

## **Sustainability Management of Damai Industries Sdn. Bhd.**

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### **Introduction**

Syukri graduated from Universiti Pertanian Malaysia in mid 1980s, after which he joined a number of manufacturing companies. After obtaining a few years of experience, he decided to set up a partnership telecommunication business as a franchisee. Unfortunately, after a few years of struggle, the business could not survive and eventually he was declared bankrupt. Apparently, the major contribution to his business failure was mismanagement and dispute between partners. But as a strong-willed person Syukri has never gave up and decided to divert into herbal cosmetics and health care industry that he strongly believed will have a better prospect in the near future. Hence, in 1998 he ventured into business by establishing Le Roselle Cosmetics and SPA. In September 2004, he set up Damai Industries Sdn. Bhd (Damai).

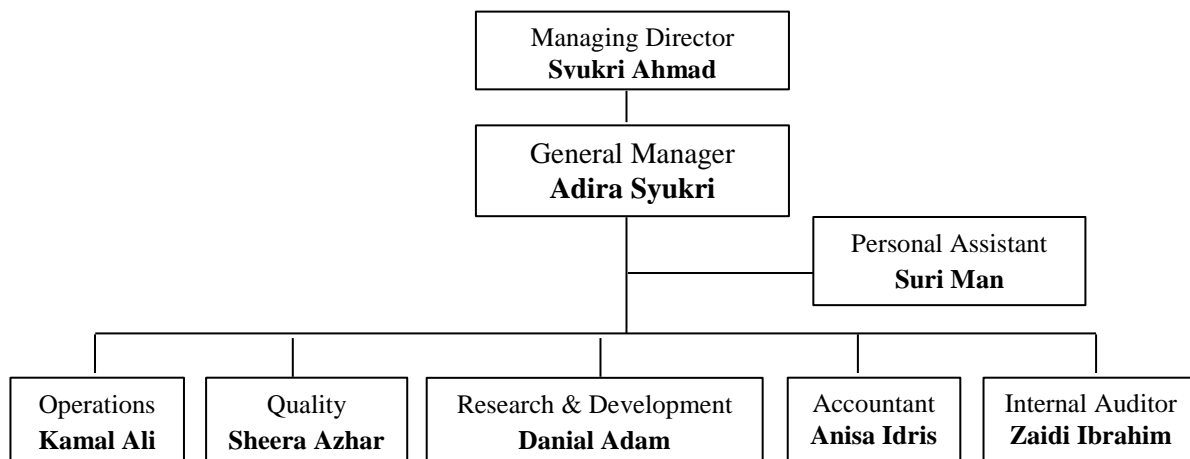
In the course of establishing his business, he faced many challenges and obstacles such as limited funding and support from financial institutions and government agencies. Despite of these difficulties, his persistence, perseverance and interest in this field has finally paid off. Today, he can be proud of his own products and achievements which have positioned his company at par with other reputable businesses in the same industry. Notwithstanding the rapid growth of his business, Syukri is still wondering whether his business governance is in a proper order. His concern arise from his past experience. In addition, he also planned to restructure the company of which Damai will be formed as a holding company in six-month time. In particular, his worry relates to strategic management, administration, marketing and financial management which could significantly hamper his business sustainability in future. Hence, it is high time for him as a Managing Director, to evaluate the current practice of Damai.

## **Background of Damai**

Damai has been established on September 2004 in Kedah. Damai currently produces a variety of roselle-based health food and drinks, food supplements in the form of soft gel, tablets, sachets, powders and skincare products. Damai is also the producer of Original Equipment Manufacturer (OEM) for other entrepreneurs. The term, ‘OEM’ is used when one company makes a part or a subsystem that is used to produce another company’s end product.

In order to market its own products, Z-Line was established as a marketing arm. Such establishment helps Damai to mainly focus on production activities. To further strengthen the business, the company acquired a plot of land measuring 7.7 acres in Jalan Tunjang-Napoh to develop a Good Manufacturing Practice (GMP) factory with the concept of a “one stop center”. The center will be equipped with fully automated equipment and laboratories for research. The following is the organization chart of Damai, which is the central point of this case.

