

Ethics and Sustainability During Challenging Times

Maisarah Mohamed Saat*, Noriza Mohd. Jamal and Sariati Azman

Abstract--- *A prominent economist has cautioned that SMEs in Malaysia should be ready and brace themselves for tough economic times ahead. Weak Ringgit, labour shortage and rise in prices of product and services are conditions that SMEs are now trying to deal with. Thus this research firstly attempts seek opinion of SMEs owners on the effect of current economy on their businesses. Secondly, it tries to investigate the importance and effect of business ethics on SMEs business and lastly to identify factors and challenges of SMEs to sustain during economic challenging times. A total of 45 small business owners were interviewed in an urban area of Johor Bahru. It is found that the current tough times of the economy have generally affected the small businesses. Some really struggled in their endeavour to sustain their business. Although misconducts were being admitted by the owners in cutting corners, the majority of them are concerned with customers' trust and loyalty; thus perceived that business ethics should not be compromised. They also agreed that strengthening business relations particularly with customers and suppliers are vital to ensure business sustainability. It is also recommended that small business should leverage on technology and must seriously move into automation in order to face current and future challenges.*

Keywords--- *Ethics, Business Sustainability, SMEs.*

I. INTRODUCTION

Small and Medium Enterprises (SMEs) have played a significant role in developing Malaysian economy. Based on SME Corp Malaysia Annual Report 2017, it was stated that SME are known to have the largest proportion of business in Malaysia; the proportion consist 76.5% of microenterprises, 21.2% of small enterprises and 2.3% of medium enterprises. Thus, in year 2017, Malaysia government has spent RM 5.65 billion on 148 programmes to ensure SMEs development, providing financial assistance, facilities and advise to ensure their sustainability. While there were a lot of allocations and programmes to boost SME growth last year, there were also a lot of hiccups that impeded their growth such as labour shortage and weak market conditions(Lee, 2018)). Therefore, despite the assistance, SMEs face various challenges especially during challenging economic times in Malaysia(New Straits Times, 17 June 2019).A prominent economist has cautioned that SMEs in Malaysia should be ready and brace themselves for tough economic times ahead. "...the external situation is very bad and is deteriorating almost on a daily basis" says the economist.

Weak Ringgit, labour shortage and rise in prices of product and services are conditions that SMEs are now trying to deal with. Weak Ringgit had caused a rise in prices of some good and services(The Star Online, 14 September 2015).

Maisarah Mohamed Saat, Department of Accounting and Finance, Azman Hashim International Business School, Universiti Teknologi Malaysia. E-mail: maisarahsaat@utm.my*

*Noriza Mohd. Jamal, Department of Accounting and Finance, Azman Hashim International Business School, Universiti Teknologi Malaysia.
Sariati Azman, Department of Accounting and Finance, Azman Hashim International Business School, Universiti Teknologi Malaysia.*

Some businesses even have to battle with cash flow problems especially for those who get the bulk of their materials from overseas. Conditions get worsen as they do not actually have access to banking facilities such as loans and guarantees to meet their financing needs, so they depend on credit terms from their overseas suppliers.

A decrease in local purchasing power is seen in the domestic market run by the SMEs (Lee, 2018) and sales are said to drop due to the aforementioned factors. This is because the economy has not only hit the business but everyone else especially the consumers. Thus customers are more frugal and caution in their spending which lead to a declining demand from the consumer and slower economy (The Star Online, 11 March 2019). A recent survey on business condition was carried out by the Federation of Malaysian Manufacturers (FMM) in collaboration with the Malaysian Institute of Economic Research (MIER). Their survey indicated a slower business activity expected in the first half of 2019. The survey was carried out from December to January 2019 among 517 respondents across 16 sectors including food, beverages and tobacco, plastic and plastic products, machinery and equipment, as well as wood, paper, furniture and printing (The Star Online, 11 March 2019).

Within these economic challenging times, there are often questions on how small business deal with business ethics. Ethics is very much related with economics; it is nature that both consumers and businesses have their own self-interest. The most important ethical elements are trust and loyalty. It is fundamental that SMEs maintain their relationships with their business counterparts especially customers and suppliers (Handriana, 2016) in order to gain trust and loyalty. This is realised through quality goods and services that meet customers' satisfaction and expectations. However, while trying to satisfy customers' need, SMEs may need to face challenges in terms of balancing between price and quality. These issues are important in order to ensure business sustainability.

