

## How Can Ethical Management Contribute to Organizational Culture Development in Malaysia Smes

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### Abstract:

This research aims to elucidate the strategies employed by Malaysian SMEs to foster an ethical working culture. The study polled managers of micro, small, and medium-sized enterprises in Malaysia. According to prior studies, the most critical elements are leadership, informal systems, and formal components. This study identified management, training, and communication as the three essential components. Nevertheless, no more studies have demonstrated that SMEs in Malaysia are religious. Our research addresses a deficiency in the literature by investigating the frequently neglected difficulties of ethical culture in small and medium-sized firms. The article offers a detailed analysis of the survey results regarding the ethical culture of SMEs. This study's findings have significant implications for Malaysian SMEs. This content may be beneficial for managers and business owners seeking to foster a more ethical work environment. Performance results may be enhanced by prioritising clarity, supportability, and transparency. By conforming to cultural norms and engaging in ethical practices, SMEs can enhance their reputation within the community and secure their future sustainability. This study significantly contributes to existing knowledge by examining the impact of ethical culture on performance in Malaysian SMEs. Understanding their influence on a company's profitability is facilitated when transparency, supportability, and clarity are prioritised as fundamental elements of an ethical culture. To cultivate a constructive organisational culture in small and medium-sized firms (SMEs) in Malaysia, the article's findings indicate that ethical leadership strategies should be adeptly implemented.

### 1. Introduction

To foster economic equality across all socioeconomic classes, SMEs are essential to Malaysia's advancement. Statistics indicate that SMEs significantly influence national economies, particularly in job creation (Nure et al., 2020). Given these facts, small and medium-sized firms (SMEs) must endeavour to enhance their performance to

achieve their complete business potential. This study examines many facets of ethical culture to determine their impact on the overall performance of small and medium-sized enterprises in Malaysia. Previous research indicates that an organization's formal and informal procedures interact to either bolster or detract from ethical behaviour; this interplay is referred to as the ethical culture (Altamuro et al., 2022).

Establishing an ethical culture facilitates a comprehensive evaluation of its impact on corporate efficiency. We must evaluate its impact on the profitability of SMEs. Future studies could benefit from greater exploration of the discernible variations between ethical culture and ethical climate. Key elements of corporate governance that influence competitive advantage include transparency and information. Timely disclosure of conflicts of interest among employees, directors, and both external and internal stakeholders is essential for transparency, as are meticulous and precise accounting practices, operational procedures, and comprehensive organisational disclosure. Moreover, voluntary disclosure enhances operational efficiency by augmenting transparency (Zahari et al., 2024).

## 2. Background of the Study

SMEs that pertain to study domains of ethical culture are particularly significant. This research investigates the cultural context of SMEs, analysing the principles and values that underpin their ethical stance (Altamuro et al., 2022). Upholding moral norms and influencing organisational success require comprehension of and dedication to a positive ethical culture within SMEs. A robust ethical culture can promote trust, honesty, and employee well-being in small and medium-sized firms (SMEs) (Zainal et al., 2022).

The influence of ethical culture on interpersonal relationships and the organisation overall is amplified, as small and medium-sized firms (SMEs) typically operate within close-knit environments due to the characteristics of their industry. Researchers aspire that by examining ethical culture variables within SMEs, they may assist these enterprises in effectively navigating ethical problems, enhancing performance, and positively influencing the broader business landscape. The ethical culture of an organisation comprises its ingrained cultural values underpinned by ethical principles. A company's ethical culture represents its collective comprehension of ethical behaviour and the decision-making processes derived from that comprehension (Suh et al., 2018).

Previous study indicates that enhancing an organization's effectiveness relies on maintaining a robust ethical culture. It is believed that workers' conditions on the job enhance with an elevated presence of ethical cultural norms in the workplace (Al Halbusi et al., 2021). Investigating ethical culture is essential, as studies indicate that organisations with superior cultures exhibit reduced instances of unethical conduct, thereby enhancing their profitability.

## 3. Purpose of the Study

This research examines SMEs in Malaysia to assess the influence of ethical management practices on their endeavours to cultivate a robust corporate culture. An effective and positive corporate culture in Malaysian SMEs depends on the perception and execution of ethical cultural elements, including transparency, supportiveness, and clarity. This study is significant since it may demonstrate how SMEs can enhance their competitive advantages through the interplay between organisational practices and performance. This will enhance the resilience and sustainability of SMEs in the future for development of positive organisational culture with integration of ethical leadership approaches.

