

## CULTURE ASSESSMENT IN RELATION TO SMES SUSTAINABILITY: A CASE STUDY IN MALAYSIA

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### ABSTRACT

*This paper aims to explore the current control culture practices by small and medium enterprises (SMEs) concerning sustainability in Malaysia. The data were collected through an in-depth interview with nine SME owners and top-level management. Thematic analysis was used to analyze semi-structured interviews with word-based and code-based approaches and several analytical strategies adopted for the interviews. The study identified the similarities and differences of control culture practices in SMEs that can support the sustainability of SMEs. The study found that these SMEs do not put much effort into addressing deviations in a timely manner due to the lack of resources in terms of human capital, which is costly and time-consuming. Ultimately, it is hoped that the cultural domain can purposely be embedded in integrity and ethical values in the organization's Top of the Tone. By aligning control culture with sustainability objectives, SMEs can create more resilient, ethical, and efficient businesses that contribute positively to society and the environment. However, this study laid the groundwork for several strands of future research on cultural explanations of SME sustainability.*

*Keywords: SME sustainability; culture; control environment*

### INTRODUCTION

Small and medium-sized enterprises (SMEs) are crucial in fostering economic growth and promoting innovation in Malaysia. In the context of developing countries, SMEs represented 97.2 percent of the entire business community in the country, with their Gross Domestic Product (GDP) expanded by 6.2 percent, outperforming the overall Malaysian GDP (MSME Insight 2021). According to the SME Economic Performance Outlook (2021), the expansion of all economic sectors aided the growth. In the new global economy, the sustainability of SMEs has become a concern in the business community since changes need to be adopted. Based on the statistics (MSME Insight 2021), 83.8 percent of SMEs are engaged in the services sector, 5.8 percent are in the manufacturing sector, and 8.0 percent and 1.9 percent are in the construction and agriculture sectors. The service sector plays a prominent role in the growth and development of SMEs and the Malaysian economy. However, the manufacturing sector is considered significant due to its substantial performance, which has contributed to the expansion of the Malaysian economy. Therefore, within the context of a rising economy such as Malaysia, the issue of sustainability among SMEs has emerged as an important issue within the business community. This is primarily due to the problems they encounter regarding their survival, with a surprising 50 percent of SMEs experiencing collapse within the initial five years of their establishment (Ahmad & Seet 2009, Hami et al. 2018).

Prior studies indicate that SMEs face difficulties competing in the global market (Hashim 2012). There is an argument that SMEs encounter challenges related to limitations in human resources, a lack of innovation, and restricted availability of funding and working capital (Saleh & Ndubisi 2006; Costa et al. 2023). These problems have been identified as contributing to the efficiency of their company operations. Furthermore, the competitiveness of SMEs in the market is also dependent upon the capabilities of their owners. A prior investigation carried out on SMEs in the manufacturing industry in Malaysia emphasized the crucial role of owner-managers knowledge, skills, and talents in guaranteeing the long-term viability of their businesses (Tuan Hassan et al. 2014). In addition to the typical commercial obstacles encountered by SMEs, recent studies on SMEs in the manufacturing industry in Malaysia have focused on matters related to corporate governance. The significance of corporate governance in facilitating competitive performance and ensuring the sustainability of SMEs has been a subject of ongoing debate (Husin & Ibrahim 2014; Hossain et al. 2024; Wang et al. 2023). While corporate governance principles primarily target large corporations, they can also be beneficial for SMEs (Htay & Salman 2013; Faizal et al. 2024).

The concept of an internal control system encompasses all activities that ensure balance in the pursuit of optimality and the structure of any entity's integrity and ethical values (Francis & Imiete 2018). To guarantee the effective accomplishment of organizational aims and objectives, the management team, board of directors, and all staff members engage in a coordinated series of actions, policies, plans, and activities (Mahadeen et al. 2016). Internal control systems components are directly or indirectly linked to an organization's effort to

improve operating performance. For this reason, the viability and sustainability of a business, especially in a highly adaptable business environment, can be assessed by examining its internal control systems (Masa'deh et al. 2015). Good internal controls further strengthen corporate governance by improving the derivation effects of the information environment to enhance enterprise sustainability (Su et al. 2022). Prior research has identified many concerns about internal control systems in SMEs (Kennedy & Benson 2016; Kennedy 2018; Kramer 2015). N'Guilla Sow et al. (2018) found that an inadequate internal control system, such as no separation of duties, improper documentation, improper approvals, inadequate supervision, and no evidence of transaction validations, makes fraud possible in small businesses. Furthermore, some internal control failures among SMEs often do not make headlines like larger corporations, however, they are still significant, especially given the limited resources SMEs typically have for managing risks.

This paper focuses on the control culture practices used by nine Malaysian SMEs that have reported fraud incidents, particularly occupational fraud. Culture plays a critical role in influencing and guiding organizational members' behavior (Suh et al. 2018). In addition, employees' unethical behavior might be deterred by a strong ethical culture built inside an organization through management practices and beliefs (Ocansey & Ganu 2018). The nine SMEs, characterized as Case A representing the food and beverage industry, Case B representing the wood and furniture industry, and Case C representing retail manufacturing, all under SME Corporation 50 Enterprise Awards Winners, were well-established and financially audited.

