

ANALYSIS OF THE COMPANY

Before the writer attempts to use the two models of analysis, an outlook at the company vision and strategy, its organisation and management and the investment factors and incentives are scrutinised to understand the Nestle way of quality in practice.

4.1 COMPANY VISION AND STRATEGY

Nestle is more people and product oriented than systems oriented. Systems are necessary and useful but should never be an end in themselves. One part of Nestle is just like any other company - it strives to be cost effective, efficient and productive. Another part asks the all-important question, "*Who is our customer?*" According to Ajit Saran, then managing director of Nestle Malaysia, it is the average housewife and her household occupants that form the bulk of its customers, not multimillionaires. "As a company, we strongly advocate family values, people contact, good dealings with each other, and a very supportive environment." (Corporate World, 1997a).

He had a five-fold vision for the Nestle group in Malaysia, which are as follows:

- (i) Maintaining the leadership position through a lot of new products and innovation.
- (ii) By year 2000, hope to achieve a domestic business of approximately RM2.5 billion and an export business of approximately RM350 million, roughly double of the 1996 level of RM170 million.
- (iii) Continue to be a centre of excellence in a number of areas, such as human resource development.
- (iv) The company will continue to automate its operations in manufacturing as well as in the office, sales and distribution areas.
- (v) Last but not least, in line with the present scenario, to be a company intent on using a very high level of information technology in the managing of the business at all levels (Corporate World, 1997b).

Under the Asean Industrial Joint Venture (AIJV) scheme, which has resulted in the setting up of five specialised manufacturing centres in the Association of South East Asian Nations (ASEAN), Malaysia has been designated the production centre for chocolate products and Maggi meat stock cubes; Singapore for soya sauce powder; Philippines for breakfast cereals; Thailand for non-dairy coffee creamer; and Indonesia for soya-based products. Nestle was one of the few companies that took advantage of the AIJV, a form of manifestation of the transnational strategy. In fact, it was the only food company to do so. This AIJV was a prelude of more product concentration in each country in the near future, in view of the impending impact of ASEAN Free Trade Area implementation by the year 2003 except for the automotive industry, which is extended to 2005. Under AFTA, all intra-ASEAN import tariffs are reduced to 0% - 5% (ASEAN Secretariat, 1995).

Mr. Saran reiterated that Nestle's focus would remain on food because that is its core competence. He added that one would not find Nestle going into property speculation, shipbuilding or steel making (Corporate World, 1997c).

4.2 ORGANISATION AND MANAGEMENT

Nestle Malaysia's organisational principles, similar to the Nestle practice worldwide, favour flat organisations with few levels of management and broad spans of control, including project teams and task forces. Networking and horizontal communication are encouraged without blurring the authority of the managers in the decision-making process. These principles aim to make the organisational structure and working methods more flexible and efficient, without undermining the basic necessary hierarchy.

A second principle focuses on the clear levels of responsibility in the management structure while avoiding too many hierarchical levels and limiting staff work to those tasks necessary for the support of line management.

The third revolves well-defined line and function responsibilities and their inter-linked character. Nestle gives line responsibility the edge over functions in order to ensure operational speed and responsibility.

The final principle is having at every level of the organisation a team with a leader and not a team as a leader. In other words, there must be teamwork with responsible leadership.

The organisation structure of the management categories are divided into six strategic divisions:

- i) General Management - covers general, legal and purchasing.
- ii) Finance - encompasses accounting, finance and control.
- iii) Human Resource - includes personnel, payroll and security.
- iv) Marketing - revolves sales and marketing activities.
- v) Production - comprises manufacturing and product development.
- vi) Supply Chain - consists of warehousing, transportation and distribution.

With regard to the key management staff, out of the 56 personnel, 15 including the Managing Director are expatriates as of year 2000. This represents almost 27% of the total. This is in line with Nestle's transnational strategy to bring in the expertise in areas where locals lack and also to account for the Nestle SA's 51% stake in Nestle Malaysia.

