

CHAPTER 6 FORMING OF THE COMPANY

6.1 Registration of Company

In order to minimise risk and cost of forming the company, we have decided to form an exempt private limited company instead of a partnership.

By definition, an exempt private company is a private company in the shares of which no beneficial interest is held directly or indirectly by an corporation and which has not more than 20 members none of whom is a corporation. By forming a company, the company is treated as a separate legal entity independent of the members hence protecting the members against possible losses of more than the nominal value of their shareholdings. For an exempt private limited company in Malaysia, the minimum paid up capital requirement is RM2.00.

The exempt private limited company however does has its advantages. For example, the company do not need to file a financial report to the registrar of company but only to declare that a audited account is filed. There is no need for issuance of prospectus for investors as the company is owned by specific partners and not the general public.

Private Company do has its disadvantages which include:

- Difficulties in obtaining loan from banker
- Cannot issue share to the general public hence is enable to pass losses to investors.
- Possible high cost of incorporation compared to a partnership.

In Malaysia, the registration of a company can be done in the Registrar of Company at the Ministry of Domestic Trade and Affairs, 13th floor, Jalan Putra, 100 Putra Place, Kuala Lumpur. The incorporation of a company begins with an application of a name search with the Registrar of

Companies (ROC). If the proposed name has not been registered and complies with the company name guidelines provided by the Gazetted Notification no. 4180 of 3 July 1986, the proposed name Borneo Café can be reserved and registered.

Upon approval of the name relevant documents can then be lodged with ROC within 3 months from the date of approval of the name by ROC. The documents are:

- Memorandum of Association
- Articles of Association
- Statutory declaration of compliance
- Statutory declaration by a director/promoter before incorporation of the company

As provided under the Company Act 1965, the Memorandum of Association states the company name and object clause which include the nature of business which in our case is a café business, authorised capital (if any) and the manner in which the shares were divided. The Article of Association on the other hand describes the house regulations governing the internal management of the company affairs and conduct of its business. For the purpose of registration, an independent Company Secretarial firm can be engage for the task with a fee. This will assist in resolving the legality of the company and allow the partners to concentrate more on the problem in hand, which is setting up and running the business successfully.

6.2 Management Team and Organisation

It is critical that the individual skill of the management personnel are tapped to the fullest to fully realise the benefits. The key management personnel in question are the partners in the company who will run the business at start up. The management personnel are:

- a. Mr. Rudy Ng
- b. Mr. C.W. Lim
- c. Mr. Y.K. Yip

All three key personnel are candidates in the MBA course in University of Malaya with specific concentration in the field of Marketing, Service Management and Finance.

All three partners exhibit a keen interest in business with MBA qualification from University Malaya. With different background the team enables construction decision making process enabling different aspects of the business be considered and not only too focused on a particular familiar area. The three partners offer different skill in management, marketing and finance.

On the weakness, all three partners have not had earlier experience in the café business. The closest experience is with Mr. Y.K. Yip who has worked with the Marriot Catering Services. Being relative new in the business, there will inevitably be a learning curve for all the partners.

Detail curriculum vitae of the key personnel are presented in the Appendix.

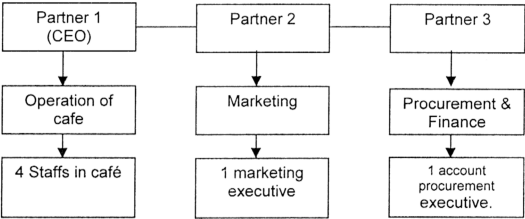
At start up point, it is important that the organisation is flexible yet effective in controlling the overall quality, productivity, quality, and performance of the cafe. For this purpose, a flat organisation structure is the most suitable.

The flat organisation will be the functional design arranged base on the functional purpose of the various departments. This organisation design is also termed as the U-form design. As noted in most organisations, cross-departmental coordination and integration is necessary to easy management control and promote effectiveness. This U-form design encourages just that by focusing on core function of the departments to

enable the respective managers to focus on their functions. By adopting the U-form, bureaucratic and complex organisation forms such as the M-form and matrix design form is totally eliminated.

As for the management team, initially when only one café is in operation all partners shall be jointly involved in the management of the café. Each partner shall be responsible in different operation of the business. Each partner will be assigned to the department most suited to them base on their qualification and experience. The possible organisation chart can be as follow:

FIGURE 6: INITIAL ORGANISATION STRUCTURE OF BORNEO CAFÉ



To maintain control in the team, the partners decided that the partner who will eventually invest the most in the business would have the most votes in the management of the company. At this stage Mr. Rudy will eventually invest up to 40 percent share of capital in the business will be appointed the working CEO overseeing the critical decision making process of the business.

The decentralised management avoids multi-level management or the traditional pyramid hierarchy system. This reduces boundaries between employee and employers and promotes the total quality management strategy that emphasises customers' satisfaction.

