

**CRITICAL SUCCESS FACTOR OF TYRE AND BATTERY  
SERVICES: THE CASE OF PEKAN DARAT TYRE BATTERY  
SERVICES SDN BHD, MALAYSIA**

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Dissertation submitted in fulfilment of the requirement for  
the Degree of Master of Business Administration,

Universiti Sains Malaysia

**2015**

## **DISCLAIMER**

I hereby declare that this dissertation is my own original work and has not been submitted before to any institution for assessment purposes.

Further, I have acknowledged all sources used and have cited those in the reference section.

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## **Acknowledgement**

No words can describe my deepest gratitude to all the lecturers of the Graduate School of Business, Universiti Sains Malaysia. My appreciation, firstly, goes beyond measure especially to my dedicated supervisor, Dr Fathyah Hashim who has taught me to learn in ways that I could never have imagined and the fact that I could go through many monumental odds has become something that really amazed me until now. To all my ever-supportive Co-Supervisor, Associate Professor Tuan Haji Noor Nasir Kader Ali, thank you for always guiding and giving me support without fail. The direction, challenge and encouragement that have been provided to me during the phases of doing this dissertation are so much appreciated. I would also wish to express my great appreciation to MARA for given me the once-in-a-life-time opportunity to further my master's degree with full sponsorship, something that I have never thought of before. And also my thankfulness goes to all my course mates of this Master of Business Administration (MBA) batch 2013 for all the joy of learning together through meaningful cooperation and collaborations. I am also grateful to all the concerned administrators at my workplace and also my closest friends who have given countless support and flexibility for me to finish this dissertation.

And finally to my family members for their continuous support and endless prayers for me in completing this dissertation. I would not have all the strength to complete this dissertation without you all by my side. Thank you one and all.

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## **Abstract**

Financial and non-financial performance are the important factors for business sustainability. Pekan Darat Tyre Battery Services (PDTBS) encounters increasing trend of losses from 14% profit (2010), and then losses to 0.87% (2011), 1.12% (2012), and 1.17% (2013). The objectives of this paper is to identify the major factors that lead to deterioration of the financial performance of Pekan Darat Tyre Battery Services (PDTBS) and the factors that effect on the non-financial performance. The outcome of this study is to propose effective practical solutions within the constraints of PDTBS that can overcome the problems identified. SWOT Analysis is discussed and Ishikawa Diagram is adapted into Symptoms Versus Problems (SVP) Framework that explained the step-by-step causes leading to this problem. The increase in the cost of sales, increase in operating cost, and increase in staff cost were the major factors that contributed to the deterioration of the financial performance. Managing customers & building relationships (CRM) (OPERATION), Credit Management (MANAGEMENT), Inventory management & control (MATERIAL & OPERATION), Employee Recruitment (ERM) & career growth (MANPOWER) and Leadership training (METHOD) & building self-directed teams (MANPOWER) were the critical success factors of financial and non-financial performance found in this study. The recommendations are to address corporate governance (managing customer needs & finance and managing inventory & employees) and the leadership category focuses on building leaders. This study also discovers another framework on critical success factors for practitioners through the development of “House of Pillars for Tyre and Battery Industry” in Malaysia.

## **Abstrak**

*Prestasi kewangan dan bukan kewangan adalah faktor penting bagi kemampuan perniagaan. Pekan Darat Tyre Services bateri (PDTBS) mengalami trend peningkatan kerugian daripada keuntungan 14% (2010), dan kerugian kepada 0.87% (2011), 1.12% (2012) dan 1.17% (2013). Objektif kajian ini adalah untuk mengenal pasti faktor-faktor utama yang membawa kepada kemerosotan prestasi kewangan Pekan Darat Tyre Battery Services (PDTBS) dan factor-faktor yang memberi kesan ke atas prestasi bukan kewangan. Hasil daripada kajian ini adalah untuk memberi cadangan penyelesaian yang praktikal dan berkesan dalam kekangan PDTBS dengan mengatasi masalah yang dikenal pasti. Analisis SWOT dibincangkan dan Ishikawa Diagram disesuaikan ke dalam Symptoms Versus Problems (SVP) Framework yang menjelaskan langkah demi langkah yang membawa kepada masalah ini. Peningkatan dalam kos jualan, peningkatan dalam kos operasi, dan kenaikan kos kakitangan merupakan faktor utama yang menyumbang kepada kemerosotan prestasi kewangan. Pengurusan & Pembangunan hubungan pelanggan (CRM) (OPERASI), Pengurusan Kredit (PENGURUSAN), Pengurusan & kawalan Inventori (MATERIAL & OPERASI), Pengambilan pekerja (ERM) & Pertumbuhan kerjaya (TENAGA KERJA) dan Latihan Kepimpinan (KAEDAH) & Pembangunan sendiri pasukan (TENAGA KERJA) merupakan faktor kejayaan yang kritikal bagi prestasi kewangan dan bukan kewangan yang didapati di dalam kajian ini. Cadangan yang dikemukakan adalah untuk menangani tadbir urus korporat (menguruskan keperluan pelanggan & kewangan dan menguruskan inventori & pekerja) dan kategori kepimpinan dengan memberi tumpuan kepada pembangunan kepimpinan. Kajian ini juga menemui satu rangka kerja kepada faktor-faktor kejayaan kritikal bagi pengamal melalui pembangunan "House of Pillars for Tyre and Battery Industry" di Malaysia.*



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## **List of Abbreviations**

