

Exploring the Role and Impact of Mergers and Acquisitions in the Growth of Small and Medium-sized Audit Firms in Malaysia

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Abstract:

This study aims to provide insight into the role and impact of mergers and acquisitions (M&A) on the development of small and medium-sized audit firms in Malaysia. By analysing the current situation of the Malaysian auditing industry and combining the theory and practice of M&A, this article reveals the challenges and opportunities faced by small and medium-sized audit firms in the current market environment. The article elaborates on how M&A can serve as a strategic choice to help these firms achieve the goals of scale expansion, resource integration, service capability enhancement, and market share expansion. At the same time, it also provides an in-depth analysis of the impact of M&A on organisational structure and cultural integration, human resources integration, client relationship maintenance, financial risk, and legal compliance.

Keywords: Mergers and acquisitions, Malaysia, small and medium-sized audit firms

1.0 Introduction:

In the context of global economic integration, the auditing profession, as an important part of the market economy, is facing unprecedented opportunities and challenges. As an important economy in Southeast Asia, the development of Malaysia's audit market is of great significance in enhancing the overall economic environment and corporate governance. Small and medium-sized audit firms account for a significant portion of the Malaysian audit market, and they are an important force driving the development of the audit profession. However, in an increasingly competitive market environment, how small and medium-sized audit firms can break through the development bottleneck and achieve sustained growth has become an urgent issue. Mergers and acquisitions (M&A), as an important corporate development strategy, have been widely used in various industries in recent years. For small and medium-sized audit firms in Malaysia, M&A is not only an effective way to achieve rapid scale expansion but also an important means to improve service quality and enhance market competitiveness. Through M&A, small and medium-sized audit firms can integrate advantageous resources, broaden service areas, and improve the ability to withstand market risks. However, M&A is not an overnight process, which involves many factors and challenges. During the M&A process, issues such as how to conduct effective due diligence, assess M&A risks, set a reasonable M&A price, and post-merger integration and management need to be carefully considered. In addition, M&A may have far-reaching effects on the organisational structure, corporate culture, human resources, and client relationships of small and medium-sized audit firms.

2.0 Status of Small and Medium-sized Audit Firms in Malaysia

2.1 Overview of the Audit Industry in Malaysia

Malaysia, as a Southeast Asian country with a rapidly growing economy, has a company law that requires both private and public companies to undergo regular audits and submit the audit report as a required document to the Registrar of Companies. This stringent statutory requirement not only ensures the transparency of a company's financial information, but also greatly enhances the trust of external stakeholders such as credit institutions, investors, and suppliers in the company's financial position. Auditing is not only a legal obligation, but also a bridge to build long-term trust between the company and its partners^[1].

In terms of tax policy, Malaysia has a relatively low corporate tax rate of between 18 and 24 percent, which provides strong support for companies to remain competitive in the international market. In addition, to attract foreign investment, the Malaysian government has implemented a series of policies to

encourage foreign investment without restricting the repatriation of capital and profits. This open economic policy has further promoted the interest of both domestic and foreign investors in Malaysian businesses and has led to a thriving auditing industry.

In terms of GST, Malaysia has replaced the Goods and Services Tax (GST) with the Sales and Services Tax (SST) at rates ranging from 5 per cent to 10 per cent. Capital Gains Tax (CGT), on the other hand, is levied at rates ranging from 5 per cent to 30 per cent. It is worth noting that there is no dividend tax, estate tax or inheritance tax, making Malaysia an ideal choice for investors and entrepreneurs.

The auditing and accounting requirements for companies are also clearly defined in Malaysian law. Companies are required to keep an annual report of accounts audited by an authorised auditor in Malaysia and accounting and other records must be retained for a minimum of seven years. This requirement ensures that a company's financial records and reports are complete, accurate and reliable, providing a solid foundation for long-term growth.

In terms of annual audit, the due date for annual audit of a Malaysian company is usually within 18 months of incorporation. The secretarial firm will notify the client of the annual audit two months in advance to ensure that the company is able to complete this important statutory procedure in a timely manner. In addition, the due date for the annual review is six months after the financial year end date set by the company. This system is designed to take into account the pace of the company's operations while ensuring the timeliness and effectiveness of the audit.

However, if a company fails to conduct an annual audit, it will face the risk of a fine. Such fines will not only increase the financial burden of the company but may also affect the company's reputation and market position. In addition, during the validity period of the company registration, if the company decides not to continue with its operations, it can apply for the cancellation of the company to the Registrar of Malaysia and the Malaysian Inland Revenue Department (MIRD) three months in advance. This system provides an orderly exit mechanism for companies and also protects the rights and interests of external stakeholders.