Before, the study on culture practices generally concentrated on large organizations, which focused on ethical culture from a variety of industries (Ardichvili et al. 2009), dimension of ethical culture (Kaptein 2008), ethical culture with organizational innovativeness (Riivari et al. 2012), ethical culture and leadership (Morris 2009). However, to date, little study has been done on the control culture practices for SMEs. Thus, there is a need to investigate current control culture practices in SMEs to give SMEs insight into adopting and adapting to their business situation. In the next section, this paper discusses the previous study on SME sustainability, corporate culture, and control culture. Then, the study proceeds to outline the research objectives and design. Next, a detailed explanation of the background of the selected SMEs will be provided for this study. Furthermore, the discussion will focus on SMEs' current control culture practices. In the end, this study brings attention to several concerns and challenges, accompanied by recommendations for further research.

## REVIEW OF LITERATURE

Given the importance of previous studies to support the current research, relevant aspects, and discussions are highlighted in this section.

### SMES SUSTAINABILITY

Sustainable small and medium-sized enterprises (SMEs) are becoming more important in achieving a sustainable society in terms of the environment, economy, and culture. Sustainable SMEs can be characterized as entities that demonstrate an ongoing commitment to ethical conduct and contribute to economic growth while improving the well-being of their employees, families, local communities, society, the global community, and future generations (Hilton 2000; Permatasari & Gunawan 2023). The sustainability of SMEs consists of achieving a balance between financial, human, and material resources and, on the other hand, with the social and economic environment. SMEs have obstacles, such as a lack of resources and time to develop sustainable investment strategies as a competitive advantage (Schwab et al. 2019). There are numerous approaches SMEs can use to find solutions that will enhance their social and environmental performance because the concept of sustainable development may handle most of the issues they encounter (Loucks et al. 2010; Salvador et al. 2023). Regardless of company size, sustainability needs to be rooted in the business strategy to seep through the various hierarchical levels within an organization (Vandenbrande 2021). SMEs' business strategies, which frequently include internal operations, including product and production process innovation, brand and marketing, and internal operations, are the subject of numerous studies on the sustainability of SMEs. There has been even more research on the sustainability of SMEs based on the Triple Bottom Line idea (Crals & Vereeck 2004; Tiley & Young 2009), which combines social fairness, environmental quality, and economic prosperity. Subsequently, Koe et al. (2015) and Majid et al. (2012) integrate a component of the cultural domain of sustainable entrepreneurship.

Sustainability is often considered a possibility for larger organizations than SMEs because of variations in size and the ability to overcome challenges in the business environment (Labonne 2006). Additionally, it was shown that small enterprises exhibited a lower propensity to analyze their environmental footprint, primarily due to the financial constraints and expenses associated with the utilization of environmental evaluation instruments. Furthermore, Dressen (2009) observed that small enterprises typically need more scrutiny from external stakeholders about their sustainability initiatives. This is attributed to their constrained financial resources and perception that implementing sustainable practices is excessively complicated. SMEs

can exhibit significant diversity in their business structure, characterized by varying personnel structures, budget amounts, and corporate objectives and missions (Loucks et al. 2010). Nevertheless, SMEs must acknowledge and expand the range of challenges they encounter. This will enable SMEs participating in sustainability initiatives to embrace innovative approaches quickly.

However, the term "sustainability" in this context refers to the continuous commitment of business management and board members to establishing an appropriate control mix within the organization (Benkarim & Imbeau 2021). This includes recognizing their oversight obligations and responsibilities concerning the organization's sustainability and their role as fiduciaries to stakeholders reliant on the organizational structure (IIA, AICPA & ACFE, n.d.). Furthermore, COSO (2013) identified that organizations must do more than implement policies and procedures to demonstrate effective sustainability practices successfully. They need to set a tone from the top that fosters a culture of sustainability and embeds sustainability practices into the structure of the strategic planning and business objective-setting processes. In addition, Nowduri (2012) asserted that sustainability issues, such as making people more social and ethical concerning their business needs, are important given the competitive nature of modern entrepreneurship.

#### ORGANIZATIONAL CULTURE AND CONTROL CULTURE

Culture within an organization plays a critical role in an organization's everyday operations. Organizational culture is manifested in the typical characteristics of the organization. In other words, organizational culture should be regarded as the right way in which things are done, or problems should be understood in the organization (Sun 2008). Ogbonna (1992) declared that organizational cultures are the outcomes of '...the interweaving of an individual into a community and the collective programming of the mind that distinguishes members... it is the values, norms, beliefs, and customs that an individual holds in common with other members of a social unit or group...'. Hofstede (1997) said that culture influences a person's behavior and thinking, so it is crucial to understand the culture within an organization. To become an efficient organization, the importance of culture should not be neglected because culture impacts how the organization operates (Schneider & Barsoux 1997). Schein (2010) defines culture as:

*"A pattern of shared basic assumptions that the group learned... that has worked well enough to be considered valid and therefore, to be taught to new members as the correct way to perceive, think, and feel."*