6.3 Job Description

The Operation Manager shall be responsible for the daily management of the business with face to face encounter with the customers. Staff will be trained to execute their respective duties including:

- i. Preparation of the various coffee and non-coffee beverages
- ii. Basic courtesy and greetings of customers with the motto "Hello Welcome to Borneo Café" with a Smile Always
- iii. Hygiene
- iv. Speed in Bussing of tables. (8 minutes time lapse from customers leaving the table to the time the table is clear for the next customer.)
- v. Handling of computerised cash machine.

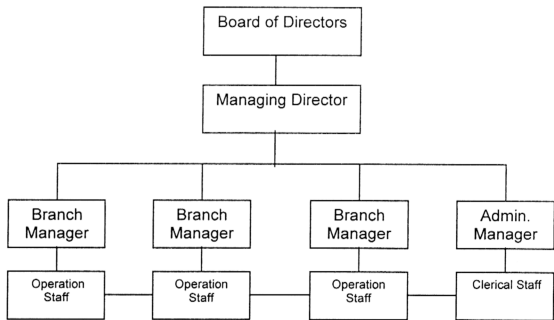
The Marketing Manager will optimise on the limited resource available at the start up point to promote the café through various means. Local newspaper, magazines, leaflets etc. can be some to the form of promoting and marketing the new business. New potential marketing location will be scrutinised and its potential realised whenever possible.

The Procurement and Finance Department Manager will concentrate on sourcing of local and foreign coffee beans to maintain a reasonable stock of for the café. Freshness of coffee beans will be the main emphasis to maintain the quality of the product. Local coffee beans for the specialty white coffee will only be stock up at a maximum of 2 weeks to maintain the texture and aroma of the end product of Borneo White Coffee. Foreign coffee beans will be stock to a longer period in vacuum packaging for freshness. At the same time, the same department will also maintain the company account to ascertain the financial position of the company. Quarterly management accounting will be maintained to allow an up to date financial review of the company. This is critical to enable the management

to act speedily on adverse factors such as declining sales and insufficient funds.

As the business expands it is expected that a few additional branches will be opened in the Klang Valley. The expansion plan will involve recruiting experienced café managers together and supporting staffs for each café. This will alleviate the partners from the daily operation of the café enabling the management to concentrate on strategic planning, positioning and marketing of the café to a greater extent. The expected organisation structure will also adopt the flat structure approach with emphasis on decentralisation and accountability of each café managers.

FIGURE 7: EXTENDED ORGANISATION STRUCTURE OF BORNEO CAFÉ SDN BHD.



a) Management Compensation and Ownership

Initially the partner will owe equal ownership of the business whereby, all will have equal say to encourage constructive discussion even disagreement for the benefit of the company.

All partners must be patient and able to accept basic subsistence salary at the beginning. This is to facilitate the full utilisation of fund to

finance the new business allowing time for the business to grow. As the business grows, all directors will be awarded with equal salary for their service with possible dividend payout once profit is generated. Upon generation of profit all partners shall be rewarded the equivalent amount of its cost of investment. As such all partners shall be rewarded equally as the percentage of investment for all three partners are deemed equal.

b) Other Investors

Where the need arises, additional financial support will be derived by means of bank loan or venture capitalist. However, in view of the difficulties involved when dealing with VC. Local bank loans shall be the option to consider. As mentioned earlier, all partners shall be using landed property as collateral to secure the bank loan.

c) Employment and Bonus Plans

Remuneration to non-professional staff must be at par with what the foreign operators are offering. Hence a minimum wage of RM5 per hour shall be adopted to attract potential employees. In order to promote continuous employment and loyalty amongst the staff, a contractual 1 month bonus will be awarded to each staff who have served a full year.

Other benefits will include 14 days annual leave, SOCSO coverage and all provision provided under the Labour Law. For our projection of cash flow an amount of RM 1,000 for each operation staff is used. However, in order to promote loyalty and self-esteem of the staff, performance bonus shall be awarded to deserving staff that proof higher quality of service to the customers.

d) Board of Directors

The board of directors shall consist of the all three partners. Future inclusion is necessary through investment by other potential members. All three directors agreed that when the business expand the recruitment exercise shall encompass the staff of existing international chain specialty coffee shops chain. By hiring the managers of the other specialty café we can possibly incorporate some of the foreign specialty café expertise into the business.

6.4 Supporting Professionals Advisors and Reference

Numerous specialty café consultants are available through the Internet offering a wide range of support services for a business like ours. Some of the consultants are:

1. Specialty Coffee Association of America or SCAA at scaa.com
2. Virtual Coffee. Com at virtualcoffee.com
3. Espresso Top 50 at expressotop50.com
4. Bellissino Coffee Info Group at expresso101.comn

Updated information on coffee and its development can be harness from the above and other web-sites to provide value for the product. Consultation assistance from these professionals can also be available for a nominal fee as the information can be downloaded from the net. Other services including proposed setting up, furniture to suit the café theme and utensils can also be purchase through the net but at higher costs.