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REGULATION DRIVEN (UN) ETHICAL BUSINESS PRACTICES OF SMALL OWNER MANAGED ENTERPRISES.

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Governments use laws and regulations to point business behavior in what they perceive to be beneficial directions. Ethics implicitly regulates areas and details of behavior that lie beyond governmental control. Business ethics applies to all aspects of business conduct and is relevant to the conduct of individuals and entire organizations. These ethics originate from individuals, organizational statements or from the legal system.
(https://en.wikipedia.org/wiki/Business_ethics).
This paper argues that certain business regulations may drive Small-Owner-Managed-Enterprises (SOME) to engage in unethical business practices. This is not 'beneficial direction' for society. This paper is part of a wider research on issues and challenges facing SMEs and in particular SOME, and deals with only a small part of the current regulatory framework in Singapore.

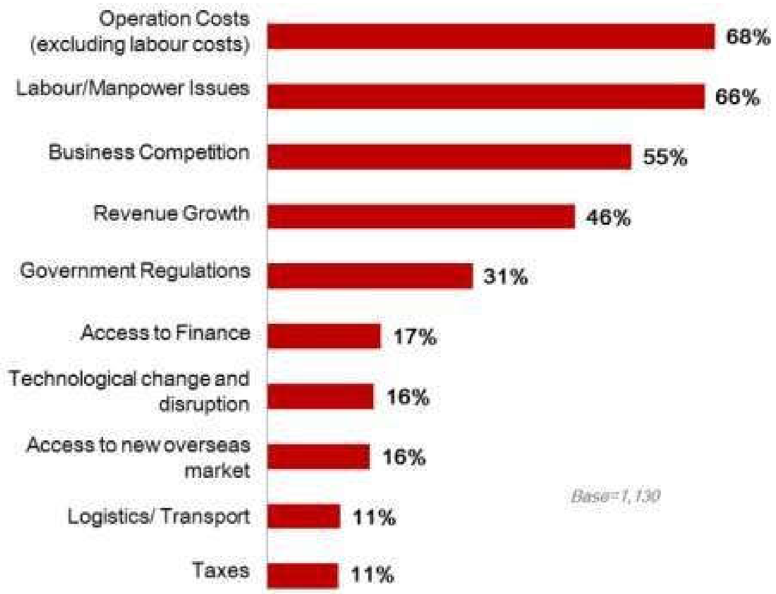
SPRING Singapore and Other Government Assistance
For SME to raise funds, besides the bank loan, they can turn to government for financial help as well. As the lack of financial funding is the toughest yet most common obstacle for SMEs, the Singapore government has rolled out several schemes to help these firms to gain access to funding. The most well-known is SPRING Singapore. SPRING Singapore is an agency under the Ministry of Trade and Industry responsible for helping Singapore enterprises grow and building trust in Singapore products and services. It is an enterprise development agency that helps the growth of Singapore SMEs in various ways, including financing, technology, and innovation. It offers a variety of schemes that aids the SMEs in different stages, which aims to build a landscape where firms can flourish and grow in a sustainable manner. One such incentive is the *Productivity and Innovation Credit Scheme (PIC).* Under this scheme the government has a cash payout option for a percentage of the qualifying expenditure; was 60% and reduced to 40%.

The Research
This paper is part of an ongoing research on the challenges faced by Singapore SMEs. The research is done in the form of case studies; conducting interviews. The interview based case studies were done on 4 Small-Owner-Managed-Enterprises. Interview Results and Discussion Four SOME owners from different industries were interviewed, including the Food and Beverage, Design & Constructions as well as Tourism. During the interview, the four interviewees shared their experiences. The table below indicates the profile of the four SOMEs interviewed.

SME Firms Interviewed				
	Firm A	**Firm B**	**Firm C**	**Firm D**
Number of Years	16	3	More than 20	More than 20
Position	Owner	Owner	Owner	Owner
Number of employees	Between 20 to 30	Less than 10	Between 10 to 30	Less than 30
Industry	F&B	F&B	Construction	Tourism
Nature of business	Pte Ltd	Sole Prop	Sole Prop	Pte Ltd
Annual Sales	More than a million	Less than a million	Less than a million	Less than a million

Of the four SOMEs, two registered as sole proprietorships and two chose Private Limited, which is incorporated and had their own legal structure. Those who chose sole proprietorship find the paperwork a hassle to handle and kept their business scale small, so that it was easier for them to manage the accounts. For those who had Private Limited, they wanted to kept proper, clear accounts and get audited as they had a larger scale. So it could be seen that depending on the business model and the aim of the business, it directs them in choosing different nature of their business.
The diagram below depicts an overview of the issues faced by SMEs.