PDTBS	:	Pekan Darat Tyre Battery Services
SME	:	Small Medium Enterprise
GDP	:	Gross Domestic Product
OEM	:	Original Equipment Manufacture
TIV	:	Total Industry Volume
KPI	:	Key Performance Index
NAP	:	National Automotive Policy
GST	:	Government Goods and Services Tax
CAGR	:	Compounded Annual Growth Rate
DIY	:	Do It Your Self
AAM	:	Automobile Association Malaysia
CSF	:	Critical Success Factor
SOP	:	Standard Operating Procedure
SVP	:	Symptom versus Problem
CRM	:	Customer Relationship Management
ERM	:	Employee Relationship Management
IKBN	:	<i>Institute Kemahiran Belia Negara</i>
NAP	:	National Automotive Policy

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# **CHAPTER 1**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter covers the introduction to the issues related to the background of the case, the problem statement, the focus and objectives, the research questions and the significance of study that forms the backbone of this research as well as acknowledging the scope and limitation.

### **1.1 Background of the case**

The 21<sup>st</sup> century is an era of globalization, and it requires all business companies in Malaysia to be able to compete with the business companies of the developed countries. Therefore, all companies include SME companies need new strategies from time to time to ensure that the business will be ready to face global transformations. In Malaysia, there was “a total of 645,136 SMEs businesses that representing 97.3% of total business creations” (SME Census, 2011).

Definition of Small Medium Enterprises (SME) in Malaysia categorizes small or medium enterprises based on sales turnover by segments starting from 1 January 2014. SME definition in services sector for instance, requires the companies to achieve RM1 million annual sales turn-over to meet the requirement as a medium enterprise (Wong, 2013). Figure 1.1 depicts the SME definition by category including micro, small and medium. The total number of SMEs in Malaysia estimated to develop “to 1 million in 2012, up to 99.2% of total business total business establishments” (Wayne Lim, 2012). Most SME companies play an important role to the growth of Malaysian economy.

“The Minister of International Trade and Industry, Datuk Seri Mustapha Mohamed, in a statement said Malaysia continued to be among the top five most competitive nations in the Asia Pacific region for the second consecutive year” (MIDA, 2012). This is the evidence that the business sector is one of the main sectors that can contribute to a success of a country.

New SME Definition Based on Size			
Category	Micro	Small	Medium
<b>Manufacturing</b>	Sales turnover of less than <b>RM300,000</b> <b>OR</b> employees of less than 5	Sales turnover from <b>RM300,000 to less than RM15 mil</b> <b>OR</b> employees from <b>5 to less than 75</b>	Sales turnover from <b>RM15 mil to not exceeding RM50 mil</b> <b>OR</b> employees from <b>75 to not exceeding 200</b>
<b>Services and other sectors</b>	Sales turnover of less than <b>RM300,000</b> <b>OR</b> employees of less than 5	Sales turnover from <b>RM300,000 to less than RM3 mil</b> <b>OR</b> employees from <b>5 to less than 30</b>	Sales turnover from <b>RM3 mil to not exceeding RM20 mil</b> <b>OR</b> employees from <b>30 to not exceeding 75</b>

Figure 1.1: SME Definition Based on Size

Source: Malaysia’s SME Statistics and E-Commerce Readiness: e-commerce MILO  
Web site: <http://www.ecommercemilo.com>

The service sector in Malaysia had become an essential sector in the economy since the year 2000. In 2011, there are “18.3% of SME distribution in service sector” (SME Census, 2011). The transportation and communication, and financial sub-sectors are two sub-sectors in service sector (Mohd Sahar Sauian, 2010). These two sub-sectors showed “an increase of 7.2% average growth in 2010” (Malaysia Economic Report, 2010). However, in 2014, the services sector sustained “6% to the country’s second-quarter gross domestic product (GDP figure of 6.4%.” Nevertheless, it contributed a strong growth; outshine most countries in “the Asian region, including Singapore at 2.1%, while surpassing that of South Korea (3.6%), the United States (2.4%), the United Kingdom (3.1%), and Russia (1.2%)” (“Economic Development”, 2014).

According to SME Census 2011, close to 50% of the Service sectors are classified as "Wholesale and Retail Trade & Repair of Motor Vehicles and Motorcycles." It indicated that 25% of the total SMEs fall under "Repair of Motor Vehicles and Motorcycles." Deputy Finance Minister Datuk Ahmad Maslan in his statement said, "The Government was supportive of entrepreneurs who wanted to start businesses, particularly in the services sector, by providing various loan schemes" (Business News, 2014). This statement proved that the government gives full support to the entrepreneurs to involve themselves in the service sector in Malaysia.

The automotive industry is closely related to automotive repair service industry. Automotive industry is the companies that their activities involved in the manufacture of motor vehicles, including most components, such as engines and body parts, but excluding tires, batteries, and fuel. While an automotive repair service industry specifically known as workshop is a repair shop, where automobiles are repaired and serviced by the auto mechanics or formerly known as foreman and the electricians. Automobile service workshops are independently owned and operated businesses. They provide specializing in certain parts such as brakes, exhaust systems, transmissions, body parts, tires, battery, and wheel alignment. There are many automobile service workshops throughout Malaysia. Statistics indicate, "14,000 automotive workshops have been registered with the local councils"(Ariff, 2013). In Penang, it is about 3500 of automobile service workshops. The analysis done by Penang Bumiputra Tyre Consortium reported that only ten Bumiputra workshops in Penang in 2014 (Hashim, 2014). Now, the number of Bumiputra workshop in Penang has increased to twelve workshops (Penang Bumiputra Tyre Consortium, 2015). This illustrates that Bumiputra SME workshops in Penang are facing powerful competition in their business.