A study on culture by Hofstede (1980) identified four dimensions of power distance, uncertainty avoidance, individualism, and masculinity/femininity as a positive stance on culture treatment. However, Ritchie and Brindley (2005) studied culture determinants of competitiveness in SMEs revealed that a review by Harrison and McKinnon (1999) across twenty cross-culture studies in management control systems over the period 1981-1996 concluded that using Hofstede's (1980) framework constrained the quality and potential contribution of culture study. They argued that there is less reliance on the value dimensional conceptualization of culture and the need to widen the researcher's lens. Furthermore, Ritchie and Brindley (2005) suggested developing the contingency framework, which addresses differences in the contextual circumstances in differing countries or regions regarding culture, gender, and ethnicity. In addition, as O'Neil et al. (2009) mentioned, culture influences all aspects of the organization, such as management, leadership, decision-making, and the sustainability entrepreneurship process. According to Teran-Yopez et al. (2020), sustainability entrepreneurship at an individual level focuses on why entrepreneurs act more sustainably based on their traits and values. At the organizational level, overemphasis on sustainable orientation is based on the reconfiguration of resources and the corporate culture of each organization. However, the sustainability of SMEs in this study concerns the survival of SMEs free from employee fraud; therefore, this study concentrates on the control culture environment under the COSO Internal Control-Integrated Framework. The control environment is the set of standards, processes, and structure that provides the basis for internal control across the organization. The board of directors and senior management establish the tone at the top. This is relevant to the cultural dimension by Schein's (1985) view, which focuses on what artifacts and values reveal about fundamental assumptions. Schein (1985) describes three determinants of culture that consist of:

1. First level - observable, expressed, or explicit elements of culture that include behavior, artifacts, and attitudes.
2. Second level - values and belief; and
3. Third level - assumptions.

Therefore, according to Schein (1985), the control environment includes the governance and management functions and the attitudes and awareness that comprise the integrity and ethical values of the organization. Furthermore, examining which ethical climate types facilitate higher levels of trust among employees, it was

concluded that employees increase their trust in their supervisor and the organization when their supervisors are perceived as being ethical (Alghamdi 2018). Past studies have revealed that ethical climate and ethical leadership play a significant role in developing integrity in an organization (Rasli et al. 2020). However, the existing research presents inconsistent results, as some studies have found that ethical leadership influences the ethical behavior of others, whereas some works have claimed otherwise (Hamoudah et al. 2021). The intrinsic worth of values is to act as social principles or philosophies that guide behaviors and set a broad framework for organizational routine and practice for effective control. Effective control begins with creating a climate within an organization that supports and reinforces values such as honesty and integrity. As the values that the leaders uphold will affect their employees, the training can focus on the importance of ethics, such as honesty, integrity, justice, and equality in the organization, to assist employees in understanding the importance of ethics. If leaders divest from the values even slightly, the employees may conclude that these values are more window dressing (Snyder et al. 1989; Hamoudah et al. 2021). For example, values communicated by senior management assist in effective control by embedding expected behavior within an organization's culture. Values, therefore, provide a subtle mechanism through which senior management can exercise influence (Khanagha et al. 2021). As Figure 2.1 illustrates, adapted from Hogan and Coote (2014), values underlie norms and artifacts and determine observed behavior patterns. Norms are expectations of acceptable behaviors held by members of an organization and have the force of social obligation or pressure (Schein 2010).

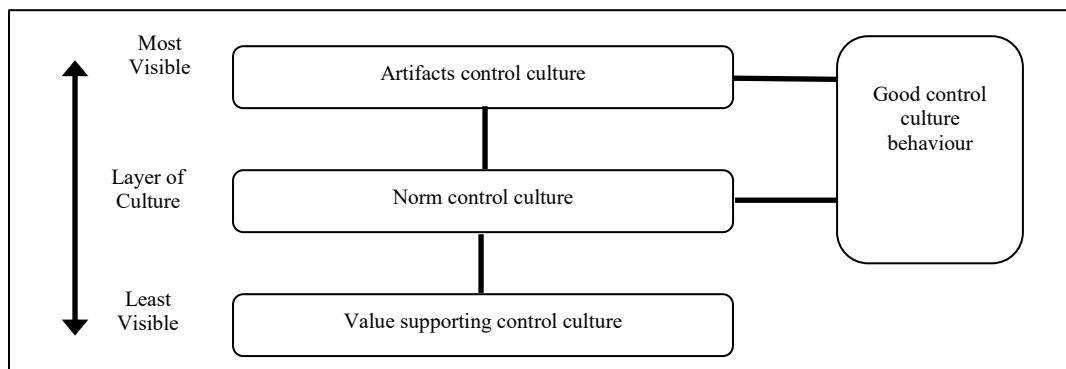


FIGURE 2.1. Layers of an organizational culture that supports good control culture (Schein 2010).  
Source: Hogan and Coote (2014)