4.3 INVESTMENT - INCENTIVES AND FACTORS

Nestle Malaysia's favourable investment climate also facilitates the transnational strategy employed by Nestle in this region. Among the main factors contributing to the continued investment into Malaysia are the following:

- i) ASEAN Free Trade Area (AFTA) - Common Effective Preferential Tariff

With the establishment of AFTA, the ASEAN countries especially Malaysia, which is strategically located have become a more attractive market for foreign investment. The agreement on the Common Effective Preferential Tariff (CEPT) for AFTA liberalises trade within ASEAN through the gradual reduction of tariffs with the ultimate aim to establish a free trade area within 10 years, beginning on January 1st,

1993. By establishing multiple production facilities in Malaysia, Nestle Malaysia will be able to export freely or with minimal import duties to other ASEAN countries. This is more of a permanent follow-up to the exclusive AIJV enjoyed by Nestle in the region that would have expired by then.

ii) Direct Tax Incentives

a) Reinvestment Allowance

This allowance is granted to the company if it incurs qualifying capital expenditure for the expansion of production capacity by way of capital reinvestment in new machines and equipment to increase productivity, modernisation and upgrading of production facilities, and diversification into related products. The RA is in the form of an allowance of 60% of allowable capital expenditure that is incurred by the company for a specific activity. This translates into that if Nestle Malaysia invests RM1 million in qualifying capital expenditure, an additional RM600,000 will be eligible for deduction from the company's taxable income (MIDA, 1997).

b) Double Deductions

Nestle is also eligible for double deduction for the following:

- Premiums made to approved local marine insurers for products exported.
- Expenses incurred in seeking opportunities for export of manufactured products such as overseas advertising, supply of free samples abroad, exhibits and/or participates in international trade or industrial exhibitions, among many more.

As Nestle Malaysia exports its products to about 40 countries worldwide, double deduction incentive is an extremely advantageous factor in its continued investment in Malaysia.

c) Allowable Deduction

Further to the double deduction, normal deductions of certain percentages are allowed for expenditure incurred on:

- Training of employees.
- Factory auditing to ensure the quality of products and the environment.
- Research and development such as in-house research.
- The acquisition of computers and other information technology assets.

Such deductions have benefited Nestle Malaysia as it places great emphasis on the individual development of the staff.

iii) Indirect Tax Incentives

Other than direct tax incentives, Nestle Malaysia also enjoyed indirect tax incentives related to tariff as appended below:

a) Import Duty and Sales Tax Exemption

Products that are manufactured for export will enjoy full exemption from import duty on direct raw material used if the raw materials are not available in Malaysia. In addition, partial exemption from import duty on raw materials is granted for the manufacture of products for the domestic market if the raw materials cannot be sourced locally.

Apart from the Reinvestment Allowance, new machinery and equipment also partake in the exemption of import duty and sales tax if they are used directly in the manufacturing process and the equipment is used for maintenance and quality control.

Payment for research services, raw materials, component parts and samples used for Research & Development purposes as well as equipment, machinery and materials used for training are also exempted from import duty and sales tax. In the Nestle circle, the former is known as Technical Assistance fee.

b) Duty Drawback

Nestle Malaysia also vigorously pursues this incentive, which allows the drawback on import duty and sales tax on parts, ingredients or packaging materials. These may be claimed if excise duty or sales tax has been paid and materials are used in the manufacture of goods meant for export. The rationale here is that products for export should not be liable for domestic tax.

c) Industrial Building Allowance (IBA)

This scheme allows costs incurred in the building of warehouses for storing goods (for exports) to be claimed over a period of ten years. As a manufacturer of consumer goods that exports 15% of its total businesses, warehouses are needed for the storage of goods before being distributed to the various distribution outlets overseas. This factor hugely contributed to the opening of its National Distribution Centre on September 4, 1999. The Centre, located in the Bukit Raja Industrial Area in Klang, Selangor, has an internal built-up area of 470,000 square feet on a land of one million square feet, which makes it the largest of its kind in the country. This high technology centre will be the focal point of Nestle's entire warehousing and distribution network, serving both domestic and export markets of over 40 countries around the world (Berita Nestle, 3/99).

d) Export Credit Refinancing

With a substantial export value of about 15% of its total businesses, Nestle Malaysia also subscribes to the ECR which provides short term credit at preferential interest rates. This facility is operated by the commercial banks while the Central Bank of Malaysia will refinance those commercial banks that have extended export credit to eligible exporters. One condition is that the product exported should have a minimum domestic resource content of 30%.