### **Organizational Chart of Damai**



### **Scenario: At home (9.00 pm, 2 February 2016)**

One evening, Syukri and Anisa were watching a television programme. Anisa poured hot water into a cup, added a spoonful of coffee and slowly stirred the mixture. A reality entertainment programme sponsored by his competitor (Datuk Zee) was being telecast. Their eyes were glued to the TV as the host announced, while smiling broadly, “*Good evening and*

*welcome to the number one TV reality rating show to identify the talents of all-rounder entertainers among youngsters”.*

Both husband and wife were silent as they watched the programme. Then, Anisa broke the silence. *“Honey, I am astounded with the steps taken by Datuk Zee. She is sponsoring a show that can attract millions of Malaysians, especially the younger generation”.*

Shifting his eyes from the TV screen momentarily, Syukri responded to his wife. *“What makes you say so? What actually are you implying?”*

Anisa: Honey, Datuk Zee is a well-known entrepreneur who markets beauty care products. When she sponsors the programme, she appears frequently on television and information about her business products reaches a wide audience, thus enabling her business to grow tremendously. Many of my friends are talking and discussing about her products and many are buying her products as well. In my view, I think she has managed to increase her sales ever since she started using the TV as her advertising medium.

Syukri: I certainly agree with you on some issues but disagree with others. I think sponsoring a TV reality show could increase public awareness of the products and be able to influence buyers’ decision. However, I have a different view on TV reality shows. It might be right or wrong. Some of the marketing strategies in the text book might not applicable to the real business situation.

Syukri: I personally believe that there are many companies that sponsor TV reality programmes now, which eventually promotes a hedonistic culture. I strongly believe that we, as a Muslim company, should sponsor programmes that can benefit viewers and also Islamic values. In fact Damai sponsored the second season of the Da’i programme in 2014.

Anisa: I am certainly inclined to agree with you, dear. What do you think makes us different from other players in the industry?

Syukri: I think right from the inception of Damai, we have been determined to be a leader in the Islamic product market by complying with Syariah principles. As part of our long-term plan, I have instructed our advertisers to put up billboards along the north-south highway and close to hypermarkets for our pre-production line-up. As a result, we have received many enquiries from the public on where to get the products. I think we have captured the attention of relevant consumers. My target is for Damai products to flood the hypermarket shelves. We

have negotiated with Al-Baik and Halal Mart chains to place our products strategically on their shelves.

Anisa: That sounds good, dear. Do share with me your upcoming plans, both for existing and new products.

Syukri: Well....I was thinking about expanding and strengthening the company's position. One of the ways is through a GMP certification to ensure our product compliance to quality standards. We have collaborated with relevant agencies and are committed to join exhibitions organised by government agencies, like MATRADE, MITI, SMIDEC and FAMA, to expose our products to larger markets.

Anisa: Wow! That sounds really good. What else do you have in mind, dear?

Syukri: Our report shows that the ratio of trading to the OEM business is 40:60.

Anisa: Frankly, being new in this company, I am not sure what the difference is between trading and OEM business.

Syukri: Trading is where we sell our own manufactured products or third party products. In our case, we sell products that bear our own brand name, such as Roselle, Solid Coffee, Solid Choice Sunnah, Waneyta Coffee, Solid Vision, Solid White, Solid Stemcell, Stegoat and SL Beauty. Since 2016, we have successfully received the "Hygiene Food Industry Responsibility" certificate (MesTI) under the Ministry of Health's certification for Small and Medium Food Industries. OEM involves producing products according to clients' specifications, which will carry their own brand names. We produce generic products, and the clients can add ingredients to make their products different from other products in the market. For that purpose, we conduct research and development or R&D to make sure the products comply with national and international standards and requirements. Also, we help them to obtain Halal certification from Jabatan Kemajuan Islam Malaysia (JAKIM). We are fortunate that we have competent and experienced R&D staff. This allows clients to customise their own products.

Anisa: I see. But I was wondering.....why do we want to continue doing OEM, when we can have a greater monopoly over the market?

Syukri: I am thinking far beyond the business. I want more businesses in the market that provide halal beauty and health care products. Since we have the facilities, expertise, staff

and reputation as an OEM manufacturer for health and beauty care products, this is our opportunity to compete with the existing manufacturers. Not only that, OEM is a strong revenue stream for the company. Clients are required to pay upfront 70% of the sales value on confirmed orders for products. The balance is settled within a stipulated time.

Anisa: Now I understand your business logic. Then, what is so important with Z-Line to you?

Syukri: Z-Line is our business arm to market our own brand. Previously, all production, R&D and marketing of health and beauty products were under one roof. It was suitable at that time when everything was within my control. However, as the business started growing and we began to receive more orders for OEM, not to mention the demand for our own products, which has now increased beyond our projection, we realize that staff have too many tasks to handle and are beginning to feel the pressure or the greater work load. That's why we have split the business lines.

Anisa: Are you suggesting that we need to restructure our company?

