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SUSTAINABLE PRACTICES AND THEIR DRIVING FACTORS IN MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)*

Wei-Loon Koe^{1*}, Noorain Mohd Nordin², Nurul Ezaili Alias³

^{1,2,3} Universiti Teknologi MARA, Cawangan Melaka, Kampus Bandaraya Melaka,
110, Off Jalan Hang Tuah, 75350 Melaka, Malaysia

E-mails:^{1*} koewei516@uitm.edu.my (Corresponding author)

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Abstract. Practising sustainability is no longer a new phenomenon in today's business world. However, many micro, small and medium enterprises (MSMEs) face various challenges in exercising sustainable practices. In addition, the stakeholders' roles in driving their sustainable practices still remained unknown. Therefore, this study was conducted to determine sustainable practices exercised by MSMEs and the driving factors of sustainable practices. This study employed a qualitative research method in which a semi-structured interview was performed with 12 micro and small manufacturing MSMEs. The participants were selected using the purposive sampling method. Based on the interview findings, it concluded that MSMEs practised three aspects of sustainability, namely environment, social and governance, although they practised sustainability in different ways and to different extent. Regarding the driving factors of sustainable practices, it concluded that stakeholders such as government, owners and customers played a crucial role. Specifically, the government played a significant role by providing various financial and non-financial support. The owners of MSMEs were able to initiate sustainability practices by sharing their sustainable beliefs among employees. Customers could also spark sustainable practices in MSMEs due to their changed preferences towards environmentally friendly products. The implications of this study include supporting the current sustainability model, shedding light on the importance of stakeholders in driving sustainable practices, and providing new insights into developing strategies for sustainable practices.

Keywords: business; drivers; stakeholders; sustainability

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1. Introduction

The concept of sustainability development was introduced by the World Commission on Environment Development (WCED) in 1987, which refers to "meeting the needs of the present without compromising the ability of future generations to meet their own needs". Then, the United Nations (UN) introduced the 17 Sustainable Development Goals (SDGs) in 2015 as part of the 2030 Agenda for Sustainable Development. The achievement of these 17 SDGs is essential in transforming the world through terminating poverty, preserving the environment and enhancing people's quality of life (United Nations, n.d.).

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The global discourse on sustainable development has reckoned a paradigm shift in Malaysia's business operations. For instance, the Malaysian Budget 2024 has integrated sustainability into economic policies (The Star, 2023). In addition, the government also planned to launch a framework on environment, social and governance (ESG) standards by the end of 2023 to assist local companies in transitioning into a low-carbon and renewable energy economy (Bernama, 2023a). Micro, small and enterprises (MSMEs) are considered the backbone of the Malaysian economy because they make up 97.4% of the total business establishment, contribute to 38.4% of gross domestic production (GDP) and employ 48.2% of the workforce in the year 2022 (DOSM, 2023). Therefore, it is time for MSMEs to transform into sustainable enterprises because they play a crucial role in the overall sustainability landscape and achieving 17 SDGs.

However, the adoption of sustainable practices is mainly exercised by large and listed corporations in Malaysia. As for MSMEs, their sustainability performance is still low due to a lack of understanding of the significance of sustainability, such as ESG (Bernama, 2023b). True, sustainable practices needs to be improved and addressed in SMEs especially in emerging markets (Das et al., 2020). Moreover, many MSMEs also believe that their actions would not significantly affect the natural and social environment (Neto et al., 2017). Undoubtedly, MSMEs are facing unique challenges in adopting sustainable practices. Specifically, resource constraints, limited access to information, and a lack of awareness often hinder the integration of sustainable initiatives into their business models. Therefore, the following research question was established:

Research question 1: How do MSMEs practice sustainability in business?

In addition, MSMEs received very little guidance or motivation from their stakeholders in practising sustainability. Stakeholders are those interested in a business; they influence the operations of companies, including sustainable practices. However, many existing studies of enablers of sustainable practices have neglected the role of stakeholders. Furthermore, there is a noticeable gap of how stakeholders can effectively influence and encourage sustainable practices within MSMEs. Understanding the role of stakeholders in steering MSMEs towards a more sustainable trajectory is essential. Therefore, this research aims to address this gap by comprehensively examining the roles of various stakeholders in fostering sustainable practices among MSMEs. Specifically, the following research question was developed:

Research question 2: How do stakeholders act as drivers of sustainable practices in MSMEs?