## 4. Literature Review

Ethical principles constitute a set of guidelines governing appropriate conduct. Ethical behaviour norms protect both individual members and the collective group, while offering prescriptive standards and virtues for discerning right from wrong. A social and behavioural framework that fosters ethics necessitates its members to render moral judgements and exceed expectations in their activities. It is also an element of corporate culture that represents several facets of the organization's official and informal systems. This encompasses a significant ethical culture with several principles that the organisation maintains. Values provide the foundational pillar. The ethics program constitutes the second pillar, whilst ethical leadership represents the third. An ethical culture comprises three components: formal systems, informal systems, and leadership, each of which can be further categorised based on their intended functions: management, training, and communication (Zainal et al., 2022).

Formal ethical theories, regardless of being printed or digitally saved, constitute physical entities. The policies and procedures of an organisation assist all individuals towards achieving its objectives. A formal training course is one that generates a records. Codes of conduct, orientation ceremonies, regulations, and mission statements constitute essential elements of a formal ethical culture. The formal elements of an organization's culture encompass regulations, evaluations, reports, information transparency, ethical guidelines, an orientation handbook, and adherence to regulatory bodies or standards. Individuals engaged in the employment process, including current employees and prospective candidates, can access company information online, facilitating the management of formal and effective communication skills. They possess access to the organization's production and

results. Furthermore, it may aid employees in achieving the company's objectives. A formal statement may be presented in diagonal, horizontal, or vertical orientation. The company objectives dictate the degree of formality.

A company's mission statement delineates its ethics, orientation, and strategy, whereas the vision statement articulates the company's overarching goals and objectives (Driskill et al., 2019). The firm could attain a competitive advantage by promoting its ethical beliefs. The informal aspect of ethical culture encompasses the organization's principles, customs, and practices. Addressing unethical issues inside a corporation is most effectively achieved through informal methods rather than formal protocols. Culture is establishing itself as the standard within an informal framework, prioritising experiential learning above the deliberate assimilation of new information. The organization's purpose may be deemed either acceptable or objectionable. The attainment of an organization's objectives is feasible when the informal system aligns with the formal rules, as both systems are interdependent. Any unprompted and non-formal communication is deemed informal. Formal communication is generally accompanied by explicit directions (Akhtursunova & Aubakirova, 2024).

The ethical culture of an organisation is significantly shaped by its leadership. Organisational leadership occurs when senior management defines the organisational framework, establishes strategic direction, and forms the firm's ideology. To guarantee that their executives, employees, and agents behave ethically, firm leaders must exemplify appropriate conduct themselves. The ethical impact can be assessed by examining the organization's incorporation of ethics, and it must also be accountable to its stakeholders. When family members are employed by the company, it transforms into a familial enterprise, characterised by mentorship rooted in qualities such as loyalty, trust, and collaboration (Kandade et al., 2021).

## 5. Research Question

- What is the effect ethical leadership on organisational culture development in Malaysian SMEs?

## 6. Methodology

### 6.1. Research design:

To collect their data, researchers employed a cross-sectional approach and monitored participants for four months. For the cross-sectional design to be effective, it was essential to collect data at a singular,

cost-effective moment. Due to limited time and energy, the researcher used a quantitative approach. Employing a random sample method, we successfully contacted each respondent in the survey. Subsequently, to conduct a reliable investigation, the suitable sample size was determined via Rao Soft. Participants would be apprised about the experiment and had the opportunity to pose enquiries to the researcher while awaiting the completion of the surveys.

### 6.2. Sampling:

The research utilised a conclusive survey of 541 employees and managers from SMEs as its valid data set, subsequent to a preliminary study involving 40 SME employees and managers. The total number of questionnaires was disseminated utilising a random sampling procedure. Due to the sensitive nature of the obtained data, the researcher would not have accepted incomplete surveys for this study. Following an estimation of 500 individuals utilising the Rao-soft approach, researchers distributed 650 questionnaires to collect data. Upon reviewing 608 completed surveys, researchers eliminated 67 responses lacking essential information, resulting in 541 participants for the study.

### 6.3. Data and Measurement:

In this study, questionnaires served as the principal instrument for data collection. In Part A, we solicited respondents' fundamental demographic data; in Part B, we employed a 5-point Likert scale to evaluate their experiences with various online and offline venues. A diverse array of secondary sources, including online databases, was meticulously examined to get the requisite information.