SME's companies use financial indicators as reflected in their financial statements to evaluate their business performance and compare it to that of other companies in their field. Indicators of financial performance can be sales growth and profitability, liquidity, debt, sales turnover, operating expenses and other ratio analysis on the activity of the business. Successful management of the company cannot rely only on the system for assessment of financial indicators. Indicators of non-financial performance such as "service quality, employee turnover, absenteeism, abscondment and employee satisfaction, as well as customer satisfaction represent the economic situation of the company and the prospects of growth" (Rachel et.al, 2008).

One of the non-financial factors is maintaining high customer satisfaction. It is critical for a business especially for automobile service workshop because satisfied customers are likely to continue doing business with the company in the future. Regardless of what industry, customers' retention gives benefit to the business. These loyalty behaviours of the customers able to boost both market share and profitability increases for the service company (Heskett et al., 1994, 1997). However, customers in Malaysia are expecting better services during repairs and/or maintenance. However, the authorized service centres are not meeting those expectations (Malaysia Customer Service Index (CSI) Study, 2014). Figure 1.2 illustrates the Customer Service Index (CSI) ranking for different market brands of cars in Malaysia based on a 1,000-point scale of measures. The study has revealed that the additional services over and above the normal service provided by some service centres improve customer satisfaction. The additional services include vehicles washing and vacuuming, making follow-up phone calls to customers on after sales service, pickup of vehicles from offices to a workshop, stressing on quality during process and finishing, as well as timeliness. Figure 1.3 depicts the factors comprising overall satisfaction of customers in Malaysia.



With this knowledge, for all SME entrepreneurs in automobile service industries, it is important for them to have an appropriate system in place to measure customer satisfaction. “Keeping an efficient database of customer complaints can help the entrepreneurs identify which characteristics of the company’s products and services customers are least satisfied with” (Brian Hill, 2013).

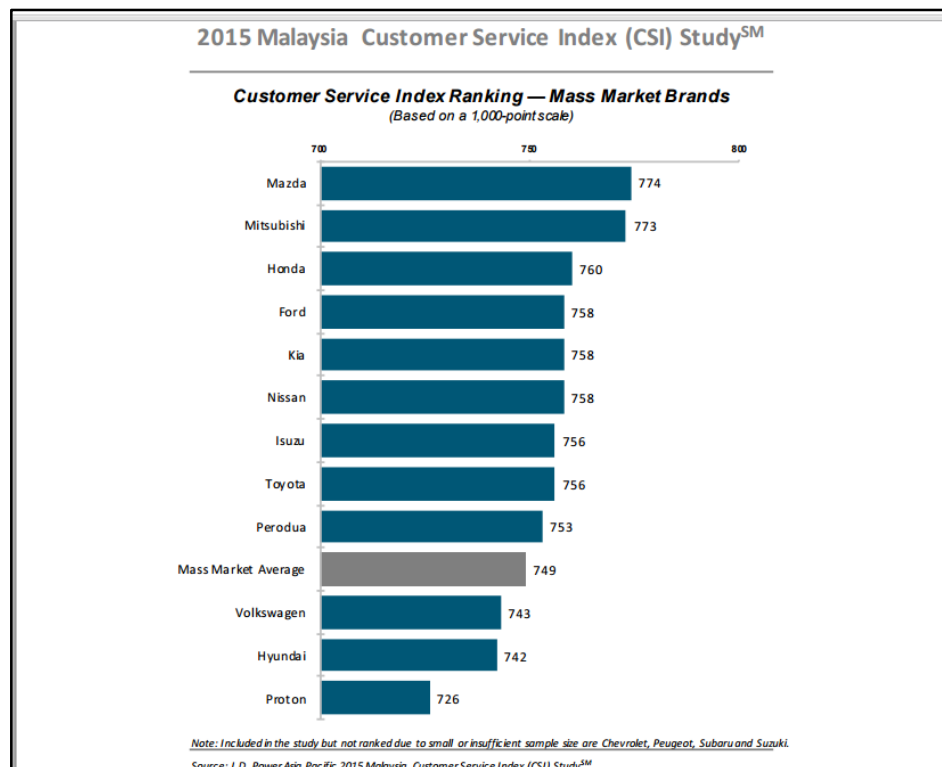


Figure 1.2: Customer Service Index Ranking in Mass Market Brands

Source: J.D. Power Asia Pacific 2015 Malaysia Customer Service Index (CSI) Study.