Organizational culture supports the control environment insofar as it sets expectations of behavior that reflect a commitment to integrity and ethical values, oversight, accountability, and performance evaluation. Establishing a strong culture considers how clearly and consistently ethical and behavioral are communicated and reinforced in practice. Under the COSO Internal Control-Integrated Framework (2013), the control environment can be described into five principles, which are: (1) demonstrates a commitment to integrity and ethical values, (2) exercises oversight responsibility, (3) establishes structure and authority, and responsibility, (4) demonstrates a commitment to competence, and (5) enforces accountability. As such, culture is part of an organization's control environment. The control environment provides the set of standards and policies, procedures and processes, and structure for which internal control should be carried out throughout an organization. The control environment usually consists of management philosophy, operating style, expectations regarding integrity and ethical tone at all levels, committed and competent human resources, organizational structure and assignment of authority and responsibility, human resource policies and procedures, the board of directors, and audit committee (Ocansey & Ganu 2018). Management's ability to override internal controls, other employees, and or third parties circumvent the controls through collusion, human errors, and poor judgment are some of the critical factors that can render internal control ineffective (COSO 2013). Therefore, corporate culture should be incorporated into an entity's control environment. This study elaborates on the characteristics of Principle 1 - the organization demonstrates a commitment to integrity and ethical value, which (1) sets the Tone at the Top; (2) establishes standards of conduct; (3) evaluates adherence to standards of conduct; and (4) addresses deviations in a timely manner. Each characteristic plays a vital role in SME sustainability.

## RESEARCH METHODOLOGY

This paper aims to examine the existing control culture practices implemented by SMEs and analyze the similarities and differences in these practices in SMEs. The aim is to establish the extent to which these practices contribute to the long-term viability of SMEs. A sample of nine SMEs was chosen for this study based on their reported incidents of fraud in Malaysia. The SMEs were selected primarily based on purposeful

sampling and ease of access to the companies. The sampling frame was the list of SMEs that participated in the Enterprise 50 Award, an annual award program organized by the SME Corporation Malaysia. They are categorized into three cases: Case A, representing the food and beverage industry; Case B, representing the wood and furniture industry; and Case C, representing retail manufacturing. They are well-established SMEs that complete annual financial audits.

This study utilizes the case study approach to examine the current control culture practices across nine small and medium-sized enterprises (SMEs). The rationale is that a case study is a research method that enables an assessment of a phenomenon within its context, utilizing various data sources (Baxter & Jack 2008). The study employs an exploratory case study approach, as proposed by Yin (2003). In this context, the focus is on the SME's organization as the primary unit of analysis. The assessment of culture intervention in this study does not yield a definitive, singular set of outcomes.

The data were obtained through an in-depth interview with the small and medium-sized enterprises (SMEs) owners. In adherence to the principles of anonymity and confidentiality proposed by Wiles et al. (2008), the real identities of these small and medium-sized enterprises (SMEs) will remain undisclosed. The interview concentrated on control culture, following predetermined interview procedures and protocol, and lasted approximately one hour. The study employs an interview approach to facilitate researcher data collection. An interview protocol encompasses more than just a set of interview questions. The interview protocol helps improve qualitative studies' reliability (Yin 1994). It also includes the steps involved in interviewing, such as a script that outlines the researcher's queries before and after the interview, prompts for obtaining informed consent, and prompts to remind the interviewer of the information they wish to gather (Jacob & Furgerson 2012). The interview questions were prepared by a comprehensive analysis of the existing literature, with a specific emphasis on the attributes of Principle 1: The organization demonstrates a commitment to integrity and ethical value under a COSO control environment. These characteristics are (1) sets the Tone at the Top, (2) establishes standards of conduct, (3) evaluates adherence to standards of conduct, and (4) addresses deviations in a timely manner (COSO 2013). To ensure that every statement was documented, the interviews were recorded. This study employed thematic analysis to analyze semi-structured interviews, utilizing word- and code-based approaches.

## FINDINGS AND DISCUSSIONS

The study presents its findings following its objectives. First, it examines the control culture practices currently observed in SMEs. Second, it aims to identify the similarities and differences in control culture practices among SMEs that can contribute to their long-term sustainability. Finally, a comparative analysis is provided at the end of the discussion.

### PROFILE OF THE SMES

In Malaysia, SMEs are classified according to two specific criteria: annual sales turnover and the number of full-time employees employed by a business. In the context of manufacturing and manufacturing-related services, SMEs are defined as enterprises that generate sales turnover below RM25 million or employ fewer than 150 full-time workers. Meanwhile, in the services and other sectors, SMEs are defined as enterprises with sales turnover below RM5 million or fewer than 50 workers. An SME is defined as a business that satisfies either of the specified criteria. SMEs can adopt a legal structure by registering as entities under either the Registration of Businesses Act 1956 (Act 197) or the Companies Act 1965 (Act 125). The study identified nine SMEs in Malaysia that had reported incidents of fraud. These SMEs were classified into three cases: Case A, which included four SMEs; Case B, which included three SMEs; and Case C, which included two. To maintain objectivity in the results, these nine small and medium-sized enterprises (SMEs) share similar features that are:

1. This falls under the manufacturing industries, particularly food and beverage, wood and furniture, and retail merchandise.
2. These SMEs have been recognized as recipients of the 50 Enterprise Award, which the SME Corporation Malaysia organizes. The purpose of this award is to acknowledge and emphasize the accomplishments of SMEs that are strategically positioned for future success.
3. These SMEs are required to maintain continuous three-year audited financial records.