This study is significant because it highlights sustainable practices that MSMEs exercise. It also sheds light on key stakeholders' role in driving sustainability practices and developing sustainability strategies and initiatives among MSMEs. Furthermore, it provides new insights regarding the significant role of MSMEs stakeholders in encouraging sustainable practices among MSMEs, which helps develop innovative governance structures that prioritize stakeholder representation and participation in sustainability decision-making.

2. Literature Review

2.1 Sustainable Practices in Business

Sustainable development is "development that meets the needs of the present without compromising the ability of future generations to meet their needs" (WCED, 1987:8). It was then integrated into business operations. Several years later, the term Triple-Bottom-Line, also known as TBL or 3BL, was first introduced by John Elkington in 1994 to describe business strategies that incorporate sustainable values. The idea was then expanded into the "3P formulation", which incorporates profit, planet and people (Elkington, 2004). The concept of sustainable development is then frequently explained using TBL. In 2004, the United Nations released a report entitled "Who Cares Win", which mentioned about three aspects of ESG in business. Businesses nowadays are urged to embrace ESG because it is considered a must but not a choice (Byrne, 2023). TBL and ESG are closely related because they are designed to promote sustainable business practices. Furthermore, the 17 SDGs can only be achieved with the help of the three components of TBL or ESG. Thus, practising sustainability in business means integrating the TBL or ESG concepts in business activities.

Sustainable practices adopted by MSMEs vary across different firms. Indeed, as Caldera et al. (2018) mentioned, the actual meaning of the term sustainable business practices is still unclear in the daily operations of the business. Thus, they further characterized sustainable business practice for SMEs under three themes: environmental stewardship, process excellence, and sustainability-oriented culture. Meanwhile, Nor-Aishah et al. (2020) and Hanaysha et al. (2022) measured the sustainable performance of SMEs in a holistic manner, which consisted of three aspects known as economic, environmental and social sustainability. In some other previous studies, researchers focused on the adoption of “lean and green thinking” in achieving efficiency in production and reducing waste (Caldera et al., 2019), implementation of “lean thinking” in directing business firms towards sustainability practices (Franco & Rodrigues, 2021), application of “lean-green operations” in new product development for efficiency (Oliveira et al., 2022), green manufacturing practices and green innovation for corporate sustainable performance (Al-Hakimi et al., 2022), sustainable product and process design, sustainable waste disposal management, sustainable human resource management and local community development (Mitra, 2023) and, performing sustainable manufacturing practices which focused on using economically-sound processes to reduce negative environmental impacts in products production (Ali & Johl, 2023). It could be said that although many organizations have adopted sustainable practices, there remains no uniformed reporting standard and measurement of sustainable performance in which firms measure different things and report in different ways (Byrne, 2023; Ribeiro, 2023). Undoubtedly, this has confused businesses.

Therefore, since there is no uniform definition of sustainable practices, no clear guidelines on what is considered sustainable practices and what is not and different researchers measured dimensions of sustainable practices differently, this study regards any practices that are closely related to TBL and ESG are deemed as sustainable practices, regardless of their level or degree of practice.

2.2 The Stakeholder Theory

Edward Freeman presented the concept of stakeholder in the middle of the 1980s. Stakeholders can be defined as persons or groups that have the potential to influence or be impacted by an organization's aims; they are also individuals or groups that are critical to an organization's survival and success (Freeman, 1984). A company's stakeholders can be classified as internal or external. Groups or persons actively participating in an organization's administration, such as managers, staff members, and owners, are considered internal stakeholders. On the other hand, external stakeholders are indirectly involved in an organization's activities but are not directly connected to its management. Meanwhile, Bonetti et al. (2023) categorized stakeholders into six components: employees, customers, suppliers, community, investors/shareholders and government agencies.

