kamal Abdul Rahman), representatives of the Malaysian Institute of Accountants (MIA), CIMA (Malaysian-Division), the National Productivity Corporation (NPC) and other experts from industry. It is based on IFAC's 1998 *Management Accounting Conceptual Framework* and other quality criteria such as the Malcolm Baldrige Quality Program, the Prime Minister's Quality Award and the European Quality Award. Table 1 depicts the NAfMA Best Practice Framework (Sulaiman et al., 2005).

Table 1: NAfMA Best Practice Framework

No	Criteria	Explanation
A	Leadership	Leadership describes senior management's commitment and responsibility in driving the organization towards its vision and strategic goals. This section focuses on management support for the management accounting applications in the organization.
B	Management Accounting Information (MAI)	MAI describes the strategic functions of management accounting in the formulation and implementation of organizational objectives. Effective management accounting information focuses on accessibility, reliability and timeliness of the information.
C	Resource Management	Resource Management focuses on the overall career development for accounting personnel within the organization. Specially, it addresses issues on career opportunity, training, recognition, incentives and other continuous improvements.
D	Customer/ Market Focus	This item highlights the steps taken by the organization in establishing its market niche and in fulfilling customers' needs and satisfaction. Strategically, it addresses techniques used to meet market demand.
E	Partnership Management	Partnership Management refers to the organisation's strategic approaches in managing relationships with its various stakeholders (eg: Government, suppliers, customers, employees, and the community at large) in achieving a win-win situation.
F	Value Creation	Being the core variable for this framework, value creation focuses on the deliberate steps taken by management in promoting value added activities in management accounting applications. The outcome is overall value enhancement for the company (financially or otherwise).
G	Business Results/ Performance Measurement	This item encompasses the application of the various management accounting techniques and their implication on business results and organizational performance.
H	Corporate Social Responsibility (CSR)	Items covered in this section include attributes such as environmental commitment, community services and the like.

The NAfMA is open to companies listed under the Bursa Malaysia Securities Berhad (i.e. PLCs) and non-listed Multinational companies (MNCs) in Malaysia, which have been in profit over the previous three financial years. The awards are categorized into an Excellence award, a Best Practice award and a Practice Solution award. The Excellence award is for the organization judged to have the most outstanding best practice achievement in management accounting. The Best Practice award focuses on fully implemented management accounting systems that set new standards or introduce innovations in the workplace. The Practice Solution award is given for the application of the most effective management accounting systems, tools or techniques in everyday practice.

Two companies each from the PLC and MNC categories were awarded Practice Solution and Best Practice awards in the NAfMA 2004 presentations. The Excellence Award was awarded to one company. The next three sections of the paper summarizes the strengths of the following three selected awarded companies, as these were perceived by the judging committee:

1. Maybank Berhad – Excellence Award
2. PHN Industry Sdn Bhd – Best Practice Solution – PLC
3. Royden (Malaysia) Sdn Bhd – Best Practice Solution – MNC

Maybank Berhad

Background

Maybank serves customers in over 400 branches with a network that spans thirteen countries and has correspondent banking relationships with 700 foreign banks throughout the world. It was incorporated in 1960 and first listed in the Forbes Global Biggest Companies in 2003. Maybank offers comprehensive financial services including banking, insurance, factoring, asset management, stockbroking, trustee services, nominees services, discount-house business, property trust fund management, unit trust management, and venture capital. It was the first bank in Malaysia to introduce internet banking services through its online financial portal www.maybank2u.com in June 2000. Maybank2u.com is the largest bill payment portal with over 300 payee corporations.

Maybank has grown through mergers and acquisitions. Following the acquisitions of Pacific Bank and Phileo Allied Bank the group restructured with the re-alignment of business units to meet the customer demand and enhance service quality. The group currently has over 23,000 employees.

Objectives, Strategy and Performance

Maybank's objectives and strategy reflect the style of much management accounting thinking at the present time. Deputy President, Mohammed Hussein, stated the bank's objectives as being,

“At the top of the list is no doubt, our commitment to the shareholders is that we will provide sustainable good returns on their investment. Providing a win-win value proposition to our customers is also key to ensuring that we stay focused on growing our customer base. We strive to know our customers better and offer solutions designed to meet their needs”

A strong brand and dedicated employees is considered essential to the pursuit of these implied goals,