Based on the discussion, it is imperative to investigate the scenario and three research objectives are developed. Thus this paper reports on the findings from these three research objectives. Firstly it attempts seek opinion of SMEs owners on the effect of current economy on their businesses. Secondly, the research tries to investigate the importance and effect of business ethics on SMEs business and lastly to identify factors and challenges of SMEs to sustain during economic challenging times.

It is hoped that the findings could give a clear picture on the extent of impact of economic challenging times towards SMEs especially small businesses. From there, initiatives could be taken to improve the situation or help the impacted parties. The paper is organised in five sections. The following section will briefly describe the scenario in SMEs and subsequently the third section explains how the research was being conducted. Findings are reported in the fourth section and lastly the paper concludes and attempts to make discussions on the issue.

II. LITERATURE REVIEW

The contribution of SMEs to the country growth and economy development is a crucial feature of economic development in Malaysia (Madanchian & Taherdoost, 2019). Being the major contributor in the Malaysian economy, research on SMEs are always relevant and should be emphasized. Among studies in SMEs investigate whether government intervention affect the sustainable competitive advantage of SMEs in Malaysia; their sustainability towards competitive advantage was questionable whether it is due to the intervention of the government or their own

effort (Md Yatim, N. H., Che Rusuli, M. S., & Md Yatim, 2019). The results show that most SMEs agreed that government intervention is important towards the sustainable competitive advantage and success of SMEs.

SMEs owners however had been struggling due to economic downturn, and the struggle is more significant among SMEs in the urban area compared to rural ones(Steiner, A. and Atterton, 2014).Steiner, et.al(2014)claimed that SMEs in rural area not only resilient, they are also had higher turnover in contrast with SMEs in urban area. Similar case can be highlighted in Malaysia as the costs of living are higher in urban areas.

Other research looked at the leadership factor in SMEs(Madanchian & Taherdoost, 2019). It emphasised on having good leadership in a business in order to encourage employees to effectively contribute to the business and ensure employees welfare. Among traits expected from a leader are positive attitudes, provide good support, motivate and facilitate. These are ethical traits of business owners in order to ensure employees provide quality services to the customers when they themselves feel satisfied and happy working. This behaviour will lead to business sustainability. Social media has been integral in business-related processes, especially in SMEs, which allows businesses to interact and build a relationship with customers to improve their sustainable service quality(Hassan, et.al, 2019).As sustaining customers is an important strategy during economic challenging times, a study by (Hassan, et.al (2019)investigated the role of social customer relation management in SMEs. Strong customer relationships would promote higher sales, sustainability andgrowth in unpredictable economy situation in the marketplace. In addition, the digital technology assists in various ways especially in easing customers' experience. In business, technology has made efforts to track, analyze and use information pertaining to the customers simpler, easier and faster. Thus, the study concluded that business relations especially customer's information management is crucial (Hassan, et.al, 2019). Thus it is evident that strategy in using technology is very much relevant in Malaysian SMEs.

III.METHODOLOGY

This study has used structured interviews in collecting data. Questions were asked to achieve the research objectives which are to study the opinion of small business owners in retail on the effect of current economy on their businesses, the importance and effect of business ethics and challenges that they need to face in order to sustain during economic challenging times. A total of 45 respondents consisting of small business owners at blocks of shops in Skudai, shops at malls in Tampoi and the shops scattered in some areas in Johor Bahru were conveniently approached to be interviewed. During these interviews, researchers had used recorder as well as note-taking in order to record the data. The following Table 1 mapped the questions and the research objectives:

Table 1: Interview questions vs Research objectives

Research objectives	Interview questions
1. To seek opinion of SMEs owners on the effect of current economy on their businesses	1. How the current economy looks like to your business? 2. How does the current economy affect your business? In what aspects? Any threat to your business?
2. To investigate the importance and effect of business ethics on SMEs business	To what extent ethics is important in running your business? Is ethics affected during this economic condition? Example?
3. To identify factors and challenges of SMEs to sustain during economic challenging times.	What actions do you take in order for your business to sustain? What factors would determine your business sustainability? Describe the challenges your business face currently in order to sustain.