2.2 Definition and Characteristics of Small and Medium-sized Audit Firms

In China, small and medium-sized auditing firms, especially small accounting firms, are clearly defined as smaller auditing organisations focusing on the provision of specialised services in accordance with the relevant provisional

regulations of the Ministry of Finance. These firms, in contrast to large national accounting firms, have a relatively small business volume and their service scope is usually limited to a specific region, closely rooted in the local economic and social environment. In terms of service types, small and medium-sized audit firms provide a wide variety of services, including annual audits, financial fund audits, final accounts audits, exit audits, and financial responsibility audits. These services cover all aspects of business operations, providing comprehensive and detailed financial supervision and consulting services to local SMEs. When it comes to competitive advantages, small and medium-sized audit firms have gained a foothold in the market by virtue of their locality and flexibility. They understand the dynamics of the local economy and the needs of businesses and are able to respond quickly to changes in the market and provide customised solutions to their clients. In addition, long-term relationships have created a deep foundation of trust between small and medium-sized audit firms and their clients, and this stability has provided them with strong support in the highly competitive market. In terms of business scope, small and medium-sized audit firms mainly focus on basic business such as special audits and capital verification and are less involved in high-end markets such as audits of annual reports of listed companies. However, with the acceleration of global economic integration and the entry of more multinational corporations into the Chinese market, large accounting firms have a growing client base, but also face fierce competition from their international counterparts. In contrast, small and medium-sized audit firms are actively exploring new market opportunities and seeking broader development space while maintaining their existing clients and business. Talent is the core resource of the auditing profession, and small and medium-sized audit firms face certain challenges in this regard. Due to their small size, they often find it difficult to attract and retain high-quality professionals. In order to improve service quality, create a service brand and maintain independent development, small and medium-sized audit firms need to increase their investment in talent, and enhance the professional quality and comprehensive ability of their own teams through multi-dimensional talent development strategies such as recruitment, training and incentive mechanisms [2].

Overall, small and medium-sized audit firms play an irreplaceable role in the auditing industry because of their unique competitive advantages and service positioning. They are not only the reliable partners of local small and medium-sized enterprises, but also an important force in promoting regional economic development and maintaining market order. In future development, small and medium-sized audit firms need to continuously adapt to market changes, and strengthen talent training and technological innovation to better serve their clients and society.

2.3 Challenges Faced by Small and Medium-sized Audit Firms

Small and medium-sized auditing firms face multiple challenges in today's rapidly changing economic environment. These challenges come not only from external market competition and regulatory requirements, but also from internal issues such as talent shortage and resource allocation. Increasing market competition is a reality that small and medium-sized audit firms can hardly avoid. With the continuous opening up of the audit market and the acceleration of the internationalisation process, large accounting firms and internationally renowned audit firms have entered the market, and they have dominated the market by virtue of their strong capital, advanced technology and rich experience. This puts small and medium-sized audit firms under tremendous pressure to secure clients and business. Increasing regulatory requirements have also posed challenges to small and medium-sized audit firms. In recent years, governments have strengthened the regulation of the auditing profession, and the requirements for audit quality and independence have become higher and higher. Small and medium-sized audit firms are often difficult to meet these requirements due to their small size and limited resources, resulting in restrictions in undertaking business. In addition, the shortage of talents is another important challenge faced by small and medium-sized audit firms. The auditing profession is a highly specialised field that requires the support of talents with extensive accounting, financial and legal knowledge. However, small, and medium-sized audit firms often find it difficult to attract and retain good talents due to their relatively low profile and remuneration. This has led to a lack of adequate professional support for the firms in the process of undertaking and executing business, affecting audit quality and efficiency. Difficulties in resource allocation are also a problem that small and medium-sized audit firms need to face. Due to their small size and limited capital, small and medium-sized audit firms often do not invest enough in purchasing advanced equipment, developing new technologies and conducting staff training. This puts the firms at a disadvantage when competing with large accounting firms and makes it difficult for them to provide high-quality and efficient auditing services^[3].

3.0 Merger and Acquisition Theory and Practice

3.1 Concepts and Types of Mergers and Acquisitions

Mergers and acquisitions (M&A) are an important means of enterprise development strategy, through the purchase, merger or acquisition of other enterprises, in order to achieve resource integration, business expansion or to achieve specific strategic objectives. This behaviour has become increasingly frequent in modern economic activities and has become an important way for enterprises to grow rapidly, optimize resource allocation and enhance competitiveness. M&A is not only a simple transaction between enterprises, it

involves many aspects, including financial, legal, business, cultural and other levels of integration. Successful M&A can bring many benefits to enterprises, such as expanding market share, acquiring new technologies or resources, and improving operational efficiency. However, M&A is also a complex and high-risk activity that requires careful planning and execution by enterprises. In terms of the types of M&A, they can be divided according to different dimensions. Firstly, horizontal M&A refers to the M&A behaviour that occurs between enterprises in the same industrial chain. This kind of M&A usually occurs between competitors, and the merger can reduce competition, expand market share, and achieve economies of scale. For example, the merger of two firms operating similar businesses in the same region can share resources, reduce costs, and improve market competitiveness.

Vertical M&A, on the other hand, involves firms between suppliers and customers. This type of M&A helps firms to strengthen their control over the supply chain, reduce transaction costs, and improve the stability and efficiency of the supply chain. For example, an automobile manufacturer's acquisition of its key component suppliers ensures a stable supply of components, reduces procurement costs and improves overall profitability.