TABLE 4.1. SMEs background information				
Case A	SME 1	SME 2	SME 3	SME 4
	This SME is a market leader in Asia for ice-blended coffee and beverage solutions. It offers a café total solution, which includes everything	This SME manufactures, distributes, and sells bottled beverages, including isotonic energy drinks, clarified	This SME is a joint venture between a local business and an international business in Denmark. It engaged in manufacturing, distributing,	This SME manufactures and markets halal and high-quality gourmet pastry products, such as puff paratha, chapatti, pitta

	from its core product (beverages) to equipment, such as coffee machines, commercial blenders, and accessories.	sparkling fruit juices, and soft drinks.	importing, and exporting food and confectionery products	bread, spring roll pastry, and curry puff, to name a few.
Case B	SME 5 This SME is a leader in the supply and installation of pre-finished engineered tongue-and-groove timber flooring.	SME 6 This SME flagship product is the European-style parquet with a three-layer construction made of real hardwood at the top.	SME 7 This SME has been the pioneer and market leader in the Asia Pacific for eco-friendly floor covering. It offers a variety of products, including laminated flooring, resilient flooring, outdoor decking, and wall panels.	
Case C	SME 8 This SME serving the world with halal products and halal household brand in Malaysia. Its business activities from purely trading to manufacturing and distributing an entire range of Halal products including Halal gelatin soft gel for the Malaysian and Southeast Asian markets.	SME 9 This SME is one of the most popular companies in Malaysia that produces the 3D animation series. Its main activities is producing a broad range of the original character merchandise.		

#### SETS THE TONE AT THE TOP

The core of any business is its people and the environment in which it operates. Setting the Tone at the Top whereby management and the board of directors<sup>1</sup> at all levels of the entity demonstrate the importance of integrity and ethical value through their directives, actions, and behaviors. They are expected to lead by example in developing values, a philosophy, and an operating style for the organization. An organization in which the “tone at the top” represents high ethical standards, along with a culture that supports and encourages ethical behavior, is argued to go a long way toward reducing the incidence of employee fraud (Albrecht et al. 2011).

The companies demonstrate a commitment to integrity and ethical values. Setting the ‘tone at the top’, the management at all levels of the organization demonstrates the value of integrity and ethical values through their directives, actions, and behavior. However, the data also revealed that SMEs communicate their commitment to integrity and ethical values verbally and informally. They are expected to set an example by developing the organization’s values, philosophy, and operating style. It is argued that an organization with a ‘tone at the top’ management style that reflects high ethical standards, as well as a culture that supports and encourages ethical behavior, will go a long way towards reducing employee fraud (Albrecht et al. 2011). Based on the interview conducted, it can be said that the owner and the top management of the three case SMEs are committed to demonstrating integrity and ethical value. This is based on the following conversations that reflect those commitments:

*“...we have a policy written, which is the first thing we talk to our employees. Our handbook explains our company value system and what our company believes in. Not only for our employees, but also for our supplier, for our customer, agent, and distributor as well...” (Case A interviewee)*

*“...so, say that we lead by example if you are punctually going to the office... no matter what, your employees were watching you... and then if you arrived at 10 o’clock, you expect your employees to punch at 8 o’clock?” (Case B interviewee)*

*“...back to word integrity, everyone should have that in mind... they must know what integrity is. Organization should have such policy on this and to take it seriously about this...” (Case C interviewee)*

Furthermore, they articulate and reinforce the commitment to doing what is right, not just what complies with laws and regulations, so that these priorities are understood and embraced across the organization. They ensure that these priorities are well-understood and accepted throughout the companies. Positive attitudes toward work demonstrated by the SMEs’ owners and management have established a positive working environment and culture within the organizations. The employees are given the right to hold their responsibilities based on their role. This is based on the following conversation:

*“...Every Monday meeting, we report on things that we achieved, things that we have challenged in it, actions that we must take. So, this has become our culture in that all the staff will contribute or participate in the meeting. The person who becomes chair of the meeting is the staff themselves, the secretary is the staff. They run the meeting; we, the top management, are just one of the people who see inside the meeting how the meeting was run...” (Case A interviewee)*

Employees are given priority in managing the business collaboratively, with each employee accountable for his responsibilities. They inculcate a culture of trust and honesty by having weekly meetings with all levels of the organization to update them on their business activities. Apart from that, the management establishes trust in all employees by demonstrating that their job specifications are documented and that employees can demonstrate accountability when asked. This finding is based on the following conversation:

*“...Trust in terms that in our office, in our factory, we don't place any 'CCTV' camera. We trust that our staff will come according to the time that has been scheduled. They don't take advantage or misuse of company's property...” (Case A interviewee)*

*“...but based on trust only, whatever they collect they keep back to the boss even though they have the opportunity to commit fraud. So, fraud has to do with human integrity and honesty...” (Case B interviewee)*