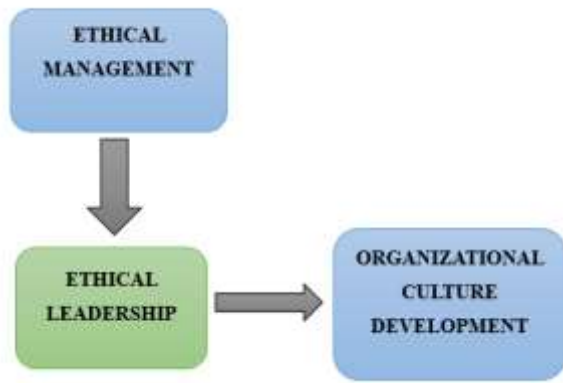
### 6.4. Statistical Software:

SPSS 25 and MS Excel has been used for statistical analysis.

### 6.5. Statistical Tools:

The fundamental characteristics of the data were elucidated by descriptive analysis. Validity testing has been performed with factor analysis in conjunction with ANOVA.

## 7. Conceptual Framework



## 8. Results

### Factor Analysis

Factor Analysis (FA) is often employed to investigate the fundamental component structure of a collection of measurement items. The values of the variables under investigation are thought to be directly influenced by imperceptible factors. One method that employs models is accuracy analysis (FA). The principal objective of this research is to identify correlations among the assessment of errors, the origins of explicit occurrences, and the occurrences themselves.

To assess the appropriateness of data for factor analysis, one may employ the Kaiser-Meyer-Olkin (KMO) Method. We evaluate the comprehensive model alongside each specific variable to guarantee adequate sampling. Statistical approaches can ascertain the extent to which many variables share variation. Factor analysis produces superior outcomes for datasets with diminished percentages.

The outcome of executing KMO yields a value ranging from zero to one. A KMO value ranging from 0.8 to 1 indicates an adequate sample size.

A KMO value below 0.6 signifies inadequate sampling that requires rectification. Select with caution; certain authors utilize 0.5 for this purpose, thus the range is 0.5-0.6. A KMO score approaching zero signifies higher partial correlations in comparison to total correlations. Component analysis is considerably obstructed by robust correlations, as previously noted.

Refer to the eligibility criteria for Kaiser:

Under fifty percent, at 0.059.

A score of 0.60-0.69 is well below average.

A normal range for middle school is 0.70 to 0.79 centimetres.

The quality points are assessed on a scale ranging from 0.80 to 0.89.

The interval from 0.90 to 1.00 is quite extraordinary.

Table 1: KMO and Bartlett's Test

| KMO and Bartlett's Test                          |                    |          |
|--------------------------------------------------|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. |                    | 0.938    |
| Bartlett's Test of Sphericity                    | Approx. Chi-Square | 3252.968 |
|                                                  | df                 | 190      |
|                                                  | Sig.               | .000     |

Bartlett's Test of Sphericity provides further proof that the correlation matrices are generalizable. The Kaiser-Meyer-Olkin sample adequacy is reported to be 0.938 by the researcher. The researchers obtained a p-value of 0.00 via Bartlett's sphericity test. According to the principal findings of Bartlett's sphericity test, researchers concluded that the correlation matrix fails to meet the criteria of a valid correlation matrix.

### Independent Variable

#### Ethical Management

When managers act in line with moral and ethical standards, apply policies, and make decisions, they are engaged in ethical management. Within Malaysia's SMEs, ethical management is crucial for encouraging responsible and sustainable behaviour. It covers not only following rules but also moral values of integrity, justice, and responsibility. Stakeholder wellbeing and society effect are taken into account in an ethical management system alongside firm profit-making. Ethical management techniques help to improve the credibility, trust, and long-term sustainability of Malaysian SMEs especially in view of their consistent difficulties with limited resources and changing governance structures. It also helps one overcome obstacles including environmental obligations, labour disputes, and corruption. By giving ethical issues top priority in their business operations, SMEs in Malaysia can improve their reputation, draw dedicated workers, build loyal consumers, and create moral alliances. Ethical management styles help to build a strong, values-oriented business culture.

### Factor

#### Ethical Leadership

A basic feature of ethical management, ethical leadership is embodied by leaders who show and support honesty, justice, and responsibility in their activities and decisions. Ethical leadership is especially important in Malaysian SMEs because of

the personal structure and human relationships unique of small businesses. Ethical leaders set good behaviour for their employees, acting as examples. They treat staff members with dignity, stress openness, and routinely match their behaviour with moral standards. Especially in settings where flexible management strategies rule, this promotes a trusting atmosphere and gratitude. Emphasizing communal values and respect of hierarchy, ethical leadership can combine conventional Malaysian principles with modern ethical practices. Establishing and maintaining a strong organizational culture depends on ethical leaders who aggressively shape ethical norms and motivate moral behaviour among staff members.