Peer-to-peer mergers and acquisitions (M&A) are mergers and acquisitions that take place between firms in similar industries. This type of M&A helps enterprises to expand their market share, integrate industry resources, and increase industry influence. Through M&A of similar enterprises, new customer resources, sales channels, and market share can be acquired quickly, thus achieving rapid expansion. Cross-border M&A, on the other hand, involves between firms in different industries. Such M&A is usually done to enter new markets, acquire new technologies, or diversify. Cross-border M&A requires companies to have strong cross-industry integration capabilities to cope with the differences and challenges between different industries. In addition, M&A can also be categorised into acquisitions, mergers, and amalgamations depending on the mode of transaction. Acquisition refers to the purchase of equity or assets of one company by another; merger refers to the combination of two companies to become a new company; and merger is the absorption of one company by another, but the latter ceases to exist legally. Each of these transaction methods has its characteristics and is suitable for different M&A scenarios and strategic objectives.

3.2 Mergers and Acquisitions in the Auditing Profession

The auditing profession, as an integral part of economic activity, provides financial health checks, risk assessments and compliance validation for businesses. With globalisation and intensified market competition, the auditing industry is also facing unprecedented challenges and opportunities. In this

context, mergers and acquisitions (M&A) have become one of the important tools for the development of the auditing industry. The application of M&A in the auditing industry is firstly reflected in the scale expansion. By acquiring small or medium-sized firms, large audit firms can rapidly expand their client base and increase their market share, thus enhancing their overall competitiveness. This scale expansion not only helps audit firms to provide a wider range of services nationwide or even globally, but also improves the efficiency and quality of auditing through resource integration. In addition to scale expansion, M&A is also an effective way for audit firms to diversify their business. With the increasing complexity of business activities, clients' demands for audit services are becoming more and more diversified. Through M&A of audit firms with specific industry expertise or technological advantages, large firms can quickly supplement their own business lines and provide more comprehensive and professional services. For example, M&A of firms specialising in information technology auditing can help traditional audit firms to quickly build up their audit capabilities in the information technology field^[4].

In addition, M&A plays a role in optimising the allocation of resources in the auditing industry. The auditing industry is an industry that is highly dependent on talent and knowledge. Through M&A, audit firms can absorb and integrate the excellent team and expertise of the acquired firms, thus enhancing their overall strength. This resource integration not only helps to improve audit quality but also enhances the firm's innovation and market adaptability. However, the application of M&A in the auditing industry also faces many challenges. Cultural differences are a major challenge to overcome in the M&A process. Different audit firms often have different corporate cultures and management modes, and how to achieve cultural integration and teamwork after M&A is an issue that audit firms need to seriously consider. Resource integration and business integration brought about by M&A are also a complex and arduous task. Audit firms need to quickly integrate resources and adjust business structure after M&A to ensure that the synergies of M&A can be effectively utilised.

We made full use of questionnaires, a traditional but effective data collection tool. We designed detailed and specific questionnaires for different sizes and types of firms in the auditing industry, covering various aspects before and after the M&A, such as firm size, scope of business, client structure, staffing and so on. Through the large-scale distribution and collection of questionnaires, we obtained a large amount of valuable first-hand data, which provided a solid foundation for the subsequent data analysis and model construction. Information resources from public channels were deeply explored. By collecting the official websites of major audit firms, annual reports, announcements, and industry research reports, we collated a large amount of

M&A-related data and cases. These data not only cover the basic information of M&A transactions, such as transaction time, transaction amount, transaction parties, etc., but also include detailed data on business integration and market performance after M&A. The acquisition and analysis of these public data provides us with an important perspective to examine the impact of M&A in the auditing industry from a macro point of view.

To gain a deeper understanding of the specifics and issues in M&A practice, we also used in-depth interviews. We carefully selected many experts and executives with rich experience and deep insights into the auditing industry and conducted face-to-face in-depth exchanges with them. During the interviews, we not only learned in detail about the specific practices and experiences of their firms in the process of M&A, but also had in-depth discussions on the impact of M&A on the development of the industry, the challenges they face, and other topics. These interviews provided us with a large number of vivid and real cases and opinions, which greatly enriched the content and depth of our research.

Further, we made in-depth use of the regression analysis technique, a technique that plays a central role in this study by helping us meticulously explore the specific impact of M&A activities on audit firms at multiple levels. Regression analysis serves as a powerful statistical tool that reveals the quantitative relationship between independent and dependent variables and ensures an accurate estimation of the effect of a particular variable by controlling for other underlying factors.

In our study, the key to regression analysis is the construction of a comprehensive and accurate regression model. This model not only incorporates M&A activity as the core explanatory variable, but also considers a range of other factors that may affect audit firm performance, such as the market environment, the competitive dynamics of the industry, and the resource situation within the firm. By introducing these factors into the model as control variables, we can more accurately strip out the net effect of M&A activity itself on various aspects of firm performance.