The extent to which these expectations are communicated and implemented by the owners, senior management, and all other levels of leadership within the organization defines the tone at the top and throughout the organization. The tone of an organization is influenced by the management's operating style and personal conduct, attitudes toward risk, positions that may be conservative or aggressive, and degree of formality. All these attributes send a message to the organization. This finding is based on the following conversations:

*“...what we believe, and practice is understanding and application. We can talk about a lot of things which are written. But if those written things do not create meaning or are not related to them, so it is just a statement. We need to be practical. We need to explain, and employees need to understand why we practice this and how it affects them...” (Case A interviewee)*

*“...we look at the word 'INOVA'... the first word in 'INOVA' is integrity. We think that the most important is human integrity... integrity for our customers; we care for our customers... what we can do, we must fulfill. This is how we seriously trained our people about integrity, which means we can accommodate and tolerate...” (Case B interviewee)*

*“...back to the word integrity, everyone should possess it... they need to understand and must instill in them. We have such a policy in place, and the company takes employees integrity very seriously...” (Case C interviewee)*

Employees are likely to develop the same attitudes about right and wrong and risks and controls, as those shown by management. Individual behavior is frequently influenced by the knowledge that the CEO acted ethically when confronted with a difficult business or personal decision and that all managers handle misconduct promptly. A consistent tone from the senior management and owners down to the management of the operating units contributes to establishing a shared understanding of the organization's business drivers and values and behavior expected from the employees and partners. Risk awareness can be eroded, and risk responses may be ineffective without a strong tone at the top to maintain a strong culture, jeopardizing the business organization's survival. This is based on the following conversation:

*“I think our staff will see how we respond to fraud cases. It is not about the loss it makes but about how the management sees this area, and how we respond, and they are also watching us and see what our management will do. And what action we take. If we take it lightly, they will say, " Oh, my company doesn't care much about that. So, that will be unnecessary, or we said that encouragement will happen again...” (Case A interviewee)*

*“...I believe this is a small strong effect than return because when we talk to them with our tone, our heart, our sincere, our eye contact... they can feel... employee can feel we are... either we treat them like brothers and sisters, and they can feel our company wanted them to continue to stay with us...” (Case A interviewee)*

Tone at the top and throughout the organization is fundamental to the functioning of good culture control. Without a strong tone at the top to support a strong culture, risk awareness may erode, and risk responses may

become inappropriate. Additionally, it may result in poorly defined or ignored control activities, weakened information and communication, and unheard or ignored feedback from monitoring activities that may affect the survival of the business organization. As mentioned in the following conversation:

*"I think all start from top management. The top management, the vision, the value system, once that thing is correctly put in place, correct place, then I believe thing will just mean we just the first thing to do is to put the house all in order. Once the house is all in order, things will be put into place. If we are not in place; we can align very fast..." (Case A interviewee)*

Additionally, religious identity may be more influential in some contexts than other cultural factors in determining how people behave and act in an organization. When viewed positively, religious identity is more closely related to trust, as the sense of trust acts as a control element that prevents fraud activities. Additionally, the religious aspect's fundamental principle is grounded in the concept of trustworthiness and accountability. This can be seen in the following conversations:

*"To begin, each day before we start production at 8:30 a.m., around 8:20 a.m., we recited a prayer and 'istigfar' seven times, 'selawat' and followed by 'AlFatihah'. We also place all these things everywhere. Every time we start working, we always begin with the recitation of Bismillah. Every Thursday we have 'tazkirah' for about 40 minutes..." (Case A interviewee)*

*"...you know, as Muslims, our Islamic principles appear to be limited to one thing: we must earn a 'halal' salary... like I said, everyone should perform their duties, but as a Muslim, please do not cheat..." (Case B interviewee)*

*"Each month, we have a monthly meeting, and on Thursday, we perform the 'Dhuha' prayer together. And that time, if nothing urgent task to do, then we call 'Ustaz' to give some Islamic advice. This includes senior management, and there is also some advice from them..." (Case C interviewee)*

#### ESTABLISHES STANDARDS OF CONDUCT

Standards of conduct steer the organization in its activities, behavior, and decisions to achieve its objectives by defining what is right and wrong and offering advice for navigating the grey areas, considering the associated risks, providing guidance for navigating what lies in between, considering associated risks, and also reflecting governing laws, rules, regulations, standards, and other expectations that the organization's stakeholders may have, such as corporate social responsibility.