Syukri; Yes! We realize that several functions need to be reassigned to improve the management's ability to monitor each entity separately. However, I still need you to closely monitor the cash collection for Z-Line. I am also seriously thinking of overseeing the external relationship with vendors and marketers and need someone to focus on the company's daily operations.

Anisa: How do you plan to finance the new facilities? I believe it requires a considerable amount of money to set up the facilities, considering that banks are reluctant to assist".

Syukri: What was our sales turnover last year?

Anisa: Our sales ranged between RM1.4 to RM1.6 million per month and our net profit was approximately RM800,000.

Syukri: That is good. I think we can cater to our financial needs for our new plant expansion using internal funds. Could you please work out the plan?

Anisa: Ok...a quick glance tells me that we can estimate that 30% of the profit should be set aside for business expansion. We need an initial capital of RM6 million to build and install new facilities.

Syukri: Don't worry dear. I have strong back-up from our suppliers and our bond is stronger than steel. I believe we are financially stable even though we do not have financial assistance from the banks.

**Scenario: The Finance Department Meeting (8.30 am, 8 February 2016)**

Anisa arrived early for a special meeting with Syukri and Zaidi. The meeting should have started at 9.00 am. Before the meeting, she had a quick chat with Zaidi regarding the financial matters.

Anisa: Zaidi, this is the audited financial report for the year ended 2013 (refer Appendix 1). Take a look! You may have something to comment. This is the year when our business started to boom.

Zaidi: Wow! Fantastic profit! But it seems that almost all the profit made in 2013 was spent on fixed assets.

Anisa: Are you sure? I am not too sure of this. Syukri told me we have to make some major changes to ensure that the company can grow faster. He also believes that the business can expand in the near future. That's why he has invested a lot on machinery.

Zaidi: Yes! It is true. About 86% of fixed assets purchased were machinery, and 10% for renovation and air conditioning. Computers and software took up 2%.

Syukri arrived on time for meeting.

Syukri: Assalamualaikum. Thank you Anisa and Zaidi for being here. I am afraid I need to go to Kuala Lumpur urgently. Before I leave, are there any important or urgent issues that need my attention?

Anisa: Well, since you are in a hurry, I will not bring up any issues today. Just one thing needs to be discussed now. In the last meeting, you asked us to propose guidelines or Standard Operating Procedures (SOP) so that new employees can easily assimilate the knowledge to carry out their tasks without too much hassle. We are happy to report to you that the Financial Procedures are almost completed. We are also working on Cash Control Procedures, including inflows and outflows of cash as suggested by Zaidi.

Syukri: Great! I am pleased with the progress you are making. If there are no other pressing issues for today, I would like to excuse myself. Probably, you can continue with the discussion. Thank you very much. Anisa, please update me on any progress via whatsapp.

As Syukri left the room, Zaidi and Anisa continued their discussion.

Zaidi: Anisa, could you please explain the credit facilities given by suppliers. I need to get a clearer picture of the company's accounts payable.

Anisa: The credit facilities depend on terms given by suppliers. Some of the suppliers can only provide credit facilities for a minimum transaction of between RM30,000 to RM45,000.

Zaidi: Does our company provide credit facilities to our customers?

Anisa: No credit facilities are given to OEM clients. They have to pay 70% upfront and the balance of 30% when the products are ready. However, clients can make special request to Syukri for credit facilities, if so needed. Syukri normally provides credit facilities for his loyal clients.

In the midst of the discussion, Anisa's phone rang.

Anisa: Zaidi, I need to take this call. I will be back shortly.

While waiting for Anisa, Zaidi recalled the moment he was first appointed as the internal auditor of Damai. Syukri expressed his hope that he can make changes and improvements to the company since he has vast accounting knowledge and experience. Even though the company did not have an audit committee, the appointment of an internal auditor was the initial step to enhance its corporate governance. Syukri wanted him to focus on strengthening the company's internal control and risk management.

Then, Anisa came back to the room

Anisa: Sorry Zaidi to keep you waiting. Where were we just now?

Zaidi: We stopped our discussion on credit facilities. What was the proportion of sales from each segment?

Anisa: Oh Ok. Our trading segment only contributed 40% of total revenue. The rest is from OEM. We have many OEM clients, mainly brought in by Syukri himself.

Zaidi: So, we should give priority to this group of clients for credit facilities?

Anisa: Yes, of course Zaidi. Now, I really need a more advanced system which can automatically update the company's data, specifically sales.

Zaidi: Anisa, can I get a clearer picture on certain current operations before I proceed with the SOP draft?