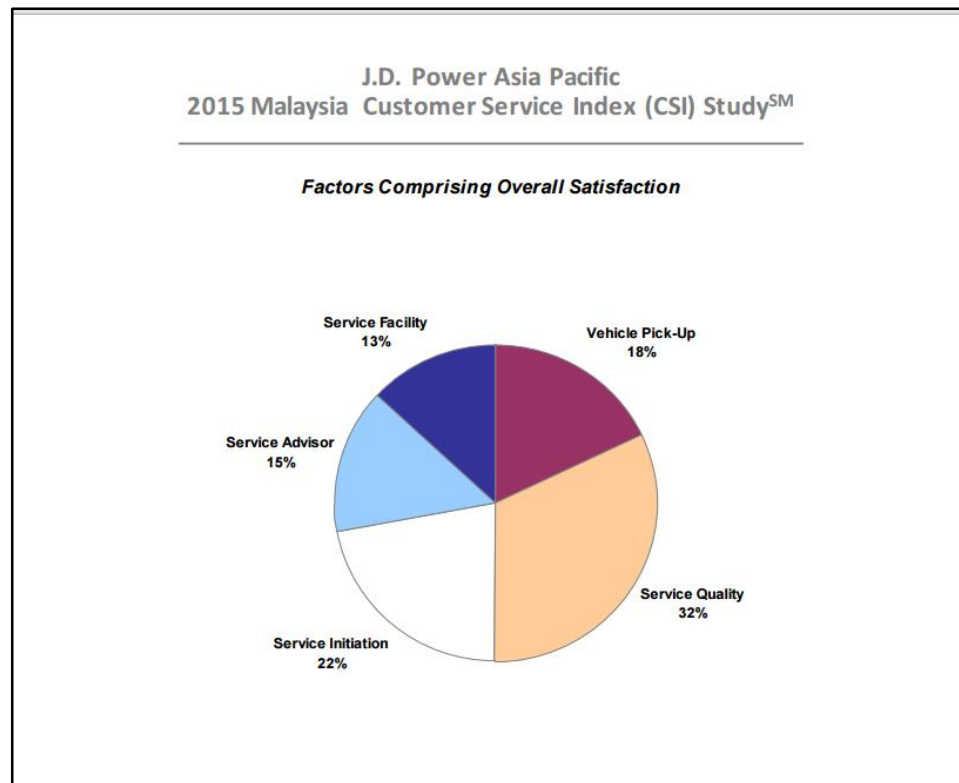


Figure 1.3: Factors Comprising Overall Satisfaction

Source: J.D. Power Asia Pacific 2015 Malaysia Customer Service Index (CSI) Study.

Besides maintaining customer satisfaction, another non-financial performance indicator is employee turnover. According to Reggio (2003), employee turnover refers to “the movement of employees out of an organization or system.” High employee turnover in a company also can be costly for a business because of the time costs to interview, hire and train new people and the lost productivity when key individuals choose to quit. Findings of the 2013 General Industry Total Rewards Survey in Malaysia found that employee turnover rate in the common industry in Malaysia has increased to “13.2% in 2013 from 12.3% in 2012” (The Sun Daily, 2013). Therefore, the SME entrepreneurs should evaluate their employee feedback whether they are satisfied with their financial compensation, working conditions, and opportunities for training and advancement. They should conduct a survey to the employees at least on

an annual basis to measure of which the company has contributed to the employee development.

## **1.2 Problem Statement**

The problem in this study is the deterioration in the financial performance of Pekan Darat Tyre Battery Services (PDTBS). This major signal of problem is due to the main issues identified; the income statements of PDTBS for the year 2010 to 2013 have shown losses in performance. (PDTBS Financial Statement, 2010, 2011, 2012, 2013). The overall percentage of financial losses has shown an increasing trend of losses from 14% profit (2010), then losses to 0.87% (2011), 1.12% (2012), and 1.17% (2013).

Apart from that, PDTBS received many complaints from the customers related to service operation. The complaints are due to the late services (absent or late punch card) (Razali, 2015). This problem might be due to the dissatisfaction of service provided such as poor time management and theft of customer's possession during services. Moreover, employee turnover rate is high due to increasing of abscondment and resignation among the mechanics. PDTBS estimates of one employee will quit within a month (Razali, 2015). This might due to better offer from other workshops.

Many incidences of missing inventories from workshop were identified caused by theft of inventories from the store. Apart from that, the expenditure of PDTBS is also increase due to staff costs, trade receivable, and other operating costs. The company is facing problem in collecting receivable from the low-income customers in Pekan Darat branch (Abdullah, 2015).

All mentioned factors are the sources to the deterioration business performance of PDTBS. With all the issues experienced by PDTBS, this company is in an alarming

situation and PDTBS is expected to be difficult to survive in their business. With the deterioration in performance of the company, it is feared that PDTBS could not sustain in a long term and continue their business in the future. The major signal of weakness in this company is “Deterioration of Financial Performance” ( Kader Ali et. al, 2014). Therefore, this study is done to identify the factors that contribute to the deterioration of the financial performance of PDTBS. The factors that effect on the non-financial performance would also be determined. Next, effective practical solutions and strategies can be proposed for adoption by PDTBS to improve the company's performance.

### **1.3 Objective of the case**

The following objectives are considered in this case study.

- To identify the major factors that contributes to deterioration of the financial performance of PDTBS.
- To determine the factors effect on the non-financial performance of PDTBS.
- To propose effective practical solutions within the constraints of PDTBS that can overcome the problems identified.

### **1.4 Research Question**

This research aimed to overcome the issue and problem related to the following research questions:

1. What are the major factors that contribute to the deterioration of the financial performance of PDTBS?
2. What are the factors affecting on the non-financial performance of PDTBS?
3. What are the effective, practical solutions within the constraints of PDTBS that can overcome the problems identified?

### **1.5 Significance of the Study**

This study will show the importance of cost control in relation to cost of sales, operating and other costs by the owners and managers. Knowledge and good interpretation of financial analysis are important to a better manage the business. The indicators can act as a trigger point for immediate action to be taken before losses begin to increase. Meanwhile, the financial Key Performance Indicator (KPI) can also trigger for control and improvement of the non-financial activities. Thus, making the overall financial and non-financial performance contributes to the growth of future business. These are the significance and benefits that can be yielded by the proprietor and/or SMEs in service sector. This research can provide the methods and solutions that have a significant effect on productivity of the tyre and battery services industry.