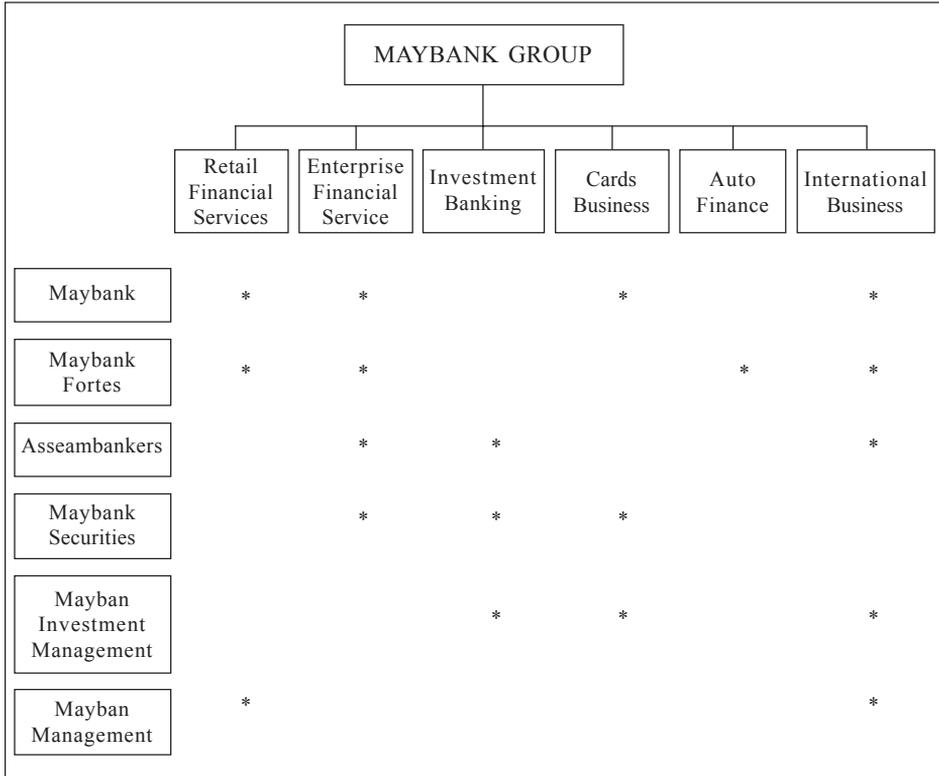
“A good brand revolves around the customer and other stakeholder experiences e.g. employees, vendors, etc. Having an engaged and energized workforce is essential, as we are in the financial services sector, which leverages on both humans and technology to power the business”

To sustain these objectives, Maybank's core strategies include improving revenue growth and profitability and enhancing customer service.

Maybank's total assets stood at RM187.3 billion as at March 2005 and contributions from non-fund business increased to 30% as compared to the two preceding years. This has allowed higher dividend payout to be made to Maybank shareholders. For the financial year to 2004, the dividend payout was 82% of the distributable net profit or 64% of overall net profit. This represents a 5.5% gross dividend payout as compared to a comparable average of 3% for the other eight Malaysian banking groups.

To enhance customer service, Maybank developed new business models for its retail banking and services to distributors and manufacturers. The transformation of retail banking consisted of a reconfiguration of the organization structure and physical layout, which included centralization of backroom operations, credit processing and marketing. Figure 1 shows the new business model for distributors and manufacturers. The services offered consist of retail financial, enterprise financial, investment banking, cards business, auto finance and international business services. Selected distributors and manufacturers (legal entities) are responsible for selected services. The legal entities hold the 'manufacturing' licenses for the products and services distributed by Maybank Group. The CEOs of the legal entities are responsible for compliance purposes but are not involved in the strategic decisions of the respective sectors.

Figure 1: The New Business Model – An Example of Relationship between Distributors and Manufacturers



Management Accounting

Management accounting is considered by Maybank’s senior executives to be key element in enhancing performance. Management accounting information used at Maybank includes ratio analysis, budgetary control, standard costing, cost benefit analysis, cost volume profit analysis, economic value added, strategic cost management, ABC and ABM, benchmarking, productivity analysis, enterprise risk management and the balanced scorecard. The company uses service level agreements in its human resources management strategy.

Mohammad Hussein’s view is that the implementation of modern management accounting methods has enabled Maybank to achieve significant improvements in the cross product ration for the upper and middle market segments of the company’s business. It has also increased employee productivity, measured by asset per employee and operating profit per employee and resulted in a higher price to book ratio relative to other listed banking institutions (nearly 56% higher than the average of the other nine listed “anchor” banks). Additionally there has

been strong growth in fee income and improved services. In 2004, the average service waiting time was two minutes and loan turnaround time was 24 hours.