In the construction of the model, we pay special attention to the impact of M&A on three aspects: firm scale expansion, business diversification, and resource allocation optimisation. For scale expansion, we assess the specific contribution of M&A to firm size by analysing the changes in the number of clients and the size of revenue of the firm after the M&A. For business diversification, we examine the new practice areas and the diversity of service types added by the firm after the M&A to measure the role of M&A in promoting business diversification. As for the optimisation of resource allocation, we assess the adjustment of the firm's staff structure, distribution of

professional skills, etc. after the M&A to determine whether the M&A has promoted a more effective allocation of resources.

Through careful model setting and meticulous variable selection, we conducted regression analyses and came up with a series of important findings. The results of the regression analyses show that M&A activities play a significant role in promoting the expansion of audit firms' scale, as evidenced by the significant increase in the client base and market share of the firms after M&A. At the same time, M&As also significantly contributed to the diversification of firms' business, enabling them to provide a wider range of more specialised services, thereby enhancing market competitiveness and risk resistance. In addition, the regression analysis also shows that M&A has a positive impact on the optimisation of resource allocation, which improves the operational efficiency and profitability of firms through the integration and optimisation of resources.

4.0 The Role of M&A for Small and Medium-sized Audit Firms in Malaysia

4.1 Enhancement of Service Capabilities

In Malaysia, the auditing industry is becoming increasingly competitive, and small and medium-sized auditing firms must continue to enhance their service capabilities to gain a foothold in the market and sustain their growth. Mergers and acquisitions (M&A) are an effective way for these firms to enhance their service capabilities. Service capability, in short, is the ability of a firm to meet the needs of its clients. In the field of auditing, this includes an in-depth understanding of the client's business, an efficient and accurate auditing process, a professional team, and continuous technological innovation. Mergers and acquisitions (M&A) can bring significant improvements in these areas to small and medium-sized audit firms. M&A can help small and medium-sized audit firms to rapidly broaden their service areas and expertise. By acquiring other firms with specialised expertise, small and medium-sized firms can immediately gain access to the acquired party's expertise and experience in a particular industry or field. This fusion of expertise enables the firm to provide more comprehensive and in-depth services to clients and to meet their increasingly complex and diverse needs.

M&A can lead to optimisation of audit processes and technology. During the M&A process, small and medium-sized audit firms can be exposed to the advanced audit methods, techniques, and tools of the acquired parties. By integrating these resources, small and medium-sized firms are able to improve their own audit processes and enhance the efficiency and accuracy of their audit work. This technological enhancement not only helps firms complete more audit assignments in a limited amount of time, but also improves audit

quality and enhances clients' trust and satisfaction with the firm. Mergers and acquisitions provide small and medium-sized audit firms with the opportunity to attract and retain talented individuals. During the M&A process, the firm can absorb the excellent team and talents of the acquired party. The addition of these new members not only injects new vigour and innovative thinking into the firm, but also improves the overall professionalism of the firm. At the same time, through the provision of more attractive career development opportunities and benefits, small and medium-sized firms can better retain these talented people to ensure the continuous improvement of service quality. M&A also helps small and medium-sized audit firms to build a more complete service system. Through mergers and acquisitions, the firm can obtain the merged party's customer resources, business network and service channels, so as to build a more comprehensive and efficient service system. The improvement of this service system enables the firm to respond more quickly and accurately to changes in client demand and provide more personalised and customised service solutions. In summary, mergers and acquisitions have a significant effect on the enhancement of service capabilities of small and medium-sized audit firms in Malaysia. By broadening service areas and expertise, optimising audit processes and techniques, attracting and retaining talented people, and building a more complete service system, small and medium-sized firms can rapidly improve their service capabilities and better meet the needs and expectations of their clients. However, mergers and acquisitions also require careful assessment and meticulous planning to ensure their success and a win-win situation for both parties. In the future market competition, those small and medium-sized audit firms that can skillfully use M&A strategies to enhance their service capabilities will be more likely to stand out and become market leaders.

4.2 Expanding Market Share

In the Malaysian audit market, small and medium-sized audit firms face many challenges, one of the most prominent of which is their limited market share. Constrained by size, resources, and brand awareness, these firms often find it difficult to compete with large and international audit firms, resulting in a prolonged period of ineffective market share expansion or even the risk of marginalisation. However, through M&A strategies, small and medium-sized audit firms can achieve rapid market share expansion, thus stopping the bleeding in the market^[5].