Stakeholder theory has been used in previous studies to examine the sustainability performance of firms. For instance, Buallay (2022) created a theoretical framework which combined the theories of stakeholders, legitimacy, and political economy. According to Chen et al. (2023), a company's value for sustainability is determined by how much its stakeholders value it. In addition, Bonetti et al. (2023) mentioned that stakeholder participation was critical to the success of sustainability reporting. The United Nations study “Who Cares Win” also discussed the roles that stakeholders, such as managers, directors, investors, etc., play in enticing companies to adopt sustainable practices (Byrne, 2023). As a result, it is feasible to apply stakeholder theory to sustainable performance, and stakeholder participation is essential.

Effective management will result from taking into account the stakeholders' needs that fall under a business's purview (Soonsan, 2017). It is vital to acknowledge the firm's substantial stakeholder participation to influence the organization's choice. From the standpoint of MSMEs, however, alternative stakeholder engagement strategies that are appropriate for MSMEs should be used. According to Ho (2023), many stakeholders within the ecosystem may motivate MSMEs to maintain sustainable compliance, including vendors, customers, and business partners.

Caldera et al. (2019) stressed that the involvement of both internal and external stakeholders was crucial for implementing sustainable business practices successfully in SMEs. They further found that owner and top management, employees, customers, society and government played an influential role in enabling

manufacturing SMEs to adopt sustainable practices. Nor-Aishah et al. (2020) mentioned that owners or leaders of SMEs play a significant role in driving sustainable practices in firms; thus, they should equip themselves with relevant skills to achieve sustainable performance. In addition, other stakeholders such as employees, customers and the community should play a complementary role in supporting the owners or leaders in accomplishing sustainable performance.

3. Research Methodology

This study adopted a qualitative research approach. Specifically, a personal interview was conducted because it was highly effective in generating a list of topics within a domain (Guest et al., 2017).

3.1 Subject

The sample of this study was the owner-managers of MSMEs that practice sustainability. As mentioned in the previous section, due to the absence of a uniform definition of sustainable practice, this study regarded it as any practice that was closely related to TBL or ESG, regardless of its degree of practice. The sample was selected through a non-probability method; the purposive sampling technique was employed because selected participants were deemed the best source of information (Patten & Newhart, 2018). The eligibility criteria of sample selection were: (1) MSMEs registered in Malaysia Commission of Company; (2) operated in the manufacturing sector; (3) exercised sustainable practices. There were 12 participants identified and selected. The profiles of the participants are presented in Table 1:

Table 1. Profiles of participants

Firm	Nature of business	No. of full-time employees	Years of operations
A	Food processing	6	4
B	Food manufacturing	20	8
C	Food processing	10	3
D	Food manufacturing	17	10
E	Used palm oil processing	8	12
F	Kitchenware manufacturing	15	7
G	Cosmetics manufacturing	25	9
H	Apparel manufacturing	28	6
I	Furniture manufacturing	15	18
J	Apparel manufacturing	16	4
K	Souvenir manufacturing	6	10
L	Food manufacturing	13	7

Source: Authors' own research

3.2 Data collection and analysis

The data was collected through semi-structured interviews. This is because it is the most commonly used type of interview in which an interview protocol is established in advance; it has a less rigid flow of interviews and allows more useful information to be collected (Patten & Newhart, 2018). The interviews were performed in March 2023 in Klang Valley, Malaysia. They were done through telephone and physical methods. Subsequently, the data was analysed using the thematic approach suggested by Braun and Clarke (2006) due to its flexibility and its ability to identify, analyse and report patterns or themes within data. The six steps of the thematic approach applied in this study were: (1) familiarized with data; (2) generated initial codes; (3) searched for themes; (4) reviewed themes; (5) defined and named themes and; (6) produced reports.

4. Results and Discussion

4.1 Results

This section presents and discusses the results of the interview. Specifically, Table 2 delineates the responses from participants pertaining to sustainable practices they exercised. Based on the interview, sustainable practices could be categorized into three main themes, namely environmental, social and governance.