The Excellence Award is a judgment by the awarding committee that Maybank adheres to world-class best practices and has invested in the latest management accounting methods. Participation in the NA/MA allows Maybank Group to perform a self-assessment exercise as part of an internal improvement initiative against the eight criteria described in Table 1 and to identify opportunities for improving its processes and tools used, to support its decision-making processes. Maybank is also able to benchmark its practices against other Malaysian organizations, including multinational companies.

PHN Industry Sdn Bhd

Background

PHN Industry Sdn Bhd was incorporated in 1990 with a paid-up capital of RM15 million. The shareholders are Hicom Holding (42.5%), Proton (35%), Nagoya Oak Industries Co. Ltd (20%) and Mitsubishi Corporation (2.5%) of Japan. The company operates in die manufacturing, metal stamping and sub and modular assembly for the local automotive industry. Its plant is located in one of the biggest industrial zones in Malaysia, less than a kilometer from its major customer, Proton, and within 50-kilometre radius of other potential customers. The close proximity to the customers facilitates its just-in-time supply strategy. The company's performance for the past three years (2002 – 2004) is shown in Table 2.

Table 2: Phn Industry Sdn Bhd – Three Years Performance Summary

Item/Year	FYE 2002	FYE 2003	FYE 2004
Number of customers	14	20	26
Worth of contract secured	RM50 million per year for 5 years	RM15 per year for 5 years	RM39 million year for 3 years
Number of customer complaints	69	52	27
Sales turnover	RM143 million	RM118million	RM93 million
Cash standing	RM40 million	RM27.6 million	RM22.5 million
Long term debt position	RM4.4 million	RM1.9 million	RM0.1 million

Products and Technologies

PHN Industry Sdn Bhd currently produces more than 800 types of part, making it the largest supplier of stamped and assembled body panels to its major customer,

Proton. Most of the company's raw materials are sourced from Korea. The corrosive nature of the inventories creates potential stocking problem.

The technology used is a steel forming and welding technology. The coiled steel raw materials need to be blanked before being sent for stamping. The components are then assembled and welded. Medium and small sized tandem press machines are used for the blanking, forming, trimming and piercing processes. A combination of batch and flow manufacturing are used. Parts to be produced are queued prior to production and produced in batches at each press line. Batches are determined according to the lot size required by the customer. Kanban from the customers triggered the assembly productions. A simple parts-movement system depends on cards and containers to take parts from one workstation to another on the production line. The principle of the *Kanban* concept is that suppliers or the warehouse should only deliver components to the production line as and when they are needed, so that there is no requirement for storage in the production area.

Management Accounting

The system at PHN described above is an example of a "lean production" system. Womack et al. (1990) characterized a lean production system as having the objective of declining costs, zero defects, zero inventories and endless product variety. Harrison (1992) claimed this as the reason for superior Japanese productivity, allowing them to eliminate waste, optimize manufacturing processes and minimize investment levels in inventories and equipment. However, the lean production system in the Japanese sense is also centered to the significance of quality and satisfaction as well as the efficiency of the process (Oliver and Wilkinson, 1992).

The elements of lean production systems as practiced by the Japanese and adopted by PHN Industry Sdn Bhd are explained in the following paragraphs.

Kaizen (continuous improvement) activities are implemented in PHN. A *Kaizen* committee is chaired by the Head of Operations, assisted by the Head of the Manufacturing Department. As at 2004, the *Kaizen* committee had managed six quality control circles (QCC) within the organization to promote small group activities for continuous improvement. The primary objectives of the *Kaizen* initiative in the organization are to eliminate waste and look for opportunities for other improvements in system design. Various improvements have resulted from employee suggestions. Problems eliminated include those relating to safety, quality, productivity and workability.

Just-in-time Procurement. As noted above, JIT is needed as materials are subject to corrosion. JIT procurement has enabled PHN to reduce the incoming

inventories holding level from 6 shifts (3 days) to 4 shifts (2 days) for components and between two weeks and one month for materials.

Just-in-time Manufacturing. “Pull” and synchronization techniques facilitate production planning. The stamping shop plans its production based on requirements of the assembly shop. The detailed production schedule of the stamping shop is synchronized with the production schedule of the assembly shop so that mismatch of requirements and availability can be avoided. Coupled with the JIT procurement, the JIT manufacturing has enabled PHN to minimize inventory levels.

Just-in-time Delivery. This system was introduced to maintain efficient supply of parts and components to customers. PHN has dedicated work groups stationed at customer plants on a two-shift basis, to improve communication. Inventory control methods are applied to ensure that finished goods are kept at minimum but above a safety level at all times, for smooth delivery to the customer. The safety level is highlighted in a daily critical inventory list that requires immediate attention and response from production groups.