Another approach to inculcating integrity and ethics in SMEs is establishing a standard of conduct or ethical values, which can be accomplished by establishing the firm's code of conduct. Employees with strong ethical values are likelier to perform at a higher level and remain loyal to the company. Based on the interview conducted, most SMEs define the code of business conduct and ethical standards in written form, for example, in the company handbook, being printed and displayed around the factory. They are also communicated during the weekly meetings. Employees, particularly those in the manufacturing department, are educated on the company's business code, including the standard operating procedures (SOPs). This is based on the following conversation:

*"...Our employees that work in the manufacturing department will have standard operating procedures (SOP) to follow. Besides, some supervisors supervise them, and the line leader will briefly explain the SOP. That SOP as wellbeing place everywhere to show their job specification..." (Case A interviewee)*

*"... I came out with company policy, which means that everything in general regarding SOP will be in there. What penalty or charge will be levied if an ethical violation is communicated to the employees. Everything is now governed by that policy and procedure..." (Case C interviewee)*

Integrity and ethical values are core messages in the organization's communications and training. Employees learn about developing an ethical climate within the organization during such training. Furthermore, employees are furnished with illustrations of how integrity and ethical principles aided in the identification of issues and solving of problems, as well as the importance of voicing and addressing concerns. This is based on the following conversation:



*“Our company stands for ICQ – Innovation, Commitment and Quality. Now and then, this ICQ is not only a slogan that allows them to know this is what we believe in, but it needs to respond in the work which they perform...” (Case A interviewee)*

*“...we look at the word INOVA... the first word in Inova is integrity... N for neediness... need... work we do and working place as we need when we address what we need... O in Inova stands for originality, V stands for value, the value we hold... the value we give to our customer, and A is affirmative means we affirm each other...” (Case B interviewee)*

For example, in one of the Case A SMEs, the communications and training programs of the organization place significant emphasis on the importance of integrity and ethical ideals. Employees are shown how the organization's ethical climate has evolved during the training. Additionally, employees have demonstrated the role of integrity and ethical principles in recognizing potential issues. This is based on the following conversation:

*“...Actually, we have made some improvements regarding new employees’ registration. The first thing new employees must do is to attend a training session where they have to go through all the company’s regulations...” (Case A interviewee)*

The organization consistently communicates and reinforces its standards of conduct to internal and external stakeholders, including outsourced service providers. Most of the SMEs regularly communicated through weekly meetings or monthly meetings depending on the urgency of the particular task. These findings indicate that ethical and integrity values are primarily practiced informally in SMEs.

#### EVALUATES ADHERENCE TO STANDARDS OF CONDUCT

The evaluation of adherence to integrity and ethical values across organizations and their outsourced service providers is based on the established standards of behavior. The organization's rules and practices and employment and service contracts serve as the means of communication. In certain organizations, it is necessary to formally acknowledge receipt and adhere to established norms.

To ensure that the standards are being followed in practice, management or an independent party evaluates individuals' actions, decisions, and attitudes. However, based on the interview conducted, this was found that most SMEs neglected the importance of such evaluation to strengthen the good control culture. This is based on the following conversation:

*“...We do, but not in a proper way. We do not have enough manpower. Besides, it is time-consuming...”*

However, evaluations may be also conducted by an ongoing management process and/or by an independent party. Certain SMEs invited an outsider to evaluate and assess their compliance with procedures and business processes. This is based on the following conversation:

*“...Every year, we have a surveillance audit from HSCCP and ISO to evaluate and assess, especially our documentation. Then, we have an internal audit and management review every year...”*

Individuals can access and report deviations through several formal and informal communication sources. These channels include whistle-blowing programs, ethical hotlines, upward feedback mechanisms, and regular staff meetings.

#### ADDRESSES DEVIATIONS IN A TIMELY MANNER

Deviations from the entity's expected standards of conduct are identified and remedied in a timely and consistent manner. The organization efficiently communicates established standards for deviance. The amount of remedy action may vary depending on the importance of the damage to the organization, but it is consistently carried out throughout the organization.

Based on the interview conducted, it can be said that most SMEs are lacking in taking action when deviations occur. This is because they lack resources in terms of human capital as well as cost. This is based on the following conversation:

*“...Honestly saying that we may not be able to go in-depth or go into every detail cost and measurement. We do not have specialists or consultations for doing such a process. So, as we grow along the way, if things are loosened, we improve on that...”*

#### COMPARATIVE ANALYSIS OF SMES

The similarities among SMEs can be easily identified because of their comparable functions and identical organizational structure. In the Food and Beverage industries, it has been observed that there exist variations in the form of control culture practices. Table 4.2 below presents a summary of the distinctions among three cases: Case A, Case C, and Case B.

TABLE 4.2. Comparative analysis of control environment practices in selected SMEs

Principle 1	Case A	Case B	Case C
Sets Tone at the Top	<ul style="list-style-type: none"> <li>• Leadership by example</li> <li>• Empowerment -action by doing things.</li> <li>• Handbook – policy</li> <li>• Religious</li> </ul>	<ul style="list-style-type: none"> <li>• Leadership by example</li> <li>• Built trust.</li> <li>• Display word mnemonic to show integrity.</li> <li>• Religious</li> </ul>	<ul style="list-style-type: none"> <li>• Handbook – policy</li> <li>• Religious</li> </ul>
Establishes standards of conduct	<ul style="list-style-type: none"> <li>• Core value system identified by promoting ICQ and inculcate the value into daily routine task.</li> <li>• Standard of operating procedures</li> <li>• Attended training</li> </ul>	<ul style="list-style-type: none"> <li>• Core value system identified by promoting INOVA.</li> <li>• Standard of operating procedures</li> </ul>	<ul style="list-style-type: none"> <li>• No formal documentation</li> <li>• No formal communication</li> </ul>
Evaluates adherence to standards of conduct	<ul style="list-style-type: none"> <li>• Internal audit</li> <li>• External audit</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>
Addresses deviation in a timely manner	<ul style="list-style-type: none"> <li>• Depending on the nature of such deviation</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• None</li> </ul>

Among these, SMEs from Case A generally depicted the practices of good control culture related to the control environment suggested by the COSO Internal Control-Integrated Framework (2013). This is because these SMEs follow all the characteristics under Principle 1 of the control environment. Overall, the above discussions are determinants for good control culture practices in the SMEs under study as in the following Figure 4.1.