Table 2. Sustainable practices implemented by MSMEs

Dimension	Firm	Sustainable Practice
Environmental	A	▪ Implement zero-waste policy
	B	▪ Implement zero plastic policy ▪ Use bio-degradable and recycled materials in product packaging
	C	▪ Use bio-degradable materials in product packaging
	D	▪ Use easy-to-dispose materials in product packaging ▪ Recycle of waste
	E	▪ Prevent pollution through reducing the disposal of used palm oil
	F	▪ Produce eco-friendly products ▪ Implement energy-saving policy
	G	▪ Use natural raw materials ▪ Use bio-degradable materials in product packaging
	H	▪ Install solar panel ▪ Use electric-saving appliances
	I	▪ Use recycled materials ▪ Implement zero-waste policy
	J	▪ Recycle of waste ▪ Implement a waste management policy
	K	▪ Use non-toxic materials
	L	▪ Reduce production waste ▪ Use bio-degradable materials in product packaging
Social	A	▪ Provide jobs to retirees ▪ Donate to the misfortunes
	B	▪ Donate regularly ▪ Commit to employee safety and health
	H	▪ Employ single mothers
	I	▪ Donate to charity bodies ▪ Employee training and development
	K	▪ Employ disabled people
Governance	B	▪ Adhere to product safety standards
	C	▪ Have a set of production rules and regulations
	I	▪ Implement a risk management policy

Source: Authors' own research

The environmental dimension of sustainability is related to the impacts of business activities on the natural environment (OECD, 2001). As mentioned by Husted and de Sousa-Filho (2017), it involves a process of environmental management to reduce environmental impacts. All the firms interviewed in this study expressed that they practised environmental sustainability. In particular, five firms focused on the concept of 3Rs: reduce, reuse and recycle. The interview also revealed that four MSMEs emphasized on using bio-degradable materials in their business operations. Biodegradable materials can decompose naturally within a few months or a few years; examples are such as paper-based or wood-based materials. It was great to find that five firms have established and implemented environmental policies regarding waste management and green management.

The social aspect of sustainability can be described as a concern pertaining to the well-being of employees and communities (Gimenez et al., 2012). There were five firms involved in this study that practiced social sustainability. Due to the small size and scarce resources of the firms that participated in the interview, their social sustainable practices were centred around providing donations and job opportunities. MSMEs normally face financial constraints and tight budgets alas, three firms in this study donate regularly to society's

misfortunes. It is also worth mentioning that two enterprises employed needy people, such as single mothers and people with disabilities.

The governance dimension of sustainability involves the firm's structure, operations and corporate governance practices (Husted & de Sousa-Filho, 2017). Regarding governance sustainability, three firms stressed that they established and implemented rules and regulations to ensure that their business operations were safe and adhere to industrial standard and that their employees were well taken care of. It was regretted that the number of firms that practised governance sustainability was too low; perhaps it was due to the lack of systematic operations and management systems in MSMEs. However, it marked a good start for encouraging more firms to be involved in governance sustainability.