### **1.6 Scope and Limitation of the Case**

This study has certain scope and limitations. This study focuses on tyre and battery industry. The scope of this study includes financial and non-financial performance factors that related to the issue experienced by the one service company. This research uses a case study method that means the data collection and analysis of secondary data was the primary focus in this study. The data used in this study is at certain period

(2010 to 2013). The financial results may have influenced by the economic slowdown that was experienced globally (global recession 2007-2012) during this period. The information gathered from interviews session may provide some loose answers due to time constraints and other factors. This study also can be a source to other tyre and battery companies, but may differ in methods of services depending on the business model applied. Additional research would need to verify whether the findings from this study could generalize elsewhere in other service industry.

## **1.7 Structure of the thesis**

This study is consists of seven chapters. The first chapter discusses on the introduction of the issue focused in this study. The first chapter covers the background of the case, problem statement, and objectives of the case, research question, significant of the study as well as scope and limitation of the study. The structure of thesis also been explained in this chapter.

The second chapter discusses the industry profile and analysis of automotive repair service industry and other related industry. Besides that, the industry scenario, industry analysis, and trends, competitive advantage and industry players in Malaysia also being discussed.

The third chapter deliberates the literature review related to the issue addressed in this study. The subjects' matters are business performance, financial and non-financial performance, and, financial and non-financial factors and business performance. The previous study on critical success factor and the success and failure of SME businesses discussed concisely in this chapter.

While chapter four discusses on data collection gathered in this study includes a list of people interviewed and documents reviewed. Data linkages and methods of analysing would be explained in this chapter.

The fifth chapter emphasized on the background of the company, their vision, mission, and the organization structure of PDTBS. This chapter also discussed the issues that arise in the company and the performance of the company as well.

The sixth chapter is the most important chapter in this study. This chapter deliberates the case analysis and the findings of the case. The method of analysing using SWOT, Ishikawa Diagram, and SVP Framework (Root-Cause Analysis Tool) are concisely discussed in this chapter.

The seventh chapter is the final chapter in this case study. This chapter discussed the implication of case findings and next, the solutions to the problems identified. Recommendation to the company is also proposed in this chapter.

## **CHAPTER 2**

### **INDUSTRY PROFILE AND ANALYSIS**

#### **2.0 Introduction**

This chapter will explore the profile of auto repair and service industry and its related industries of Asia and Malaysia's own perspective. The industry analysis also been reviewed in terms of growth and market of the industry. This chapter includes clarification on internal and external environmental factors such as global, economic, physical, political and technological that effect on the industry.

#### **2.1 Automotive Industry Scenario**

Automotive industry is having a strong effect on the growth of a country and hence is capable of being the driver of economic growth. The Japanese automotive industry is one of the most prominent and largest industries in the world. In 2000, Japan became the largest car-producing nation in the world. However, its market share has decreased slightly in recent years, particularly due to previous and latest competition from South Korea, China, and India. Previously, Japan was the largest car producer in the world. Nevertheless, today, Japan is the third largest automobile market until China recently overtook them (Automotive Innovation in Japan, 2015).

Besides Japan, India is one of the larger automotive industry markets in the world. India's passenger car and commercial vehicle manufacturing industry is the sixth largest in the world, with an annual production of more than 3.9 million units (Singh, 2014), In 2010, India emerged as Asia's third largest exporter of passenger cars,



behind Japan and South Korea. More than 3.9 million automotive vehicles produced in India making the country the second (after China) fastest growing automobile market in the world. According to recent reports, “India overtook Brazil and became the sixth largest passenger vehicle producer in the world (pasting such old and new auto makers as Belgium, United Kingdom, Italy, Canada, Mexico, Russia, Spain, France, Brazil), with impressive growth rate of 18 percent”. According to the Society of Indian Automobile Manufacturers report, “annual vehicle sales are projected to increase to 4 million by 2015” (Singh, 2014).

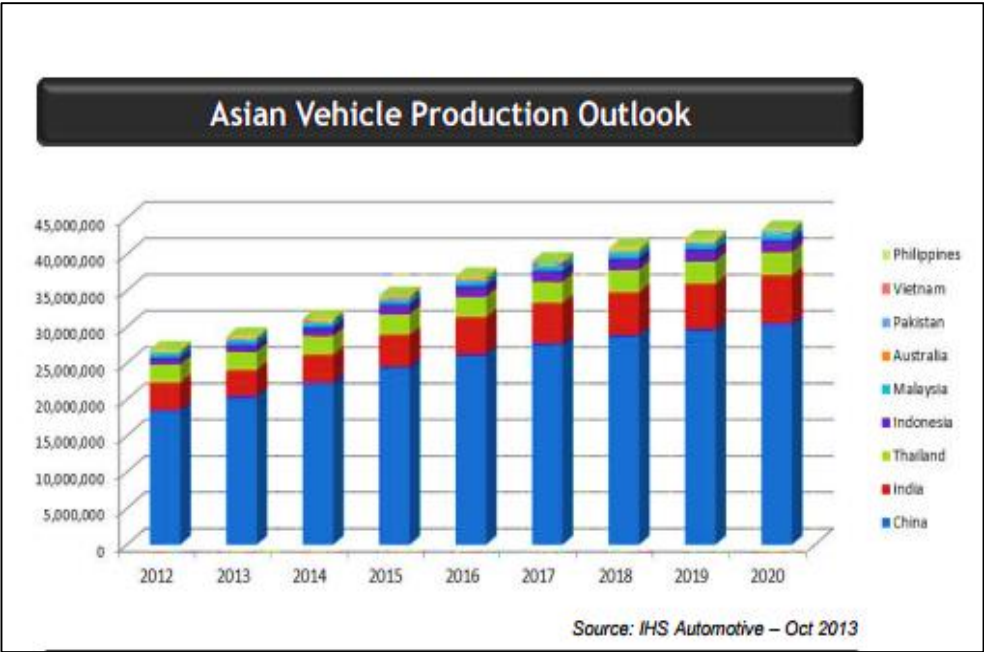


Figure 2.1: Asian Vehicle Production Outlook

Source: Futuris Group – Global Growth (February 2014)

In Asian, China and India dominate market production. China is the largest producer (20m units), and India (3.7m units) (Refers Figure 2.1). “Growth markets in South East Asia are Thailand and Indonesia” (Futuris Group – Global Growth, 2014). Strong economic growth in Asia has boosted dramatically the purchasing power of consumer.