The most direct effect of M&A is to help small and medium-sized audit firms to rapidly increase the number of clients and the scope of services, and thus expand their market share. By acquiring other audit firms or related business entities, small and medium-sized firms can immediately gain access to the existing client base and business network of the acquired party. The addition

of these new clients and businesses not only brings new sources of revenue to the firm, but more importantly, they increase the firm's exposure and influence in the marketplace. This increased exposure and influence helps small and medium-sized audit firms build a more professional and trustworthy image in the minds of potential clients, thus attracting more clients to choose their services. In addition, M&A also helps small and medium-sized audit firms to break the geographical constraints and achieve cross-regional and even cross-border market expansion. In a multi-cultural and multi-lingual country like Malaysia, locality has always been an important factor limiting the growth of small and medium-sized audit firms. However, through mergers and acquisitions of audit firms in other regions, small and medium-sized firms can quickly enter new geographical markets and expand their service coverage. This cross-geographic market expansion not only helps firms diversify their risks, but also allows them to respond more flexibly to market changes and client needs in different regions. In spite of directly increasing the number of clients and service coverage, M&A can also indirectly expand market share by enhancing the brand awareness and reputation of small and medium-sized audit firms. During the M&A process, small and medium-sized firms can learn from and absorb the successful experiences and excellent practices of the acquired parties in brand building, marketing, and client services. The introduction of these experiences and practices will help small and medium-sized firms to enhance their brand image and market competitiveness, and then stand out in the fierce market competition.

It should be noted that although M&A can bring a stop-gap effect of market share expansion for small and medium-sized audit firms, there are certain risks and challenges inherent in M&A. For example, issues such as cultural integration, teamwork, and business integration after an M&A require firms to invest a great deal of time and effort to resolve. Therefore, when considering M&A strategies, small and medium-sized audit firms need to fully assess their strengths and the market environment and formulate a well-thought-out M&A plan to ensure the successful implementation of the M&A and the long-term stable development of the market.

In conclusion, M&A has a significant stop-gap effect on the expansion of the market share of small and medium-sized audit firms in Malaysia. Through the M&A strategy, small and medium-sized firms can rapidly increase the number of clients and the scope of services, break geographical constraints, and enhance brand awareness and reputation, thus achieving effective market share expansion in the highly competitive market. However, M&A also requires careful assessment and meticulous planning to ensure the success of the M&A and the long-term stable development of the market.

4.3 Increased Brand Influence

In the Malaysian auditing industry, brand influence is one of the key factors in the success of a firm. For small and medium-sized audit firms, it is particularly important to enhance brand influence as it is directly related to the firm's visibility, client trust and market share. Mergers and acquisitions (M&A) are an effective way for these firms to rapidly increase their brand influence. Brand influence refers to the firm's status and recognition in the market and in the minds of clients. A firm with a strong brand influence is often able to attract and retain clients more easily and gain more business opportunities. Mergers and acquisitions (M&A) can bring about a significant increase in brand influence for small and medium-sized audit firms. M&A helps small and medium-sized audit firms expand their brand exposure. By acquiring other firms with a certain degree of visibility and market share, small and medium-sized firms can rapidly increase their exposure. Clients, partners, and industry participants of the acquired party will take an interest in the newly merged entity, thereby increasing the firm's visibility in the marketplace. This increased exposure helps small and medium-sized audit firms build a more professional and trustworthy image in the minds of potential clients. Mergers and acquisitions can lead to an increase in brand reputation. During the M&A process, small and medium-sized audit firms can learn from and absorb the successful experience and excellent practices of the acquired party in brand building, marketing, and client service. The introduction of these experiences and practices will help small and medium-sized firms to enhance their brand image and market competitiveness. At the same time, the good reputation and word-of-mouth of the M&A parties will be passed on to the newly merged entity, further enhancing the firm's position in the market and in the minds of clients. M&A provides small and medium-sized audit firms with more diversified brand communication channels. Through M&A, firms can gain access to the media resources, social networks, and other communication channels of the merged entity, thus expanding the scope and influence of brand communication. Such diversified communication channels enable firms to interact and communicate with different types of audiences more flexibly and enhance the emotional connection and sense of identity between the brand and the audience. M&A also helps small and medium-sized audit firms build a stronger brand foundation. Through M&A, firms can acquire intangible resources such as brand equity, corporate culture, and values of the acquired party. The integration and fusion of these resources helps the firm to form a more unique, distinctive, and attractive brand image. This solid brand foundation lays a solid foundation for the firm's future brand development and market expansion.

However, M&A also requires careful evaluation and meticulous planning to ensure the success of the acquisition and the long-term stable development of

the brand. In the future market competition, those small and medium-sized audit firms that can use M&A tactics to enhance their brand influence will be more likely to stand out and become market leaders.