Computerized of Standard Costing Computations. PHN uses computer calculated, standard costing as a basis for determining the selling price to customers. The standard cost includes the bill of materials, routing, operation cost, machine cost and labor hours. The utility of this information to the company is illustrated in the production of a Frame Front Seat Cushion (Part no. 71011-02040/50). Material for this part used to require 0.8 mm x 750 mm x 720 mm in volume. PHN replaced the materials used with material 0.8mm x 750 mm x 710mm in volume. This resulted in a cost saving of RM0.188 per item. With an annual production volume of 45,600 (or 3,800 per month), the total saving per year of this adjustment to the company is RM8,572.80.

Bar Coding of Inventory. With the introduction of bar coding stock accuracy improved from 55% to 95%. This has enabled the FIFO method of cost estimation to be effectively implemented and the incidence of stock obsolescence has been reduced, by virtue of the fact that older inventory can be reliably identified.

Timeliness of Delivery. With improved stock accuracy, the delivery of parts to customers can be arranged more efficiently. Delivery lots are scanned with the bar code reader and delivery orders are automatically generated. Room for human error is thereby much reduced.

PHN has been under Japanese influence in term of approach since its inception. The company was established by experts from Japanese organizations which have a 20% interest in the company. The company was also provided with the management personnel seconded from PROTON and trained in Japan. The

implementation of lean production methods has resulted in significant cost savings. Deliveries can be made to customers on a timely basis, avoiding penalties. For example, under the previous regime, due to late deliveries to Proton, production facilities of the latter were at a standstill for 112 minutes. PHN was charged approximately RM400, 000 for the late deliveries. The incidence of similar events occurring has been lessened by the introduction of the methods described above.

PHN now uses the Baan ERP system with an integrated distribution and finance module so that information keyed in by store personnel can be utilized without having to duplicate data entry. Consequently, the role of finance personnel has been shifted to verification of delivery orders and sales invoices and the billing process can be more rapidly performed. Month end closing procedures that previously took up to 14 days have been reduced to approximately 6 days, allowing the preparation of internal accounting reports and the financial statements to be made in a more timely manner.

The philosophy underpinning the current approach to management accounting and quality control is based upon Six Sigma. Six Sigma is a comprehensive program for managing a business that,

“...emphasizes an intelligent blending of the wisdom of the organization with proven statistical techniques to improve both the efficiency and effectiveness of the organisation in meeting customer needs”

(Breyfogle et al., 2001)

The emphasis on process management began after the company upgraded its quality system from ISO9002: 1994 to ISO9001: 2000 and QS9000 in 2002. A weakness of traditional TQM approaches is their focus on customer requirements (Harry and Schroeder, 1999). Six Sigma in contrast focuses on quality from both the customers' and investors' perspectives (Pande et al., 2000).

The purpose of implementing Six Sigma by PHN was to alter its methods from being customer feedback based to being data and facts driven. A perceived problem was that dependence on customer feedback placed the company in a reactive mode, reducing proactive and preventive improvements in process. With Six Sigma, PHN has been better able to judge its product quality and predict when the process will be out of control.

In the implementation of Six Sigma, PHN set up a project team championed by the CEO, assisted engineers and quality control inspectors. The project focuses on measuring and improving the process capability of each product using statistical process control and following Six Sigma DMAIC methodology (“Define, Measure, Analyse, Improve and Control”).

Ryoden (Malaysia) Sdn Bhd

Ryoden (Malaysia) Sdn Bhd was incorporated in 1972 under the name of the China Engineers-Ryoden (Malaysia) Sdn Bhd. It was a joint ventured with Mitsubishi Electronic Corporation of Japan. In 1975 the company changed its name to Ryoden (Malaysia) Sdn Bhd. Since incorporation Ryoden has supplied and installed Mitsubishi lifts and escalators. The company also provides and manages multi-level warehouse conveyer systems (Omni-Lifter), large screen video display systems (Diamond Vision) and telecommunication systems. Sheraton Imperial Hotel, Nikko Hotel, Berjaya Times Square and Menara Citibank are among Ryoden's customers.

In the Asian financial crisis Ryoden faced severe working capital problems due to customers being unable to pay their debts on time and there was a need to train the engineering and technical based employees in the basic principles of working capital management. Among the management accounting techniques adopted by Ryoden the Balanced Scorecard is one of the main solutions to the working capital problem. The manner in which each of the four scorecard perspectives is interpreted in Ryoden is outlined next.