In 2013, Malaysia ranked third after Thailand and Indonesia in terms of total vehicle production and sales. Malaysia is also the third largest automotive market after Indonesia and Thailand in the passenger car segment in ASEAN (National Automotive Policy (NAP) , 2014).

In Malaysia, automotive sales are set to accelerate this year with increased venture in the production and greater emphasis on fuel-efficient vehicles. The Malaysia Automotive Institute (MAI) has predicted sales will hit the “700,000 mark in 2015, a 5.1% increase on the 2014 roll-out” (MAI, 2015). Fuel efficiency is determined to take on greater importance in the Malaysian auto industry. Consumers would likely to change to fuel-efficiency vehicle due to the factors such as fuel price instability, the current implementation of the GST and the high cost of living. Another factor that will continue to influence the auto sector in Malaysia is the currency with the establishment of the US dollar. This factor has an impact on the domestic industry. On the positive side for local producers, a stronger dollar means imported vehicles will be more costly, giving a price advantage to domestically made cars and commercial vehicles (Business, 2015).

Automotive industry is expecting to growth by 2015. In 2006, The National Automotive Policy (NAP) was introduced to transform the domestic automotive industry and integrates it into the increasingly competitive regional and global industry. Later in 2014, one of The National Automotive Policy (NAP) objective is to increase the participation of competitive Bumiputra companies in the domestic automotive industry, including in the aftermarket sector (National Automotive Policy (NAP) , 2014). According to Malaysian Automotive Institute (MAI) report, Malaysia Total Industry Volume (TIV) has grown steadily over the past 10 years with

Compounded Annual Growth Rate (CAGR) of 2.87%. (Refer Figure 2.2) (Sahari, 2015).

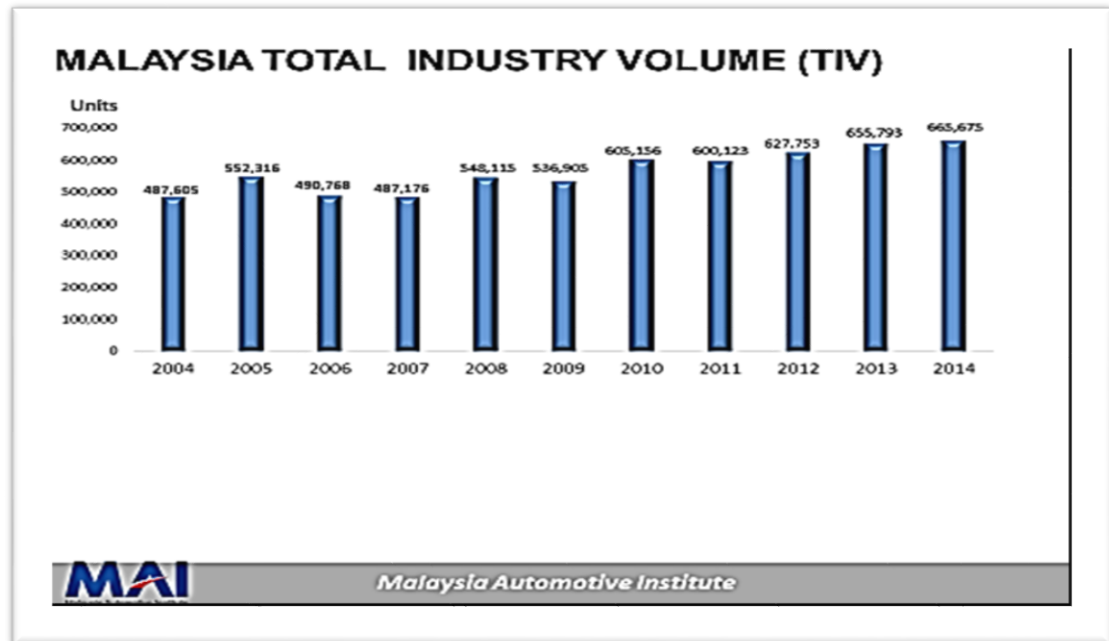


Figure 2.2: The Malaysia Total Industry Volume (TIV)

Source: MALAYSIA AUTOMOTIVE INDUSTRY REVIEW & INSIGHT 2014 / 2015, 12 January 2015.

Factors that contribute to growth were the new models with better technology (fuel economy and improved safety), more competitive OTR (on the road) prices and attractive promotions by Original equipment manufacturers (OEMs). Since the automotive industry is closely related to automotive repair service industry, with the growth of TIV, therefore the demand on automotive service and maintenance such as automobile spare parts (tyre, battery, engine oil etc.) is expecting to increase by year 2015.

## **2.2 Automotive Repair and Service Industry**

The global automotive repair service industry encompasses services that keep the vehicle features and systems running smoothly and effectively. The vehicles are made more reliable by repair and maintenance services, extending their lifetime and enhancing vehicle performance (Report Linker, 2015). In line with the robust growth in the automotive industry, automotive repair service industry is also growing.