Table 3. Driving factors of sustainable practices

Stakeholders	Driving factors	Narrative from interview
Government	Support	<ol style="list-style-type: none"> 1. "For my business, government grant has helped us a lot and contributed to our sustainable practices ... the financial assistance that we received has helped us to improve our operations towards a more sustainable production process." 2. "The main factor for my business to be sustainable is the financial incentive such as a low-interest loan that we received from the governmental agency ... We used the fund for upgrading our operational tools and equipment to renewable energy, such as using a solar panel." 3. "Practicing sustainability is a must now ... government has encouraged businesses to do so... Incentives provided by government is another motivational factor." 4. "Government support became my main reason for sustainable practices... I attended the seminars and training courses organized by governmental agencies. They gave me various ideas for reducing waste and using alternative pro-environmental raw materials." 5. "Government support and the sustainability movements made by government ... the local authority has organized many activities related to sustainable development such as recycling, charity and green programs. Those programs have allowed me to implement sustainability in my business." 6. "Although my business doesn't need to report its sustainable performance, the government has started to promote the importance of being sustainable through seminars, campaigns and social media ... the government is serious in supporting sustainable business practices." 7. "I attended a seminar organized by SME Corp, where I learned about green business and its importance to the country's development. From there, I decided to adopt sustainable practices." 8. "Government has promoted sustainable business practices to us ... the government has encouraged us to be sustainable through many efforts and initiatives. Some of these initiatives have made my business adopt sustainable practices."
Owner	Belief	<ol style="list-style-type: none"> 1. "I believe that how top management, such as CEO or manager, perceive sustainability contributes a lot to sustainable practices in this company ... my management team and I believe that sustainability is a must-do in today's business world." 2. "As the sole owner of this business, my own belief and intention drove me to practice sustainability ... I think it is time for me and my business to contribute back to my society and do something good to our mother earth." 3. "I believe that natural resources are gifts from God, and I need to take care of them. God flourished us with an abundance of resources, and we should cherish them and make sure that our future generations can use them also." 4. "I am aware of various earth issues, and am strongly concerned about those issues as well. This made me exploresustainable practices when I started my business, and developed sustainable policies in my business." 5. "I came from a poor family ... I can be what I am today because I received various kinds of help from many people ... I believe that it is my responsibility to help the misfortunate and give back to society." 6. "I love to share whatever I know with my workers. I do share with them the importance of a business to be sustainable ... I believe that business must not harm the wharmwe live in."
Customer	Preferences	<ol style="list-style-type: none"> 1. "Customers nowadays acknowledge eco-friendly products ... their awareness of sustainability caused my business to produce products sustainably." 2. "Market demand is important ... there are growing opportunities in the market for green and environmentally friendly products due to increasing customer demand." 3. "Market demand ... the current trend in the market is green and environmentally friendly products. Customers are going for those products ... I need to change my way of producing the products to adhere to the green production process." 4. "In my business, our customers are becoming more demanding. Nowadays, they are not only looking for products that have good quality ... but also environmentally friendly products... we have to change our production process to suit their preferences."

Source: Authors' own research

Table 3 summarises the interview results in regard to stakeholders' driving factors of sustainable practices. As Freeman (1984) mentioned, stakeholders are essential in determining the direction and operations of firms. The interview revealed that three stakeholders of MSMEs were critical in driving them to practice sustainability: the

government, the owner and the customer. Specifically, eight firms mentioned that they were affected by the government in practising sustainability. They further delineated that they practised sustainability due to financial and non-financial support provided by various governmental agencies. The financial support included financial incentives and low-interest loans. Meanwhile, non-financial support included training courses, seminars, programs and campaigns.

Six owner-managers expressed that their own beliefs drove them in practicing sustainability in their businesses. They explained that their beliefs and religious beliefs drove them to practice sustainability. In addition, they also mentioned that they shared their beliefs with employees in order to share knowledge about sustainability with them and gain support from them.

The customer was found to be another stakeholder who played an essential role in driving MSMEs to exercise sustainable practices. There four firms that explained that they practised sustainability because customers' demand drove them. As they mentioned, customers' preferences have changed over the years; they prefer to buy environmentally friendly products. Therefore, MSMEs must adopt sustainable practices in their operations to meet the customers' requirements and suit their tastes.

4.2 Discussion

Figure 1 summarises the findings of this study. It identified three major categories of sustainable practices among MSMEs; similar to their larger counterparts, sustainable practices of MSMEs also centred around the three aspects of environment, social and governance.

