
Strategy for Implementing Business Ethics in Family-Based MSMEs

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Abstract

This study examines the implementation strategy of business ethics in family-based MSMEs in Indonesia. Family businesses are an interesting phenomenon in the MSME industry with their significant contribution to the country's economic growth. Family-based MSMEs are also vulnerable to competition and ambiguous regulation implementation, which can encourage unethical business practices. This study conducted a literature analysis to identify the strengths, weaknesses, opportunities, and threats associated with implementing business strategies in family-based MSMEs. The study results show that strong family values and organizational flexibility are the main strengths supporting business ethics implementation. However, there are areas for improvement regarding limited resources and the need for more awareness about implementing business ethics. In facing opportunities, family-based MSMEs can take advantage of increased consumer awareness about business ethics and seek support from relevant parties. Regulatory challenges and intense competition remain threats that must be overcome. Based on this analysis, a business ethics implementation strategy for family-based MSMEs to respond to future economic challenges was created with the EKCELLent strategy design formulated as an easy-to-remember and attractive strategy design for family-based MSME owners, consisting of EthixEdu, KultivasiEthix, ClearCom, EthixRewards, and LeadEthix.

Keywords: business ethics implementation, family-based MSMEs, strategy

INTRODUCTION

What is up with Business Ethics in family-based MSMEs in Indonesia?

The family business has become an interesting phenomenon in the MSME industry in Indonesia. The United Nations Conference on Trade and Development (UNCTAD), in its report, ASEAN Investment Report 2022, published in October 2022, mentions that there are 65.46 million MSME players, contributing 60.3 percent to GDP and able to absorb 97 percent of the workforce in Indonesia and around 90% of MSMEs in Indonesia are family-based (data from the Ministry of SOEs in 2020).

In reality, most family-based MSMEs are very vulnerable due to heavy competition and ambiguous regulation implementation caused by the lack of knowledge of business owners and economic conditions that still need to convince business actors, which causes many family-based MSMEs to take considerable risks in "outsmarting" these things, including unethical business practices and violating norms and culture for survival. It is realized that the application or implementation of Business Ethics in the business being run can positively impact the business itself, including family-based MSMEs, especially in the long term. However, in its implementation, MSME owners are reluctant, especially those who are family-based, to apply it because it is considered "heavy" and "complicated." Here it is seen how important it is to develop awareness about ethical issues in business and ways for businesses to become more ethical and contribute better to the world, thus reducing the perception that business is contrary to ethical principles.

Now the question arises, "How can business ethics be implemented in family-based MSMEs?". There is a need to develop a strategy so that family-based MSMEs can implement business ethics in their businesses without reluctance. With the application of business ethics to family-based MSMEs, these businesses will continue to live and develop.

Business ethics, family-based MSMEs, and their underlying theory.

Before answering the above question, it is necessary to understand the concept of business ethics, relevant values, and economic conditions in the context of family-based MSMEs.

Business ethics and relevant normative values become essential in family-based MSMEs. Business ethics involves moral principles and values that lead to ethical actions in business, including corporate social responsibility, integrity, transparency, and fairness. Business ethics theory developed in response to unethical business practices, with figures such as Milton Friedman, Archie Carroll, R. Edward Freeman, and Bowie and Freeman playing a role in its development. In the context of family-based MSMEs, it is necessary to understand the values relevant to culture and economic conditions and family business theory involving family dynamics, generational succession, and working relationships. Applying business ethics in family-based MSMEs has important implications for building good relationships with customers, improving image and reputation, attracting quality employees, and compliance with laws and regulations.

METHOD

This study used two research methods to answer the question of how to implement business ethics in family-based MSMEs. One of the methods used was literature analysis by conducting a study of previous research in this field. This study analyzed 40 articles published by domestic and foreign journals. The literature analysis shows factors influencing the implementation of business ethics in family-based MSMEs and the benefits obtained from applying business ethics.

The following method used was SWOT analysis to identify the strengths, weaknesses, opportunities, and threats faced by family-based MSMEs in

implementing business ethics. SWOT analysis will help formulate the right strategy for implementing business ethics in family-based MSMEs.

RESULTS AND DISCUSSION

What are the benefits of doing business with ethics?

From previous research, the benefits of implementing business ethics in entrepreneurship can be summarized, in this case, family-based MSMEs, namely:

- a. Family-based MSMEs can gain customer trust and loyalty. By applying strong business ethics principles, family-based MSMEs can build customer trust because customers tend to choose to do business with ethical companies, so good business ethics can help gain and retain customer loyalty.
- b. Implementing business ethics can improve the image and reputation of the business. Good business ethics can help build an image as an ethical MSME. When businesses are conducted with integrity and socially responsible, they receive more recognition and appreciation from the community and society, which is a valuable asset.
- c. The application of business ethics can also increase the attractiveness of potential employees. Family-based MSMEs that apply good business ethics can be an attractive workplaces for potential employees. Everyone looks for a work environment that values ethical principles and has a healthy work culture so that family-based MSMEs can attract more top talent and ultimately build a quality work team.
- d. The application of business ethics in business shows that the business must have complied with all legal and regulatory requirements, so the business can run smoothly and help avoid legal consequences and losses that may arise from business ethics violations.