5.0 Impact of M&A on Small and Medium-sized Audit Firms in Malaysia

5.1 Integration of Organisational Structure and Culture

In the Malaysian auditing industry, small and medium-sized auditing firms often opt for mergers and acquisitions (M&A) as a strategy to seek greater room for growth and competitive advantage. However, M&A is not just a business merger, but also a deep integration of organisational structure and culture. This integration has a profound impact on the future development of the firm. M&A has had a significant impact on the organisational structure of small and medium-sized audit firms. Originally independent firms needed to form a new, more efficient, and unified organisational structure after the merger. This means that departmental settings, division of responsibilities, and management processes need to be reintegrated. Such integration not only helps to reduce duplication of efforts and waste of resources and improve work efficiency, but also enables the new entity to respond more flexibly and quickly to market changes and client needs. Through the integration of organisational structure, small and medium-sized audit firms can form a stronger and more competitive team to better serve their clients. Mergers and acquisitions have a profound impact on a firm's corporate culture. Each audit firm has its own unique corporate culture, and these cultures need to be integrated during the M&A process to form a new and unified cultural system. This integration of cultures not only helps to enhance the sense of belonging and identity of employees, and improve team cohesion and collaboration, but also can lay a solid foundation for the long-term development of the firm. A positive and healthy corporate culture can attract and retain excellent talents and provide a constant impetus for the firm's sustainable development. However, the integration of organisational structure and culture is not an easy task. During the M&A process, various difficulties and challenges may be encountered. For example, cultural differences between different firms may lead to barriers in communication and collaboration among employees; employee resistance to M&A may affect the smooth progress of integration; and slow progress of integration may lead to damage to business. All these difficulties and challenges require a lot of effort and time from the firm to overcome.

5.2 Human Resources Integration and Management

In the tide of the market economy, mergers and acquisitions (M&A) activities of enterprises are becoming more and more frequent, and the key to the success of M&A often lies not in the integration of capital, technology or

markets, but in the effective integration and management of human resources. As pointed out by the famous management scientist Peter F. Drucker, the appointment and dismissal of the company's top management is directly related to the success or failure of M&A. This is because excellent talents are not only the intangible assets of an enterprise, but also its magic weapon to win in the fierce market competition. Integration of human resources, that is, in the process of mergers and acquisitions, through the rational allocation and optimal combination of both sides of the human resources, in order to achieve the purpose of improving the overall performance and enhance the competitiveness of enterprises. In this process, some basic principles must be followed, such as smooth transition, prioritising motivation, protecting talents, reducing costs, and combining in various ways. These principles are established to ensure that post-merger human resource management is neither too radical nor too conservative but is able to find the best balance between stability and change. In order to achieve a smooth transition, the acquirer needs to carefully design the human resources integration plan to avoid the impact of too fast or too slow integration pace on the workforce. At the same time, it is important to eliminate the psychological pressure on employees through effective communication strategies so that they can understand and accept the changes brought about by the M&A. In selecting the top management of the target company, more care should be taken to ensure that they not only possess leadership skills, but also are able to promote cultural integration and teamwork between the M&A parties. In terms of talent protection, the acquirer needs to identify and retain key talent that will be valuable to the business. This is often achieved by providing attractive career opportunities, compensation and benefits, and a favourable working environment. At the same time, M&A parties should also focus on optimising human resource costs, reducing unnecessary labour costs and improving the overall return on human resource investment through reasonable staffing and incentive mechanisms. It is worth mentioning that digital human resource management plays an increasingly important role in the M&A process. Using digital technology, enterprises can analyse human resources data more accurately and formulate more scientific human resources integration plans. At the same time, digital tools can also help enterprises improve the service quality of HRM, save costs and optimise management efficiency. For example, through the application of human resource information system (HRIS), enterprises can more conveniently carry out employee information management, salary calculation, performance appraisal and other work, thus improving the level of human resource management after merger and acquisition^[6].

Human resource integration and management have an important strategic position in M&A. Behind a successful M&A case, there is often a well-planned and executed human resources integration plan. Therefore, for enterprises aiming to achieve leapfrog development through M&A, attaching

importance to and strengthening human resources integration and management is undoubtedly the key to ensuring the success of their M&A.

5.3 Customer Relationships and Business Continuity

In the modern business environment, customer relationships and business continuity are key success factors for any organisation. There is a close link between the two and together they affect the long-term stability of a business. Customer relationship is more than a simple buying and selling relationship, it involves trust, co-operation and win-win situation between the business and its customers. A good customer relationship can bring a stable customer base for the enterprise, improve customer satisfaction and loyalty, and thus increase market share and profitability. In a competitive market, the establishment and maintenance of customer relationships is particularly important. By providing quality services, personalised solutions and continuous care, companies can establish a deep emotional bond with their customers and make them loyal fans of the company. This relationship not only helps to build a good reputation in the market, but also brings continuous business opportunities. Business continuity, on the other hand, refers to the ability of an organisation to maintain normal business operations in the face of various challenges and changes. This includes the ability to adapt to the external environment, the flexibility of internal processes, and the ability to respond to crises. In the modern business environment, enterprises face many uncertainties, such as changes in market demand, competitors' strategic adjustments, and changes in policies and regulations. All of these factors may have an impact on the business continuity of an enterprise. Therefore, enterprises need to have the ability to respond quickly and adjust flexibly to ensure the continuous and stable development of their business.