IV. FINDINGS

4.1 Effect of current economy on their businesses

In answering the research question, respondents were asked about their perspectives on how the current economy looks like and in what aspects it effects their businesses. Almost all respondents agreed that the economy is not as good as before and for some, it is challenging to achieve favourable profit and to sustain. The majority of the respondents agreed that their business were badly affected by the current economy. Majority of respondents (72%) agreed that there are decline in sales as well as demand of goods and services in the current economic situation. According to the respondents, this is due to the weak Ringgit which leads to the increasing costs in the supplies. “When Ringgit value falls, this cause the price of goods to keep on increasing...it really affects us.”; this is among response from most respondents. “The margin is getting smaller, but we cannot simply put the burden on the consumers; it will hit us back in some way as the customers may turn to other alternatives or other shops.”, responded a small convenience store owner.

Small businesses in Johor Bahru in addition feel intense competition as more business is mushrooming nowadays. “I think as the economy hits everyone, some try to do business in order to survive, and competition is high”, a restaurant owner complained. Another reason of the effects would be due to saving regime by the consumers. As the economy hits them, respondents feel that customers are now very frugal in spending and this in return affect their businesses. Nevertheless, some respondents agreed that they still have loyal customers who keep buying from them due to long relationship although prices of goods may be slightly higher.

A respondent lamented “I had to pay RM100,000 to buy a machine from overseas, instead of around RM80,000, due to the currency exchange. This is a great deal for me but I had to purchase it anyway or lese I am out of business. I really hope that things will get better soon and I need to find a way to put up with the increasing costs”. Another respondent, an owner who runs photo studio said that he had to depend on seasonal customers especially during convocation in order to sustain. “I now run this business with the help of my children and cannot hire assistants due to the current economic situation”. Another respondent in a bakery business agreed that she had to terminate some employment due to the economic situation. A business owner of a spectacles outlet faced a significant impact from the economic recession and had to close one outlet recently.

On the other hand, a small number of respondents are in view that whether the economy is affecting their business or not depends on the type of business situation. One of them runs a budget travelling business. Thus, he said that he is doing good as more people will turn to budget travelling nowadays. The other respondents highlighted that some businesses are still doing well as Singaporeans still buy from them; in fact the Singaporeans are having the advantage with the weak Ringgit now. Other than that, one of respondents who open a saloon business claimed that she does not have problem in operating as her salon has loyal customers and good reputation; her customers will keep on coming despite the challenging economic situation.

Half of the respondents are optimist about the economy, hoping that it will bounce back as the Ringgit may be stronger in the future.

4.2 Effect of business ethics

Respondents were also asked on the importance and effect of business ethics on SMEs business during challenging times. The majority of respondents agree that business ethics is important no matter what happens. “I believe that you have to be honest to your customers and thus you get their trust and loyalty”. However, a couple of restaurant owners admitted that due to the increasing costs, they need to save in many aspects as they can. “We have to cut corners, so we buy cheap cooking oil like subsidised ones”. When asked whether they have to reuse the cooking oil more frequent than usual, they responded, “...yes, I think a lot of food business are doing that as well..”. They also agreed that they have to cut the portion of food in order to maintain the prices of their menu. For some business owners, they have no choice but to increase some price tags.

Another respondent disclosed that he ‘play around’ with his tax payment due to the current economic hit in his business. Another employee who represented his owner in the interview agreed that in some way, business ethics is neglected as an unethical action seems to be acceptable of a ‘culture’ in the business. He said that he has to ‘bribe’ an enforcement officer in order to continue doing business in where he is now. It is also found that a foreigner runs his business under a license of a local citizen.

Many respondents opined that during challenging times business may cut corners and had to compromise their ethics in order to survive. However, he is also in view that compromising ethics will actually put the business at risk as customers’ trust and loyalty are fundamental in business.

4.3 Sustainability during challenging times

In order to sustain, business owners collectively agreed that strengthening business relationship is vital. Few respondents asserted that, “It is important to have a good term with your suppliers as sometimes payments are delayed and you need their trust in the payback”. Similar responses on the issue include, “Relationship with suppliers as well as customers is the pillar in doing business”. In other words, relationship with the customers and suppliers is one of the factors in order to sustain business. Some of them have also started loyalty cards to attract and maintain customers. A carwash service owner agreed that he has started using loyalty cards in order to pull customers and make them stay with him.

Other than loyalty cards, in order to retain customers businesses have to use various channels to market and promote their business; this include using the social media. Many respondents agreed that they are now using intensive medium of social media in promoting and marketing their business. “This is a smart way of saving costs, but we must also invest on learning the social media marketing”. As for restaurant owners, they opt for smaller portion of food while maintaining the price. “Like I said just now, it is important to have loyal customers, thus I don’t simply increase the price. So far my customers are happy as they don’t have to stretch their budget”.