### Dependent Variable

#### Organisational Culture Development

"Organizational culture development" is the slow but steady change of the basic values, customs, and practices of an organization. Malaysian SMEs must have a strong corporate culture if they want to improve internal cohesion, raise morale, and reach long-term strategic goals. Experience of belonging inside a strong culture makes employees more likely to participate, show loyalty, and match their behaviour with the values of the company. SMEs gain from a strong and morally grounded culture as they grow and change to meet the reality of the market. Its development is much influenced by ethical management, notably by ethical leadership. Ethical methods inspire moral behaviour, build trust among participants, and help everyone to feel responsible. In Malaysia, where SMEs rely on personal relationships and informal networks for their economic transactions, including ethical values into corporate culture may help to solve problems including corruption, labour conflicts, and governance flaws. Thus, the basic components of a mature society are innovation, ethical resilience, and sustainable development.

#### Relationship of between ethical leadership and organisational culture development

In actuality, Building on the previous discussion, the researcher assessed the interrelationship between ethical leadership and organisational culture development in regard to Malaysian SMEs.

***"H<sub>01</sub>: There is no significant impact of ethical leadership on organisational culture development"***  
***"H<sub>1</sub>: There is a significant impact of ethical leadership on organisational culture development"***

Table 2: H<sub>1</sub> ANOVA Test

| ANOVA          |                |     |             |         |      |
|----------------|----------------|-----|-------------|---------|------|
| Sum            |                |     |             |         |      |
|                | Sum of Squares | df  | Mean Square | F       | Sig. |
| Between Groups | 39588.620      | 206 | 5305.119    | 997.577 | .000 |
| Within Groups  | 492.770        | 334 | 5.318       |         |      |
| Total          | 40081.390      | 540 |             |         |      |

This inquiry has revealed a substantial discovery. The p-value, being below the 0.05 alpha threshold, indicates that 997.577 is a statistically significant F-value. This enables the researcher to dismiss the null hypothesis and assert that ***"H<sub>1</sub>: There is a significant impact of ethical leadership on organisational culture development"*** is accepted.

### 9. Discussion

An ethical leader establishes explicit objectives, fosters creativity, promotes personal accountability, addresses ethical challenges, acknowledges and rewards commendable behaviour and performance, and aligns employees' expectations and interests with practical realities. Effective implementation of ethical principles within a company necessitates executives who actively engage in coaching practices. The fundamental concept of coaching is to assist an individual in achieving a goal established by the business. The coach's function is to enhance the employees' performance. The preferred course of action will be conveyed to the staff. Moreover, a favourable work-life balance was promoted, resulting in enhanced employee tranquilly and the cultivation of stronger interpersonal ties among workers. The owner-managers of SMEs believed that all facets of their business, both official and informal, were interrelated, encompassing leadership and religiosity. The expansion of SMEs was facilitated by consistent, casual gatherings. Consequently, cultivating robust company culture necessitates the effective enhancement of ethical leadership attributes.

### 10. Conclusion

To cultivate a positive corporate culture, SMEs must prioritize ethical standards and effective leadership. Entities categorized as SMEs underwent an assessment encompassing formal, informal, and leadership dimensions. Nonetheless, an evaluation of the essential characteristics indicated that formal training elements were the sole components not executed in SMEs in Malaysia. The implementation process commenced with the critical elements, encompassing formal communication and management components, and subsequently

advanced to the less critical aspects, including informal communication, leadership training, and further management components. A framework of principles, objectives, and goals regulates their company. Furthermore, the criteria, entities, and laws established by the authority are adhered to by the SMEs. Documentation of procedures, roles, and internal communications was present. Subsequently, all critical elements of informal systems were established, encompassing training, management, and communication. In casual settings, employees are permitted to express their opinions candidly and employ their local language. The organization implemented standardization of informal performance metrics, informal gatherings, and daily learning practices. Managers drive their teams to success by exemplifying effective leadership. They cultivated an atmosphere devoid of "moral silence," articulated expectations explicitly, and promoted innovative thinking among staff. The selection process was ethical as it promoted personal accountability, addressed ethical issues, acknowledged and rewarded ethical conduct, and set achievable goals. To cultivate a positive culture inside small and medium-sized firms (SMEs) in Malaysia, it is imperative for CEOs to maintain the highest ethical standards and refine their communication skills.

#### Author Statements:

- **Ethical approval:** The conducted research is not related to either human or animal use.
- **Conflict of interest:** The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper
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