The bar chart below provides an overview of the key challenges faced by businesses in Singapore. This paper does not deal with all the issues raised; it focuses on specific manpower regulations. The National Business Survey 2016/17 (NBS) was conducted by the Singapore Business Federation (SBF) and responses were taken from 1,100 firms across various major industries. It ranks in order the percentage of business that finds these problems as their major challenges. The respondents were allowed to tick for more than one choice.



Key Challenges That Businesses Face

After the interview with the four SME owners, the largest challenge they face in business operations revolves around manpower, as it is one of their heaviest expense. Firm A mentioned that it was very difficult to hire staff, especially locals. As a café, the working environment was not appealing the locals. This was especially true for those in food and beverage industry. Firm A and B mentioned that during the initial stage of the business, manpower came from friends and relatives. When Firm A expanded the business, higher manpower was required. However, the working environment for F&B was not very satisfactory for the locals, therefore, they had to seek for foreign workers.

However, Firm C and D mentioned that manpower was not their greatest worry. Firm C operates on a project basis, so they would hire part-timers. The number of manpower would depend on the scale of the project and being a construction firm, the part-timers hired were all foreign workers. The hiring of foreign workers on part time basis is illegal.

Secondary research has shown that manpower has been one of the highest concerns for SMEs. It was shown that 66% of SMEs indicated that manpower was the biggest challenge, key manpower issues faced are rising labour costs, manpower rules and regulations, as well as attracting and retaining younger workers. (SBF, 2016). This coincides with the answers provided by the interviewees. The four interviewees from three different industries all mentioned that manpower was a big challenge for them. The cost is high as there is a minimum salary requirement and it is difficult for them to retain workers, especially in the F&B industry. Young workers are unwillingly to stay long in small firms when they do not see career progression, resulting in them shunning such jobs. Therefore, these SMEs had to turn to seek for foreign workers. But as the government curbs the reliance on foreign labour, many rules and regulations are implemented, contributing to more restrictions for the SMEs.

As the government monitors on the foreigners inflow to Singapore, there is a restriction on the number of foreign worker each firm is able to hire. As mentioned by Firm A, the working environment in F&B often pushes the local labour away, therefore they had to rely on foreign workers. Similar for Firm C, the construction firm relies heavily on these foreign labours. However, there is a limit on the number of foreign workers they can hire. This becomes a problem especially when high manpower is required and they are unable get more staff due to the stringent rules. It restricts them from getting adequate manpower.

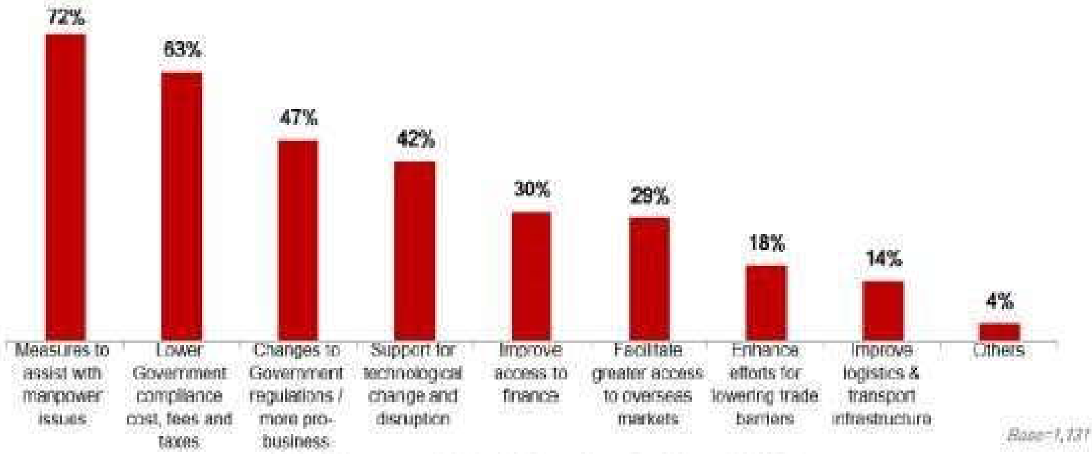
It was mentioned by the interviewees that the lack of manpower was related to the strict regulations. The National Business Survey 2016-17 indicated that 73% of the SMEs indicated that they are 'Neutral' to 'Very Dissatisfied' with the current business policies. The Dependency Ratio Ceiling (DRC) refers to the maximum permitted ratio of foreign workers to the total workforce that a company in the stipulated sector is allowed to hire. (MOM, 2012). The DRC percentage will vary on each industry sector. For a full time local/PR to be considered as one full headcount, their minimum salary is $1,100. (ER, 2017). Effective from July 2018, this figure will be adjusted to $1,200. (CNA, 2017). The manpower quota is calculated as shown below:

$$\text{Maximum no. of Foreign Workers} = \frac{\text{DRC\%} \times \text{Local Workforce}}{[100\% - \text{DRC\%}]}$$

Anecdote given was that in order to hire enough foreign workers while adhering to the ratio, firms with include the names of the family and relatives as employees under their firm and contribute their CPF, to raise the quota on the number of foreign workers they could hire. However, these people may not be really working in the firm. The enterprise owner contributes to their CPF, but not the salary. Therefore, these people only hold a name in the company without really working for it. However, the firm owners can take advantage of it and hire more foreigners. Another example, the foreigners holding the Employment Pass are not considered in the DRC quota, therefore some of them are hired using this level but not paid the minimum salary of \$3,600.(in practice at least 4500) They hold a title, but does the job and get reimbursements similar to a foreigner holding a Work Permit (WP) or S Pass.

These practices are indeed illegal and unethical but the SOME owners interviewed felt they were 'compelled' to do these unethical practices to obtain the required manpower. The owners expressed that the first course of action has always been hiring locals. They were able to do that when they initially started; mainly through support of friends and relatives. As the business grows they needed more manpower. They found it difficult to hire locals especially the F&B business. The owners also expressed that they tried to hire foreigners legally but found that they had not enough quota. To overcome the quota regulations, they had to have 'phantom employees'. They were willing to incur the costs of paying CPF to remain legal, though was unethical. They resorted to illegal activities of hiring on E-Pass when the quota was insufficient for their needs.

The 'phantom workers' disrupt the official statistics of unemployment, giving a skewed view of the economy. This also inflate the number of workers hired in the F&B industry. The unethical practice of hiring foreigners on E-pass with *'unreal inflated'* salaries leads to artificially inflated manpower costs; deflating profits and reducing business tax payable. This is tax avoidance resultant (indirectly) from the stringent regulations on hiring foreigners. In a 2012 survey, tax avoidance was the second most important ethics issue that the British public thought business needed to address. Avoiding tax is avoiding a social obligation. Tax avoidance can make a company vulnerable to accusations of greed and selfishness, damaging its reputation and destroying the public's trust. (Back, 2013).
The diagram below is taken from NBS 2016/17, indicating the businesses' wish list for Budget 2017. Manpower is an area that many businesses have issues with.



Businesses' Wish List for Budget 2017

Another unethical issue brought up in the case studies was Government Grants, especially PIC. Anecdotal evidence and interviews indicate that some consultants inflate prices so that PIC claimants can obtain higher cash payouts. Basically, where the cash payout is 60%, the consultants would invoice \$100,000 for what would normally cost \$70,000. That way the claimant would receive \$60,000 grant (60% of 100,000) instead of \$42,000 (60% of 70,000). The consultant would then give a \$30,000 credit note to the claimant so *actual* amount paid is \$70,000 and a \$60,000 cash payout obtained. IRAS (Inland Revenue Authority of Singapore) has recognized this unethical behavior and have put warning messages on their website. There are examples given of what constitutes abuse of PIC scheme and the penalties for committing them.
In a parliament session in Singapore, Senior Minister of State for Finance Indranee Rajah revealed that IRAS, has clawed back about S\$11 million in grant money which was disbursed under the Productivity and Innovation Credit (PIC) Scheme (Yap, 2016).

Concluding Remarks

The interviews and anecdotal evidence shows that Small-Owner-Managed-Enterprises (SOME) are driven by regulations to commit unethical practices to sustain themselves. Talib (2016) has also shown how regulations on smoking prohibition areas had driven shisha cafes to defy the regulations to sustain their business. These are dysfunctional behaviours resultant from stringent regulations.

Regulators need to consider how Small-Owner-Managed-Enterprises (SOME) will be able to cope with imposed regulations that are imposed 'across the board' as *one shoe cannot fit All.*

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