

Strengths and challenges of SMEs

To understand themselves, SMEs must engage in SWOT analysis to help gain a comprehensive understanding of their Strengths and Weaknesses, as well as appreciating the Opportunities and Threats that lie ahead of them in the course of business.

Strengths

- Operational flexibility, close market feel and adaptability allow rapid responses to changing market needs.
- Typically funded by a proprietor or a group of like-minded people sharing common goals, developing mutual trust and adopting a hands-on approach to business.
- Usually have simple organisational structures — allowing management to keep abreast of different departments' operations. This facilitates ease of cost control and managing overall operational issues.

Weaknesses

- Due to limited resources, operators are usually more concerned with minimising costs and maximising profits. As a result, proper management is often overlooked and effective risk management neglected.
- Operations usually seek to achieve speed, convenience and high efficiency. Working styles differ from person to person and often change over time and there may be a lack of clear guidelines, standard operating procedures and control systems — increasing the risk of corruption and bribery.
- The lack of systems and controls may also pave the way for abuse of the trust between management and staff — which in turn may damage the company's reputation and bottom line.

Opportunities

- In the wake of the PRC's 12-5 Plan, mainland China's economy has entered into a new phase of policy adjustments across a wide variety of industries. A complementary mechanism has also been developed for use in Guangdong, Hong Kong and Macao to help foster new business opportunities for SMEs.
- In tandem with the PRC's goal of expanding domestic consumption for economic development, SMEs are also being encouraged to expand their brands throughout the PRC to meet the growing needs of mainland consumers for quality products and services.

- With the massive popularity of internet and online trading platforms, SMEs can take advantage of low-cost, high-efficiency online platforms for market expansion and trading their products and services throughout the PRC.

Threats

- When faced with the uncertain global economic environment and immense operational pressures, SMEs may be tempted to resort to offering bribes to help ensure their short-term survival.
- Recent continuous increases in expenses incurred from salary costs, land, raw materials and exchange rates coupled with cash flow problems arising in obtaining account receivables have all created an extremely challenging business environment for SMEs.
- SMEs have to face the challenges of managing legal, regulatory and cultural differences in different markets in addition to the difficulties involved in remotely managing businesses.

Corruption and bribery — key risks

Regardless of the nature of their business, most SMEs have various work functions including: purchasing, sales and marketing, inventory and stock control, accounting and finance, personnel and administration. Below is a list of common malpractices identified in these work areas.

Purchasing

Selection of suppliers and contractors

- Appointing companies — wholly or partially owned by themselves or their close relatives — as suppliers or contractors.
- Setting up bogus companies to purchase goods from other suppliers and re-sell them to their employing companies at a higher price in order to pocket the difference.
- Selecting suppliers or contractors who are willing to provide advantages to them.

Negotiations with suppliers and contractors

- Soliciting commissions from suppliers or contractors as a reward for allowing overcharging and/or accepting substandard goods and services, placing orders for goods or services with them.
- Leaking valuable information, such as tender information and quotations of other tenderers, in the hope of helping favoured suppliers or contractors to secure the contract or order.
- Accepting advantages from suppliers or contractors as a reward for making false representations in order to secure greater profits for them — at the expense of the company putting out the tender.

Making purchases

- Splitting orders to avoid exceeding financial limits set by the company or being discovered to having made excessive purchases.
- Altering order prices to pocket the price difference.
- Staff acquiring goods from suppliers in the name of the employing company for use in their own private company. Likewise, staff utilising the employing company's credit limit to buy goods for their own private company.
- Frequently using 'urgent' or special requisitions as a pretext to circumvent normal procurement procedures.

Sales and marketing

Handling customer orders

- Diverting company business to competitors or secret associates.
- Disclosing customer information to third parties — such as competitors or debt collectors — without permission.

Selling discounted items

- Pocketing customer discounts.
- Offering discounts to non-qualified customers.
- Pocketing bulk-purchase discounts by grouping orders together and processing them as bulk purchases.
- Making bulk purchases at staff price then reselling to retailers for profit.

Commissions and bonuses

- Conspiring with colleagues to falsify sales records in order to fraudulently obtain commission or bonus payments — only granted upon achieving specific sales targets.

Allocating goods or services

- Allocating purchases of 'high-demand' or 'low-supply' goods to parties offering bribes.
- Assisting clients, who are willing to offer advantages, to queue-jump for in-demand services.
- Accepting bribes for appointing or recommending less competitive companies as distribution agents.

Offering bribes

- Offering bribes to staff of client companies to secure business, and falsely declaring such bribes as legitimate expenditures including: entertainment expenses, client discounts or agent commissions.

Inventory and stock control

Receiving goods and stock control

- Accepting bribes for covering up non-deliveries and/or accepting substandard goods.
- Overstating loss or damage caused during delivery in order to cover up internal pilferage of goods.

Writing off stock

- Stealing goods by fraudulently writing off stock.
- Releasing goods on a first-in-last-out basis so that goods with expiry dates become write-offs, which are subsequently stolen and/or sold.

Accounting and finance

Making payments and collecting debts

- Accepting bribes in return for speeding up payments or delaying debt collection.
- Deliberately arranging double payments and making subsequent claims for reimbursement in order to provide interest-free operating funds to those offering bribes.
- Falsifying invoices and/or documentation to embezzle company funds.

Granting credit facilities and writing off bad debts

- Granting credit facilities to ineligible clients.
- Accepting debtors' advantages in return for prematurely writing off bad debts, without following appropriate debt collecting procedures.
- Instructing debtors to deposit repayments into a third party account and then embezzling such funds, which are then written off as bad debt against the company account.

Processing claims

- Conspiring to overstate claims.
- Approving reimbursements for false claims.

Personnel and administration

Staff welfare benefits

- Accepting advantages from service providers or contractors in return for giving them favours when arranging welfare benefits such as insurance and/or medical benefits.
- Accepting bribes for tolerating incorrect or exaggerated statements on claim forms, or expediting claim procedures when handling certain applications.

Daily administration

- Accepting bribes from colleagues to conspire and knowingly allow submission of fraudulent claims in respect of issues such as overtime work or sick leave, then sharing the extra wages granted to the colleagues concerned.

Recruitment, promotions and postings

- Accepting bribes for favouritism in appointments, promotions and transfers.
- Accepting bribes from subordinates in return for covering up their poor performance and/or writing favourable appraisal reports for them.

Integrity management health checklist

To ensure that their companies are operating properly and that their employees are staying on the right track, SME operators should conduct regular assessments on the 'health' of their companies. They should ensure there are sufficient monitoring systems with appropriate checks and balances in place to help plug any possible corruption loopholes. Appendix 6 provides an integrity management health checklist to help SMEs detect any potential corruption and bribery risks within their companies and implement the best preventive measures to tackle them.

Chapter 7 of this Guide provides a case study to help explain management problems which can arise due to a failure to manage corruption risks. It also introduces key principles of integrity management.