Anisa: The review of sales report helps the company to monitor the sales on a weekly basis. If the sales decrease, the company will discuss the problem and suggest appropriate solutions. The sales transaction for Z-Line is on a daily basis and the information can also be updated on a daily basis. However, due to certain limitations in the procedures, the sales transaction for OEM cannot be performed on a daily basis. It takes time to process the sales orders. There is a case where the client had already paid the 70% advance payment but the product was not delivered on time due to shortage of raw materials. Although it is under control, we still have to take this into consideration.

Zaidi: How about inventory control?

Anisa: We perform weekly stock-take randomly to make sure that the inventory reported is of the same quantity as in the report. A regular stock-take is conducted ever since I took up the post as Accountant to help reduce loss of inventory. However, we have to update the inventory bin cards manually since there is no system in place for inventory control.

### **Scenario: Vacation (8.00 am, 21 March 2016)**

Family vacation is a must for Syukri as it is a good way to foster and strengthen family ties. This time, the family had chosen Meritus Pelangi Beach Resort, Langkawi as their holiday destination.. After an early breakfast, the family went to the beach. Syukri normally preferred to stay alone in the hotel room. This was an opportunity for him to think about his business' future direction and strategies.

Alone in his room, Syukri smiled to himself, deeply immersed in his thoughts and dreams. For him, success starts with a dream. Without dreams and a vision, there would be no success nor achievements. He was also very observant and studied the business environment and its impact on business strategies. For example, he learned that many people still like to consume soft drinks, such as Coca Cola, Pepsi and F & N although they know that it could be harmful



to their health. It shows that the right marketing strategies could attract consumers even though they know that the products can have an adverse impact on their health. This scenario inspired him to produce a healthy drink as an alternative to the carbonated drinks. He knew that people were now savvier and more conscious for their health. Producing a good and tasty health drink that was both organic and nutritious would surely be a step in the right direction for his business. 'Health and beauty, the natural way' was the tagline that was constantly in his mind as he aspired to become a prominent health drink manufacturer.

His dream was to create an "International Brand" name for his products. Hopefully, he could have enough funds to make a foray into the international market. He felt that an English sounding brand name, such as La Roselle, Solid White and Solid Coffee, would be more appropriate to penetrate the international market. His target to make his presence felt in the international arena was as soon as the company had adequate internal funding. Towards this end, Syukri initiated collaborations with MITI and MATRADE by joining their international trade events. Syukri also decided that his business should be relevant and suitable to all races; confining only to a specific race or area would not be good for Damai's future.

Syukri always planned well. He set aside a portion of the business cash flow for future development. His new factory in Tunjang, Kedah, for example, required between RM4 to RM5 million. He intended to work out a win-win arrangement with the local farmers, whereby the farmers could supply raw materials to his company. Currently, 98% of the ingredients or materials for cosmetics production was imported. Syukri strategised for the company to not only focus on producing their own products but also to provide consultancy and advisory services to customers. His business should also be able to produce customised products based on the needs of customers with regards to design, packaging and labelling.

Syukri aimed to improve the technology related to production of cosmetics and health care products. His measures for this included sending the top management and his R&D personnel to learn new techniques in South Korea. They also went to the Republic of China to seek and bring back raw materials which were not available in Malaysia. In addition, he planned to venture in a new business opportunity. He seriously considered setting up infrastructure facilities, including state-of-the-art technology that could be rented out to foreign companies. He wanted foreigners to come and produce products in Malaysia. Producers and investors from Japan, South Korea and European countries are potential clients for his business. Syukri was aware that the Japanese were very particular about product quality. They normally ask

for a sample of products to be tested and the products would need to go through a quality inspection based on their stringent standards. Although it was tough to earn their trust, this was one way to encourage foreign companies to produce their products in Malaysia. Products could be produced at a reasonable price and sold to the Malaysian or Asian markets at a lower price compared to imported products. This would indirectly help to improve Malaysia's gross domestic product (GDP). Syukri realised that 'Halal' beauty and health care products were receiving wide acceptance and attention of the community. Syukri aimed to make Malaysia the leading manufacturer for halal health and beauty care products.

Syukri is a man with many dreams; dreams that he hoped would one day come true. His mind suddenly drifted down memory lane - how he had worked so hard to ensure the growth of his business. One smart move that he had taken was successfully persuading his wife, Anisa to join the management team. Anisa had 20 years' experience working in Bank Simpanan Nasional (BSN). It was not easy for him to persuade her. Anisa was reluctant to accept his offer at first but she finally agreed as she also was interested in cosmetics and health products. Syukri was indeed very grateful that Anisa had accepted his offer because he knew Damai really needed someone who could help him to manage and improve the company's financial management and deep down in his heart, he knew one was better suited to the job than Anisa. He knew that he could not depend too much on his daughter, Adira. She was still young and lacked the experience to run the business..