What factors should be considered in implementing business ethics in family-based MSMEs?

A. Internal factors:

Family values and culture. The most important internal factors are the family values and culture underlying family-based MSMEs. The business ethics implementation plan must reflect values such as integrity, responsibility, fairness, and concern for customers and society.

Family leadership. The role of family leadership is vital in implementing business ethics. Ethical and responsible leadership from family members involved in the business can serve as an example, inspire employees, and ensure alignment of business values and goals with ethical practices.

Family commitment. Family members' awareness and commitment to business ethics are crucial internal factors. They must agree and be committed to implementing responsible business practices and maintaining integrity in all operational aspects.

Employee development. Increasing awareness and understanding of business ethics by employees is also an important internal factor. Through employee training and development, family-based MSMEs can ensure that all team members have the same understanding of ethical business practices.

B. External factors:

Legal compliance. An important external factor is ensuring the business ethics implementation plan complies with applicable legal regulations. Family-based MSMEs must comply with laws related to business operations, including environmental, labor, and tax provisions.

Stakeholder involvement. Involving external parties such as customers, local communities, and business partners in the business ethics implementation plan can help create a responsible and sustainable business environment. Opinions and input from stakeholders can be an essential considerations in formulating a plan.

Industry ethical standards. Family-based MSMEs can consider existing ethical standards in their industry as a reference in formulating a business ethics implementation plan. Following best practices recognized by the industry can enhance the credibility and reputation of the business.

Government support and related institutions. The government and related institutions, such as business associations and non-profit organizations, can provide support and resources to help family-based MSMEs implement business ethics in their operations. They can provide guidance, training, and assistance in achieving the goals of implementing business ethics.

SWOT Analysis

To determine the right strategy for implementing business ethics in family-based MSMEs, it is necessary to understand the strengths, weaknesses, opportunities, and threats they face. Based on a SWOT analysis of 40 research articles related to this study, the results are as follows:

Strengths:

Family values. Family-based MSMEs are generally based on solid family values such as honesty, trust, and responsibility. These values can provide a foundation for implementing good business ethics in daily operations.

Flexibility and responsiveness. Family-based MSMEs have a more flexible and responsive organizational structure, which allows them to quickly adapt ethical business practices and make decisions based on moral values.

Weaknesses:

Limited resources. Family-based MSMEs may need more resources, such as capital, skills, and knowledge, to implement ethical business practices, which can be a barrier to adopting and adhering to high business ethics standards.

Lack of awareness and education. Family-based MSMEs may need more understanding of the importance of business ethics and its positive impact on long-term business growth. This lack of awareness can hinder the implementation of ethical business practices.

Opportunities:

Increasing consumer awareness. Consumers are increasingly concerned about business ethics and choose to support companies that implement responsible business practices. Family-based MSMEs can take advantage of this opportunity by promoting their business ethics values to consumers and attracting more ethically conscious customers.

Support from stakeholders. Family-based MSMEs can seek support from stakeholders such as the government, non-governmental organizations, and local communities encouraging ethical business practices. Collaboration with these stakeholders can help MSMEs implement better business practices.

Threats:

Regulatory challenges. Sometimes regulations related to business and ethics can be complex and difficult for family-based MSMEs to understand. This lack of understanding can lead to errors in implementing ethical business practices and risk violating regulations.

Fierce competition. Family-based MSMEs may operate in a highly competitive business environment. To survive and compete, some MSMEs may overlook ethical business practices to achieve short-term gains, which can threaten the consistent implementation of business ethics.

Identification of business ethics implementation strategies.

Based on the results of previous studies and the SWOT analysis that has been carried out, a strategy formulation can be made in applying business ethics to family-based MSMEs so that they can adopt business ethics in running their businesses. The strategy is divided into short-term and long-term strategies and then crystallized into a design that is expected to be more attractive to family-based MSMEs to adopt business ethics in their businesses.

A. Short-term strategy.

Education and Awareness. Socialize the importance of business ethics to all family members and MSME employees. Provide training and education on business ethics values, their impact on long-term business growth, and practices to follow.

Ethical Culture Evaluation. Conduct anonymous surveys, focus groups, or reporting channels to understand the existing ethical culture within the organization. By knowing employee perceptions of ethical culture, areas that need improvement or enhancement can be identified.

Clear communication. Consistently communicate the importance of ethical standards to all family members and employees. Explain how ethics is an integral part of the business model and how important it is to maintain sound integrity and reputation.