In Malaysia, there are “14,000 automotive workshops have been registered with the local councils” (Ariff, 2013). According to Malaysia Standard Classification Statistic, (2000), automotive repair service industry is categorized in Category G, Group 502 (Maintenance and overhaul of motor vehicles) (Department of Statistic, 2000). In 2006, “the concentration of SME in automotive repair service industry is 2.4 %” (Malaysia Service Industry Statistic, 2006). However, the concentration of SME in this sector increased to 25 of total SMEs in 2011 (SME Census, 2011). Selangor dominates the auto repair and service industry SME companies.

Increasing rates of various brand new car sales and rising levels of disposable income of population has fuelled the market growth of automotive service repair industry in Malaysia. Growth in the automotive service repair industry is closely linked to levels of automobile sales, where more people can afford to buy a new vehicle. Other factors that influence market growth include unexplored emerging markets and technological innovation. In the next few years, the industry will be shaped by various other factors like technological advances, the introduction of a new type of motor oil on the market and the rising use of synthetic oils. The customer care and the quality of service will provide the main grounds on which companies compete.

### **2.3 Industry Analysis and Trends**

The global recession (2007-2012) led to a drop in disposable income, causing many consumers to turn to auto parts retailers and fix their vehicles on their own. In Malaysia, the same situation might happen to consumers. As the economy has improved since the recession, consumers have returned to mechanics rather than auto parts retailers, resulting in moderate industry growth. After recession period, the industry is set to recuperate slowly as personal disposable income levels raise, allowing the consumers to send their vehicle to the mechanics more frequently, at the same time boosting industry revenue.

After the recession, automotive repair service industry has grown steadily over the years to 2015. Individuals and businesses have increased demand for industry services, as rising per capita disposable income and corporate profit encourages consumers to go for auto mechanic services over a do-it-yourself (DIY) repair. In the next coming years, disposable income levels are expected to continue to grow, encouraging some consumers to spend more on the maintenance and repair of their vehicles. However, as consumers become more comfortable financially, lately a decline in Ringgit Malaysia to some extent affects consumers demand for this industry. The price of petrol might fluctuate, but as long as cars stay on the road, the service technicians will be in demand. Apart from that, increasing numbers of car owners are expected to scrap their older vehicles due to expensive repairs, and instead choose to buy a new car.

Market segmentation for automotive repair service industry can be segmented into household customers, business customers and government customers. Household customers account for the largest percentage share of industry revenue (75%). Business customers contribute nearly 22 percent of industry revenue (Auto Repair

Business , 2012). This segment includes businesses that depend on motor vehicles for the daily activities of the company, as well as taxi, limousine and rental car companies, lorry and truck businesses. The government customers (federal, state, local) shaping about 3% of industry revenue (Auto Repair Business, 2012). The government customers are official vehicles used by a government like Official State Government, Ministry of Health, and Department of Agriculture etc.

The advances in auto manufacturing technology are having many impacts on the auto repair business. The hybrid designs for instance require additional knowledge and training for the mechanics. These changes give an advantage to auto dealers if their teams are well trained on the new technology of machine and equipment than the local auto repair service workshop. New vehicles designs and technology also require new diagnostic tools that can be expensive for auto service workshops to issue capital to buy.

#### **2.4 Competitive Landscape**

Demand of automotive repair service industry depends on car usage and the number of cars on the road. Once the per capita disposable income and corporate profit increased, the demand for passenger cars and commercial vehicles increased year by year. Malaysia total registration of new passenger “cars in 2014 rose to 588, 341 units in 2014 from 576,657 units in 2013” (MAA, 2015). The profitability of individual automotive repair service companies depends on convenient location, quality of service offered and good marketing strategy. Large companies such as auto dealers service centre (Proton, Honda, Toyota etc.) can take full advantage on the use of expensive diagnostic equipment. They can have better opportunities in purchasing, distribution, and marketing. The small companies such as automotive repair service workshops can compete effectively by providing better customer service, affordable

services price, offering specialized services and additional services over and above the normal service. Competition includes other places that provide automotive services, including some petrol stations, car dealerships, and branches of chain workshops, like AAM and Perodua. Most of automotive repair service workshops perform an estimated “seventy percent of repairs for out-of-warranty vehicles” (Auto Repair Business , 2012).

## **2.5 Industry Players in Malaysia**

The most successful automotive repair shops during the late 2000s were dealerships and franchises (General Automotive Repair Shops, 2015). In Malaysia, several companies provide automobile servicing. Among them, is a car manufacturer such as Toyota, Honda Accord, Toyota, Honda, Nissan, KIA Motors, Hyundai, Suzuki and others. These companies provide service after the sale, where most of their customers get the continually service from their service centre. These big companies are competitors to small automotive repair service workshops that provide similar services to customers. Besides that, one of the big players in automotive services industry is the Automobile Association of Malaysia (AAM). It is the largest and most preferred vehicle emergency, breakdown and road assistance service provider in Malaysia. It has twelve breakdown operation centres throughout Malaysia. The AAM's nationwide network is extended about 164 appointed workshops and tow-truck operators to complement breakdown services outside the major cities and towns. These appointed workshops and tow-truck operators also operate 24 hours a day throughout the year, and abide by the AAM rules and regulations and code of ethics (AAM, 2015).

In Penang, there are 3500 of automobile repair service workshops and among them only twelve Bumiputra’s workshops (Penang Bumiputra Tyre Consortium, 2015).