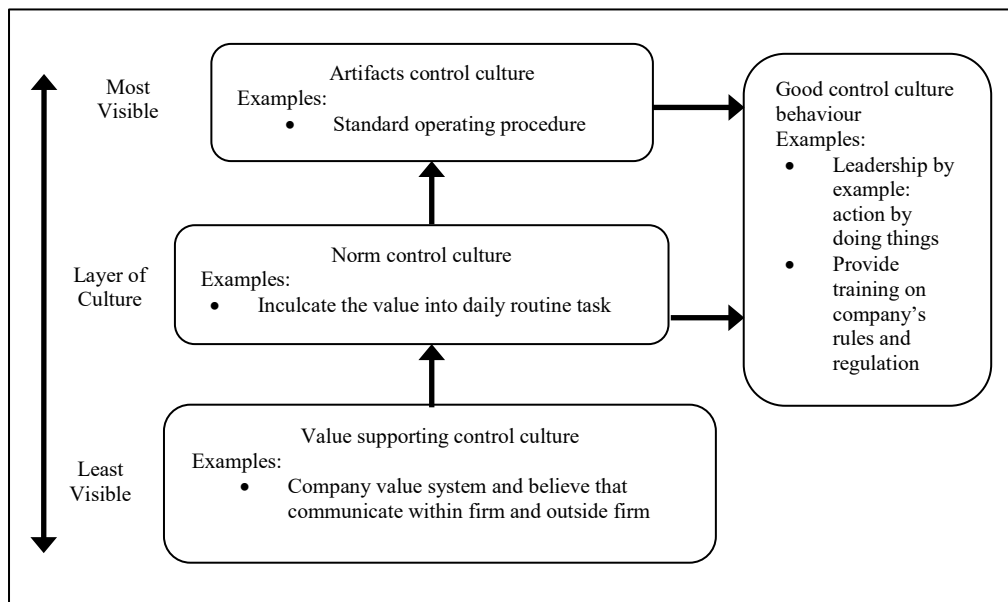


FIGURE 4.1. Layers of an organizational culture that supports good control culture (Schein 2010)  
Source: Developed based on the research findings interpretation.

## CONCLUSION

To some SMEs, there is an apparent encouraging culture by owners or top management in demonstrating their commitment to integrity and ethical values. They lead their company by showing examples of what is right and wrong in developing values, a philosophy, an operating style, and a culture that supports and encourages ethical behavior. To some extent, these SMEs are identified by following the COSO (2013) control environment with these characteristics: (1) sets the Tone at the Top; (2) establishes standards of conduct; (3) evaluates adherence to standards of conduct; and (4) addresses deviations in a timely manner, even though it is informal control culture practices by them. Besides, based on the findings, these SMEs need to put more effort into the last characteristic of addressing deviations in a timely manner due to the need for more resources in terms of human capital, which is costly and time-consuming. The main findings can be linked to Schein's (2010) cultural model and the concept of the control environment. Schein's model emphasizes the role of organizational culture in shaping behavior through shared values, norms, and assumptions. The study findings demonstrate that sustainability efforts are deeply influenced by an organization's culture, mainly through ethical leadership and strong codes of ethics, which help embed sustainable practices and values into the company culture. In SMEs, these cultural elements reinforce the importance of leaders championing sustainability and creating a work environment prioritizing ethical and sustainable operations. The findings indicate that combining a robust control environment and a supportive organizational culture, as Schein (2010) outlined, provides SMEs with a framework for effectively managing sustainability efforts. This alignment between culture and control encourages a proactive approach to sustainable practices, positioning SMEs to foster transparency, accountability, and compliance with environmental and ethical standards across all levels. The study's insights offer practical recommendations for SMEs to create and sustain a workplace culture that naturally supports sustainability, laying the groundwork for further research in different cultural and organizational contexts. Thus, this study laid the groundwork for several strands of future research on cultural explanations of SME sustainability. Ultimately, we hope the cultural domain can purposely embed integrity and ethical values in the organization's Top of the Tone to promote sustainable entrepreneurship.

## NOTES

1. The framework uses the term "board of directors", which encompasses the governing body, including board, board of trustees, general partners, owner, or supervisory board.

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## APPENDIX

### Interview Questions

Q1: How does your organization demonstrate commitment to integrity and ethical values?

Q2: How does your organization define the code of business conduct and ethical standards?

Q3: How does your organization evaluate the compliance of the code of business conduct and ethical standards?

Q4: How does your organization take action when deviations occur?