From the balcony he could see his wife and children in the distance taking a stroll along the beach. Syukri was grateful to have a supportive family. Anisa's presence in the business really helped him a lot. He approved his wife's suggestion to appoint few staff to help her. He believed that a good team needs to be formed in order to strengthen the company's financial management. Syukri admitted that it was quite difficult for Anisa to handle everything on her own especially when he himself was constantly not in the office. Besides, he had to focus a lot of his time on marketing and meeting suppliers outside the office.

Syukri realised how important it is for finance and accounts to be handled by someone he could trust and there was no one that he trusted more than his own family members. Syukri was thankful that his wife had taken proactive measures to ensure that the accounts and financial records were kept and managed properly. For instance, Anisa had directed the financial staff, including Zaidi, to re-examine and correct all accounts and financial records from year 2014. This was to ensure that all decisions are made accurately.

Syukri breathed a sigh of relief. Damai currently had seven finance employees and all of them had degree qualifications. Most of them are young graduates. Anisa had brought Zaidi into Damai in early 2016 due to his vast experience in accounting and finance. Zaidi was appointed as an internal auditor in Damai and he is responsible for examining and monitoring the accounts and financial-related issues of Damai. Syukri was convinced Anisa and Zaidi and their team would be able to improve financial management in Damai. Zaidi was very objective in providing his opinions.

Zaidi once told him that operating without loans from banks was actually an advantage to Damai. However, Damai is quite weak in terms of its financial management and accounts. Syukri could not deny this; he accepted that something had to be done to address this. He had been managing the accounts alone before Anisa decided to join Damai.

Suddenly, the sound of a door creaking open jolted Syukri back to reality. He smiled as his wife and children trooped back into the room. His rumbling stomach reminded him that it was time for them to have lunch.

### **Scenario: In CFO's Office (3.00 pm, 20 April 2016)**

Anisa flipped through the pages of her organiser to check the interview session to recruit staff for the finance department. For her, the important criteria were not just qualifications and experience, but also the determination to work hard and ethics. For staff who would be involved in cash collection, the selection process would be more rigorous as they would have to deal with cash, which sometimes might be in the region of RM20,000 to RM30,000 a day. In fact, Anisa had decided she would carefully scrutinise the financial background of the applicants. This was to reduce the risk of theft or embezzlement among these staff.

As a CFO, Anisa also emphasised on training for her staff. Yet, only few staff had attended courses, while others were still awaiting their turn. Anisa's working experience in the bank affected the way she dealt with her work. Anisa closely monitored the cash collection since the amount collected was huge. She also instructed that any payments done must be approved and the staff need to show proof of the payments made. Anisa conducted weekly spot-checks on the inventory. Physical balance would be matched with the remaining quantity in the records. Although Damai was still using a manual inventory control system (manual calculations), Anisa strongly believed that there would be improvement in the near future.

Anisa is very committed to her tasks and she also constantly interacted with Syukri through telephone or emails to provide updated information relating to financial management.

## APPENDIX 1: FINANCIAL STATEMENTS FOR DAMAI

### DAMAI INDUSTRIES SDN. BHD. BALANCE SHEET AS AT 31 DECEMBER 2013

	2013	2012
	RM	RM
<b>PROPERTY PLANT AND EQUIPMENT</b>	1,150,238	62,177
<b>CURRENT ASSETS</b>		
Inventories	8,755	12,789
Trade Receivables	25,981	25,047
Deposits	2,480	2,480
Cash and bank balances	2,309	63,594
	39,525	103,910
<b>CURRENT LIABILITIES</b>		
Other Payable and accruals	759,214	35,408
Amount due to directors	0	102,492
Provision for Taxation	27,875	4,297
	787,089	142,197
<b>NET CURRENT LIABILITIES</b>	(747,564)	(38,287)
	402,674	23,890
<b>FINANCED BY:</b>		
Share Capital	2	2
Accumulated Profits	402,672	23,888
	402,674	23,890

### DAMAI INDUSTRIES SDN. BHD. INCOME STATEMENTS FINANCIAL YEAR ENDED 31 DECEMBER 2013

	2013	2012
	RM	RM
Revenue	1,263,714	442,487
Cost of Goods Sold	(568,119)	(316,097)
Gross Profits	695,595	126,390
Other income	564	20
Administrative expenses	(293,797)	(106,495)
Profit before taxation	402,362	19,915
Taxation	(23,578)	(4,297)
<b>Net Profit for the year</b>	378,784	15,618