PDTBS is one of the Bumiputra's workshops in Seberang Prai, Penang. However, PDBTS has successfully operated two workshops in 4 years. Thus, with high number of competitors in Penang, automobile service workshops like PDTBS must be able to employ the strongest competition strategies to make the most of business. The service workshop should be more competitive by creating good-quality products and offering excellent customer service. The company also needs to align its future growth strategies and take necessary steps to place their strategies at the right time and at the right place.



## **CHAPTER 3**

### **LITERATURE REVIEW**

#### **3.0 Introduction**

This chapter explores all the contemporary literature related to this study. It includes the definition of business performance, financial and non-financial performance as well as the explanation of how to increase business performance of SME companies that deliberated by experts and other researchers. The justification on how for both financial and non-financial factors affect the business performance also would be discussed in this chapter.

#### **3.1 Business Performance**

In today's economic environment, measuring business performance is a vital issue for entrepreneurs in SME companies. In general, business performance is defined as "the operational ability to satisfy the desires of the company's major shareholders" and it must be assessed to measure an organisation's accomplishment (Smith, 1999). Another way to characterize performance is "to distinguish between financial and non-financial performance" (Ittner, 2008). The common indicators used in measuring business performance are profit, return on investment (ROI) and turnover or some of customers (Wood, 2006). Besides that is the design quality and product improvement (Laura, 1996). Santos et al. (2007) recommend measuring business performance through the business performance measurement (BPM) system, as it is an important instrument in many research areas, particularly in business and social science studies. The research done by Hafiz Zafar Ahmed, (2012) shows that the sales revenue,

profitability, and customers are the elementary focuses of small businesses in order to measure their businesses performance. The field literature suggests that there is a variety of different measures of success that can be classified into two major categories: “financial and non-financial performance measures” (Maksoud et.al, 2005) (Ottenbacher, 2007).

### **3.2 Financial and Non-Financial Performance Measurement**

It is well known that financial reports are the main source of information about company performance. Thus, financial performance is defined as “a measure of how effective a company can use assets from its source of business and generate income.” The financial and non-financial measures can evaluate the performance; however, non-financial measures are also more important and useful for performance measurement of small organizations” (Gomes et al., 2004). On the measures of financial performance, Chong (2008) identified “profit and asset turnover to assess short-term duration but steady revenue growth rate and growth in the employment size to measure long-term capacity.” The view shows that “the performance can be evaluated by using related measures of sales e.g. total sales growth.” (Gong, 2009). The liquidity, activity, leverage, and profitability are the four commonly used measures (Levy, 1998; Melicher & Norton, 2000; Statistics Canada, 2014). However, in article the Financial Times’ Mastering Management series on Oct. 16 2000, “financial data have limitations as a measure of company performance” (Ittner, 2000).

A good financial performance of the firms is they “must generate a good profit, increasing sales and positive cash flow.” Aside from that, firms must have more assets, fewer liabilities, and this result in a stronger balance sheet (The Sun Daily, 2015). The

Kennas Chartered Accountants (2014) considered “profitability and return on assets as the key performance indicators that are critical in understanding the state of financial health of a business.”

According to Kaplan and Norton (1992) highlighted that “financial measures are not enough to explain an organization’s trends’. There are different causes influencing the organizations activity, such as competitiveness, quality of products and services, and resource utilization.). The financial measures need to be complemented with operational measures, called “the drivers of future financial performance” namely customer satisfaction, internal process and innovation and improvement activities (Kaplan and Norton, 1992). A study by Škrinjar, (2008) revealed, “business process orientation leads to better non-financial performance and indirectly to better financial performance.” Brenes, (2011) focuses on assessing the impact of those structures on family business performance. A professional board of directors has an impact on a company's performance.

Most frequently used nonfinancial performance measures are: customer satisfaction, market share, employee feedback, human resources and product quality. Other non-financial measures are service quality, employee turnover, absenteeism and satisfaction, as well as customer satisfaction. Maksoud, (2005) suggested “a model involving five non-financial performance measures: customer satisfaction, product quality, on-time delivery, efficiency and utilization and employee morale”. Previously, the Balanced Scorecard approach provides a multifaceted view of an organization's performance and focus on customer’s point of view (Robert S. Kaplan, 1993). Other financial performance measures are service quality, employee turnover, absenteeism,

and customer satisfaction. All these study results pointed out that customer satisfaction is an important indicator of nonfinancial performance measurement.

### **3.3 Financial and Non-Financial factors and Business Performance**

#### **3.3.1 Customer Satisfaction (Non-Financial)**

One of the non-financial performance indicators is customer satisfaction. Based on past few years' studies, there is no doubt that many organizations are mostly customer satisfaction oriented. Customer orientation is very important in SMEs. SME is closer to its customers therefore, they are able to capture information on customers and market as their source of expertise and expertise. Therefore, SMEs are most customer-focus and aware of their competitors. They are aware that the customers are one of the most important sources of feedback, innovation, and business performance. The connection between customer satisfaction and its profitability for the company is discussed in many studies. According to Christina et. al, (2009), "a level of customer satisfaction plays a significant role in a company's financial performance". Zeithaml et.al, (2006) investigate both unobservable or perceptual customer metrics (e.g., customer satisfaction) and observable or behavioural metrics (e.g., customer retention and lifetime value) on firms' financial performance. The level of satisfaction of customer with a company has profound effects. Studies have found that the level of customer's satisfaction has a positive effect on profitability. The market share and profitability increases generated by loyalty behaviour of customers in the service firm (Heskett et al., 1994, 1997). Further research by Heskett, (2002) suggested, "The customer satisfaction and loyalty provide a foundation for high levels of customer lifetime value." The customer lifetime value supports a range of customer behaviours characterized by mere loyalty (repeat purchase), commitment (willingness to refer