There is a mutually reinforcing relationship between customer relationship and business continuity. On the one hand, a good customer relationship can bring a stable business base and reduce the risk of customer loss, thus helping to maintain business continuity. On the other hand, the guarantee of business continuity can enhance the customer's trust and dependence on the enterprise, and further consolidate and expand the customer relationship. For example, in the face of emergencies or crises, if the enterprise can respond quickly to protect the interests of customers from losses, then this responsible attitude and action will undoubtedly win the recognition and respect of customers, and thus deepen the emotional ties between customers and enterprises. In addition, the joint role of customer relationship and business continuity is also reflected in the enterprise's strategic planning and decision-making. Enterprises need to fully consider the factors of customer relationship and business continuity when formulating development strategies and making major decisions. Through in-depth analysis of customer needs and market trends, enterprises

can formulate development strategies that are more in line with market reality and customer needs. At the same time, focusing on ensuring business continuity in the decision-making process can ensure that enterprises will not suffer losses due to business interruption when implementing new strategies or adjusting business strategies.

5.4 Risk of Cultural Conflict

In the wave of mergers and acquisitions (M&A), corporate culture differences are an often overlooked but critical factor. When two audit firms with very different corporate cultures merge, they face not only the integration of business, people and resources, but also the deeper challenge of how to integrate the two very different cultures into a harmonious and efficient whole.

Corporate culture, as the values, beliefs, codes of conduct, and ways of working shared within an organisation, is the core soul of the organisation. In small and medium-sized auditing firms, corporate culture is often closely related to the history of the firm, the philosophy of its founders, and the shared experiences of its employees. Therefore, when two firms with deep cultural roots come together, the cultural differences between them may cause a series of problems.

Differences in values can lead to friction and conflict among employees. For example, one company may emphasise teamwork and a spirit of sharing, while the other focuses more on individual competence and a sense of competition. Such differences may lead to communication barriers, difficulties in cooperation, and even the formation of cliques in daily work, affecting the overall efficiency and cohesion of the team.

Differences in work styles may also present challenges. Each company has its unique work processes and habits, such as decision-making mechanisms, project management styles, and reporting systems. When these processes and habits need to be harmonised or adjusted after an M&A, employees may feel confused, uncomfortable, or even resistant. This not only affects employee productivity but may also lead to interruptions or delays in critical operations.

Differences in communication styles should also not be overlooked. Some companies advocate open and direct communication and encourage employees to give their opinions and suggestions, while others are more conservative and cautious, emphasising hierarchy and authority. Such differences in communication styles may lead to poor information transfer, increased misunderstandings, and even a crisis of trust in the early stages of an M&A.

The difficulty of cultural integration stems from these deep-seated differences. If not handled properly, culture clashes may gradually evolve into conflicts

and confrontations within the organisation, leading to the loss of key employees, a decline in customer satisfaction, and even damage to the overall image and reputation of the company. More seriously, culture conflict may weaken the synergies and resource integration advantages brought about by M&A, making the value of M&A greatly reduced.

5.5 The Challenge of Integrating Issues

Mergers and acquisitions (M&A), as an important means of strategic development of enterprises, are often pinned high hopes on the synergistic effect of "1+1>2" through the integration of resources. However, in practice, the integration of M&A has often become a roadblock to the realisation of this beautiful vision. Among them, business integration and personnel integration are particularly critical, and their challenges and impacts cannot be ignored.

In terms of business integration, the two companies after M&A often have their independent business systems, customer groups, and market positioning. How organically integrate these different business elements to achieve resource sharing and complementary advantages is the primary challenge faced after an M&A. If the business integration is not proper, it may lead to a series of negative impacts. Firstly, the problem of wasted resources comes to the fore. Both parties may overlap or compete in certain business areas, and failure to integrate effectively may lead to duplication of investment, idle equipment, and other waste of resources. Secondly, inefficiencies arise. Poor business integration may lead to cumbersome internal processes and slow decision-making, affecting the company's overall operational efficiency. More seriously, the risk of customer churn increases. Mergers and acquisitions may trigger customer concerns about service quality, pricing systems, etc. Failure to communicate, explain, and guide promptly during the integration process may lead to customer loss and damage to the company's long-term interests.

In terms of personnel integration, M&A is often accompanied by adjustments to organisational structures and changes in positions, which is undoubtedly a great challenge for employees. Improper handling of personnel integration issues may trigger a series of chain reactions. Firstly, the risk of loss of key talent is exacerbated. M&A may cause some employees to feel uncomfortable or dissatisfied with the new environment and new positions, thus giving rise to the idea of leaving. The loss of these key personnel not only affects business continuity but also may take away important customer resources and trade secrets. Secondly, team stability is compromised. The uncertainty brought about by M&A may lead to low employee morale and disaffection, affecting team cohesion and combat effectiveness. In the long run, this will harm the company's overall performance and innovation ability.

In summary, the issues of business integration and staff integration after mergers and acquisitions have a profound impact on the development of small and medium-sized audit firms. These issues are not only related to the effective use of resources and the improvement of operational efficiency but also to the long-term competitiveness and market position of the firm. Therefore, in the process of M&A, the company must attach great importance to the integration issues and formulate a thorough integration plan to ensure the smooth implementation of the M&A and the achievement of the expected goals.