Financial Perspective

Ryoden's cash management is to improve its financial position, which include credit control of its creditors and debtors. Loans were reduced to nil from RM80 million. The main contributors to effectiveness of the financial perspective strategies are cash management training, staff understanding on the importance of cash flow and departments being responsible for their own cash collections. As a result, Ryoden earned annual interest income of RM1.3 million instead of incurring RM8.55 million in annual interest expenses.

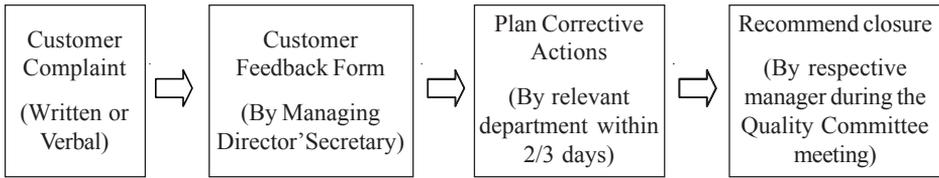
Ryoden reduced its account receivable collection days from 193 days in March 1999 to 98 days in March 2004 generating an approximate benefit of RM 9.3 million in cash. Statistical analysis was used to monitor and control collection trends and set monthly targets.

Customer Perspective

Emphasis placed on good relations with customers, through providing quality service, has led to prompter payment of debt. Ryoden's customer complaints procedures are illustrated in Figure 2.

Performance and maintenance-of-quality indicators are used to measure customer requirements. These include defect rates, call back service rate ratio, service

Figure 2: Flow-Chart of Customer Complaints



response time and a Customer Satisfaction Index (CSI). Audit checks are undertaken if the CSI is low. Corrective action is taken to improve the service quality and 24 hours call Back Service is also provided. The CSI is conducted nationwide every 2 years. Ryoden has won excellence awards for customer service every year from 2000 to 2004.

Learning and Growth Perspective

Ryoden's organisational learning and growth covers three principal resources: people, system and organizational procedures. Investments in employee skills include public courses, in-house and overseas trainings. Employee skills are assessed through Training Needs Assessment (TSA). TSA indicates the training need required by each employee. Some of the management accounting training undergone by employee includes the Kaizen Management, Effective Budgeting and Controlling. An award system called the "PICARSO" scorecard was introduced to encourage employee to participate in the training schemes. "PICARSO" stands for Practicability, Improvement in various areas, Creativity, Applicability, Resource effectiveness and Services and Originality.

The current ERP described earlier is based on decentralized working method enabling line employees to make more timely decisions. Continuous internal training in technology enhancement improves the quality of the products and services provided. Procedures are also continuously reviewed to align procedures to organizational incentives. Examples are and regular departmental meetings conducted.

Internal Business Process Perspective

Ryoden's internal process management is mainly concerned with its operation system including its innovation-cycle, operations cycle and post sales service cycle. In the innovation cycle, the Sales Engineering and Design Section support the Sales Department by analyzing customers' requirements and requests. Input from this section is crucial in the installation process for new products. In marketing products, it enables the Sales Department to better promote awareness of new and existing products to potential customers.

Ryoden's operating cycle was modernized in 1998 by replacing its legacy batch IT system with an ERP. In 1999, Ryoden has also implemented a web based application for financial reporting called the CDGIS and an extranet system namely DARWIN (Drastically Access Revolutionary Window Information Network). These applications improve projects and spare parts ordering, exception reporting and production scheduling. The Call Back System was introduced in 2003.

Ryoden provides a 365 day, 24 hours post sales service cycle to its customers. Audits are conducted and departments are given up to 30 days to prepare corrective action plans. Continuous internal training has resulted in service improvements such as a reduction in breakdown calls from 24 to 12 calls per month between 2000 and 2003. Mean repair time has also dropped from 165.7 minutes to 141.8 minutes during the same period. Installation and testing times have also been reduced.

Conclusion

The three case studies reported in this paper show how NAfMA highlights and encourage improvements in practical management accounting that can lead to enhanced business performance. The NAfMA framework links strategic planning to the role of an accountant and shows how accountants in business can enhance productivity and add value to businesses. Recently, NAfMA was recognized by the US Xerox Innovation Award at the Invention, Innovation and New Product Exposition (INPEX 2005). NAfMA has now been extended to include small and medium enterprises (SMEs). The framework could be extended to expose effective management accounting techniques in other Asian countries. Through this process the intention is to enhance shareholder value by minimizing cost and improving revenue growth and profitability by enabling businesses to devise relevant performance management systems that monitor progress against internal and external benchmarks.

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