Coaching and role modeling. Leaders must be good role models in ethical behavior. Provide coaching to all family members and employees on dealing with challenging ethical situations and making the right decisions. Use examples of successful experiences from leaders or other employees who have faced ethical dilemmas.

Reward and recognition system. Improve the reward and recognition system by incorporating ethical behavior evaluation into the performance management system. Reward and recognize individuals who demonstrate exemplary ethical behavior in their work, which will encourage the repetition of desired ethical behavior.

Collaboration with stakeholders. Utilize support from stakeholders such as government, non-governmental organizations, or local communities that encourage

ethical business practices. Follow programs or initiatives that lead to better implementation of business ethics.

Policy and procedure review. Review existing policies and procedures in MSMEs to ensure they are aligned with adopted business ethics values. Update or change policies to comply with desired business ethics standards.

Encourage collaboration and teamwork. Focus on supportive teamwork and collaboration within the organization. Encourage employees to help each other and collaborate ethically, creating a work environment that supports ethical business practices.

Regular evaluation and review. Conduct regular evaluations of the implementation of ethical business practices. Review progress made, identify areas for improvement, and make adjustments if necessary.

B. Long-term strategy.

It is necessary to formulate a long-term strategy aimed at integrating business ethics comprehensively in all aspects of family-based MSME operations and actively involving the community To face future challenges, as follows:

Develop a comprehensive ethics policy. Create a comprehensive ethics policy that covers core values and expected behavior standards from all family members and employees. Ensure this policy covers issues related to technological advances, such as data privacy, cyber security, and ethical use of technology.

Increase awareness and education. Provide regular training and education to all family members and employees on the latest technological developments and their implications for business ethics. Explain the importance of understanding and following ethics in the use of technology and how to maintain business integrity in the digital era.

Build a robust ethical culture. Executive leaders must be good role models in ethical behavior and ensure that all family members and employees understand and adopt ethical values in every aspect of the business. Build a solid ethical culture through clear communication, coaching, and recognition of ethical behavior.

Integrate ethics into decision-making. Include ethical considerations in every business decision-making process. Teach family members and employees to evaluate the ethical consequences of business decisions and choose actions consistent with established ethical values.

Adopt sustainable business practices. Pay attention to the environmental and social impact of family-based MSME operations. Implementing sustainable business practices such as efficient energy use, waste reduction, and engagement with local communities can reflect a commitment to business ethics and social responsibility.

Use technology responsibly. In the face of technological advances, ensure that the use of technology in family-based businesses is done ethically. Consider data privacy, information security, intellectual property protection, and fair use of technology in business relationships.

Collaborate with stakeholders. Collaborate with stakeholders such as business communities, professional organizations, and academic institutions to develop initiatives and resources that support the implementation of business ethics.

Working together can encourage awareness of better business practices in the family-based MSME industry.

Monitor developments and regulations. Stay up-to-date with technological developments related to business ethics. Follow trends in changes in laws and regulations that affect businesses. Make sure family-based MSMEs continue to comply with applicable rules and standards.

Regular evaluation and review. Conduct regular evaluations of compliance with business ethics and progress achieved. Review existing policies, procedures, and business practices, as well as make necessary adjustments and improvements.

C. EKCELent Strategy.

After observing and analyzing the strategies that have been prepared, both short-term and long-term, a design is made by crystallizing the steps of these strategies to make this implementation strategy easier to remember and attract family-based MSME owners to adopt it into their business. The strategy is as follows:

EthixEdu: Attractive ethics education.

KultivasiEthix: Cultivate ethics.

ClearCom: Ethical and transparent communication.

EthixRewards: Cool ethical rewards.

LeadEthix: Ethical leadership role model

This strategy is made into an attractive slogan, namely the EKCELent strategy. With this strategy, family-based MSME owners will be more enthusiastic about implementing business ethics.

CONCLUSION

Doing business with ethics has significant benefits for family-based MSMEs, such as helping to gain customer trust and loyalty, improving business image and reputation, attracting quality prospective employees, ensuring compliance with the law, and avoiding legal consequences. Factors to consider in implementing business ethics include family values and culture, family leadership, family commitment, employee development internally, legal compliance, stakeholder engagement, industry ethical standards, and government support and related institutions externally.

The EKCELent strategy is an easily memorable and attractive design for family-based MSME owners, consisting of EthixEdu, KultivasiEthix, ClearCom, EthixRewards, and LeadEthix. With this strategy design, it is hoped that family-based MSMEs will be more motivated to implement business ethics in their efforts.

Recommendations for further research to further explore the factors that influence the implementation of business ethics in family-based MSMEs and research can focus on the influence of business ethics implementation strategies in improving the performance and sustainability of family-based MSMEs. A comparative study between family-based MSMEs and non-family businesses can also be done to compare the impact of business ethics on both types of organizations.

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