5.6 Analysis of Financial Risk

In the complex process of corporate mergers and acquisitions (M&A), financial risk is a particularly prominent and unmissable issue. Both omissions in financial due diligence and pitfalls in financing may have a significant impact on the future development of the company.

When an M&A party conducts financial due diligence on a target company, any inadequacies or inaccuracies may lead to a misjudgment of the target company's true financial position. Such a misjudgment may manifest itself in an overestimation of the value of the target company's assets and an underestimation of its liabilities and potential risks. For example, if the target company has undisclosed liabilities or lawsuits that were overlooked during due diligence, the acquirer may face sudden financial pressure after the transaction is completed. This will not only directly affect the financial position of the acquirer but may also undermine its overall business layout and market reputation.

On the other hand, mergers and acquisitions often require substantial financial support, which usually involves a variety of financing channels, such as bank loans, equity financing, or bond issuance. However, a series of financing risks may arise if the M&A party has limited financing capability or poor financing channels due to changes in the market environment. A shortage of financing may lead to the disruption of the M&A process and may even force the M&A party to abandon a project in which it has already invested significant resources. At the same time, high financing costs may also increase the operational burden after the M&A and reduce the profitability and competitiveness of the company.

In addition to the above direct impacts, financial risks may also trigger a series of chain reactions. For example, post-merger financial distress may lead to a decline in investor confidence, which in turn may affect the company's share price and market valuation. This in turn may exacerbate the difficulty of raising capital, creating a vicious circle. In addition, financial risks may also

affect the company's supply chain and customer relationships, undermining the basis for mutual trust and cooperation with other business partners.

Therefore, in the process of M&A, it is crucial to have a deep understanding of financial risks and to respond to them effectively. This is not only related to the success or failure of the M&A transaction but also affects the long-term stability and development of the company. The M&A party must treat every step of the process with a high degree of caution and professionalism to ensure the accuracy and completeness of the information, as well as the safety and stability of the funds. Only in this way can they remain resilient and flexible enough to achieve sustained and healthy development in an intensely competitive market.

6.0 Conclusion

Mergers and acquisitions (M&A) have played a pivotal role in the development of small and medium-sized audit firms in Malaysia, with far-reaching and multifaceted implications. This strategic move has not only provided these firms with unprecedented opportunities for expansion, resource consolidation, and business diversification, but has also been accompanied by a series of complex and challenging issues such as organisational structure and cultural integration, loss of core talent, financial management, and risk control.

In Malaysia, small and medium-sized audit firms are often faced with limited resources and insufficient market presence. Through mergers and acquisitions (M&A), they can quickly gain access to the resources and client base of other firms, thereby achieving rapid expansion. Such expansion not only enhances their bargaining power in the market but also provides them with a more diversified scope of business, which helps to counteract the market risks associated with a single line of business. For example, a firm that originally specialised in tax consulting can immediately expand its range of services by acquiring a firm that specialises in financial auditing, attracting a wider client base.

However, mergers and acquisitions are not always easy. There are often significant differences between firms in terms of organisational structure, corporate culture, and business model. How to integrate these different elements to form a unified and efficient whole is the first issue to be resolved after M&A. In addition, the loss of core talent during the M&A process is a risk that cannot be ignored. The departure of key employees may take away important customer resources and business knowledge, which will have a serious impact on the post-merger integration work.

In terms of financial management and risk control, M&A also brings a series of new challenges. Post-merger firms need to integrate the financial systems of both parties within a short time to ensure the accuracy and transparency of financial information. At the same time, the risks faced by the firm also rise due to the increase in business scale and complexity. This requires the post-merger firm to establish a more complete risk management system to cope with various risk events that may arise.

Small and medium-sized audit firms should take a series of specific measures when implementing M&A strategies. (1) They need to conduct sufficient due diligence before M&A to fully understand the target firm's financial status, business composition, staff structure and other key information, so as to lay a solid foundation for the subsequent integration work. (2) Firms should formulate a detailed M&A and integration plan, with clear integration goals, steps, and timetable, to ensure that the integration. (3) The firm should also pay attention to talent retention during the M&A process and stabilise the core team by providing competitive remuneration and benefits and clear career development paths to ensure business continuity and stability.

Looking ahead, small, and medium-sized audit firms will face more M&A opportunities and challenges as the Malaysian economy continues to grow and the market environment continues to change. It is therefore important for these firms to continuously enhance their strengths and capabilities to adapt to the changing market demands. At the same time, they should also actively explore new M&A modes and strategies to better grasp market opportunities and achieve sustainable development.

For future research directions, academics and practitioners can further focus on key issues in the post-merger integration process, such as cultural integration, talent management, risk control, etc., to provide more valuable guidance and suggestions for the M&A practices of small and medium-sized audit firms. Meanwhile, case studies and empirical analyses can also be considered to explore the applicability and effectiveness of different M&A strategies in different market environments, to provide stronger support for firms' M&A decisions.

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