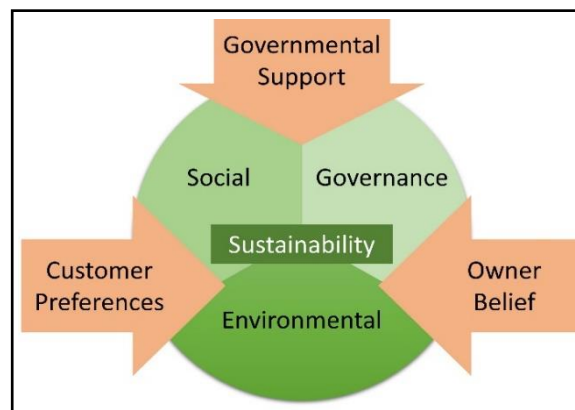


Figure 1. Sustainable practices and their drivers in MSMEs of Malaysia

Source: Authors' own research

It is worth mentioning that the aspects of environment, social and governance supported the ESG principles. In addition, the findings were in agreement with the description of environmental, social and governance sustainability delineated by Husted and de Sousa-Filho (2017) and Gimenez et al. (2012). It found that environmental sustainability was the most frequently practised sustainability, followed by social and governance. This could be caused by most MSMEs being aware of environmental sustainability. There were only a small number of enterprises that practised governance sustainability; perhaps they were MSMEs and lacking sufficient operational and monitoring systems. The findings also disclosed that MSMEs in this study emphasized sustainability, although they were relatively small compared to large organizations. However, their degree of practice and types of sustainable practices were rather different and difficult to measure or assess. In other words, another word firms were practising different types of sustainability in their business, and the extent of practice was also different. Therefore, measuring or assessing their sustainable performance remained a significant challenge.

In terms of stakeholders' roles, although Bonetti et al. (2023) have identified six categories of stakeholders, this study found that only three were significant in affecting the adoption of sustainable practices among MSMEs. The government was found to be the primary driver of sustainable practices. The other external stakeholders were customers. Meanwhile, the owner was the only internal stakeholder which drove MSMEs to adopt sustainable practices. Although not all stakeholders were playing a role in influencing sustainable practising in MSMEs, the findings supported Bonetti et al. (2023), Chen et al. (2023), Nor-Aishah et al. (2020) and Caldera et al. (2019), whereby the importance of stakeholders should not be neglected. The findings indicated that governmental support was crucial because it provided many financial and non-financial supports through its various agencies. MSMEs not only obtained the relevant information and knowledge from those agencies but also accessed financial assistance for implementing sustainable practices. As operations of MSMEs were closely related to the personal beliefs of their owner-managers, owners' beliefs that were held and shared by the owner-managers did affect the adoption of sustainable practices. The employees would be able to accept and practice sustainability if the owners were spread the information about sustainable practices around the employees. A critical agenda for business survival is to meet the customers' preferences. Changed market trends and customers' tastes have undoubtedly driven the MSMEs to embark on sustainability management to satisfy their customers.

5. Conclusions

This study was performed with the aim of determining sustainable practices exercised by MSMEs and driving factors of sustainable practices in MSMEs. In answering the first research question, it concluded that MSMEs practised sustainability in three aspects: environment, society and governance. However, their sustainable practices varied from one to another and were practised to different extend. As for the second research question, it concluded that the driving force of governmental support (both financial and non-financial) was playing a prominent role, followed by owner's belief and customer demand.

The implication of this study is two-fold. Literally, it supports the current sustainability model, which consists of environmental, social, and governance elements. It also enriches the stakeholder theory by identifying key stakeholders who are critical in driving MSMEs towards sustainability. Practically, it provides new insights into sustainability practices that are relevant and suitable to be exercised by MSMEs. It also highlighted the importance of different stakeholders' roles in encouraging sustainable practices, which further helps develop assistance, governance structures and marketing strategies for MSMEs. This study is also significant in supporting relevant Malaysian governmental policies such as the National Energy Transition Roadmap (NETR) and 17 Big Bolds in the MADANI economy by expediting sustainable principles in MSMEs.

There are several limitations in this study. For instance, the sample size of this study was limited, and the participants were only MSMEs from the manufacturing sector. In addition, the methodology employed was qualitative, using semi-structural interviews. Therefore, future studies should increase the sample size and extend to MSMEs from other sectors. Moreover, a quantitative method can also be adopted to validate the model, which could significantly contribute to novelty of research.

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Wei-Loon KOE is an associate professor in the Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Melaka, Malaysia.

ORCID ID: <https://orcid.org/0000-0003-3977-1884>

Noorain Mohd NORDIN is a senior lecturer in the Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Melaka, Malaysia.

ORCID ID: <https://orcid.org/0000-0002-9858-5494>

Nurul Ezaili ALIAS is a senior lecturer in the Faculty of Business and Management, Universiti Teknologi MARA, Cawangan Melaka, Malaysia.

ORCID ID: <https://orcid.org/0000-0002-0870-899X>

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