A couple of respondents emphasise on quality of services and goods. He claimed that in order to sustain, what differentiate a business with others are the quality. Customers will be loyal if business can sustain the quality.

On the other hand, in order to sustain, some small business owners and their workers have to do multiple tasks as they had to retrench a number of workers or employees. However, they do provide training to the workers who are taking new roles. “We have to maintain only good employees, so we make sure that they are taken care of in terms of welfare, training and wages”.

In addition they are also aware that going into automation is important. “Particularly in terms of labour, we should go for automation. But those that are doing domestic business, have very low volume, so it is very hard for them to grow and go into automation because they don’t have the resources. But those that are exporting should get moving into automation and some are already digitising their businesses,” claimed a respondent.

V. DISCUSSIONS

From the interview data, it can be concluded that the majority of small businesses are impacted by the unfavourable economic condition which created a challenge especially to the small businesses particularly in Johor Bahru. However, this also depends on the type of business; some businesses which in the ‘budget stream’ and those which export their products and services are still doing well. It is also pertinent to Johor Bahru business that things are not that bad as they still have Singaporean customers. The impact of business however, did not compromise their business ethics. Although few businesses may opt for some unacceptable way of cutting costs, small businesses in this research agreed that they must act ethically in order to gain trust and customer loyalty.

In order to sustain during this challenging times, small businesses are aware that they have to act accordingly and some of the strategies are firstly, strengthening business relations. Business relations include sustaining the relationship with customers and suppliers. In other words, among ways to sustain is to stay connected and strengthen business relations and maintain accountability and transparency. Secondly is to save costs by using intensive social media in promoting business. Thirdly is to optimise employees and lastly moving towards automation.

Government agencies and trade associations have been actively urging small businesses and manufacturers to look into the usage of technology to increase efficiency enhance productivity and grow sales. Government intervention is important in order to help small business sustain (Md Yatim, N. H., Che Rusuli, M. S., & Md Yatim, 2019). But a lot of the developments in e-commerce, robotics, artificial intelligence and the Internet of Things are still lost on these small companies. Industry observers note that SMEs have not seriously moved into automation and have not taken full advantage of the digital economy and e-commerce because they lack the talent to lead them forward in these developments. However, SMEs cannot afford to just wait for government aid. They need to also take the initiative to learn about new technologies, particularly online marketing and digital payment, and to take steps to strategize and adapt their operations before they get left behind.

REFERENCES

- [1] Handriana, T. (2016). The role of relationship marketing in small and medium enterprises (SMEs). *Jurnal Pengurusan*, 48(2016), 137–148.
- [2] Hassan, S. H., Mohamed Haniba, N. M., & Ahmad, N. H. (2019). Social customer relationship management (s-CRM) among small- and medium-sized enterprises (SMEs) in Malaysia. *International Journal of Ethics and Systems*, 35(2), 284–302.

- [3] Lee, J. (2018). SMEs need to rise to the challenge - Focus | The Star Online. *The Star Online*.
- [4] Madanchian, M., & Taherdoost, H. (2019). ScienceDirect ScienceDirect ScienceDirect ScienceDirect Assessment Assessment of of Leadership Leadership Effectiveness Effectiveness Dimensions Dimensions in in Small Medium Enterprises (SMEs) Medium Enterprises (SMEs) Costing models for capacity opt. *Procedia Manufacturing*, 32, 1035–1042.
- [5] Md Yatim, N. H., Che Rusuli, M. S., & Md Yatim, N. A. (2019). The Effect of Government Intervention on the Sustainable Competitive Advantage Among, 15–22.
- [6] New Straits Times. (2019, June 17). Brace for tough times ahead, Jomo warns Malaysians. *New Straits Times*.
- [7] Steiner, A. and Atterton, J. (2014). The contribution of rural businesses to community resilience. *Local Economy*, 29 : 3 . pp . 228- This is an accepted manuscript of an article published by SAGE. *The final published version is available online*, 228–244.
- [8] The Star Online. (2015, September 14). Weak ringgit hurting SMEs. *The Star Online*.
- [9] The Star Online. (2019, March 11). Uncertainty weighs on SMEs. *The Star Online*.