

# **Ethical Considerations for Small Business**

## **Remarks made to The Canadian Centre for Ethics & Corporate Policy In Toronto on December 2, 1999 *Catherine Swift, President, Canadian Federation of Independent Business***

With just a few days to go before we enter a new millennium, today I would like to provide a look into the future from the small business perspective, but at the same time touching on the past in order to show both the opportunities and risks which loom on our horizon. Just those two words, opportunity and risk, probably define the entrepreneur better than any others. They clearly depict the people who will be blazing new trails for others to follow and benefit from as we move forward as a nation into exciting but rapidly changing times in which not only the business community, but governments and every facet of our society is being challenged to become, dare I say it? More entrepreneurial!

Growth in the small- and medium-sized business sector in Canada, and for that matter many developed countries, over the past couple of decades has been very significant. This segment of the business community now represents about 40 per cent of GDP and accounts for more than half of total employment in the Canadian economy. As the overall role of small business expands, questions about what this expanding role means to greater Canadian society outside of the hard economic numbers also arise, and ethical issues are one such consideration. Having worked with and studied the values that drive the entrepreneurial culture throughout my career, I strongly believe the growing role of the small business community in Canada is good news for the expansion of more ethical business practices.

Research on entrepreneurs shows what is considered by some a surprising finding: Canada is one of the most entrepreneurial countries in the world. A recent study of entrepreneurial attitudes in several developed countries found that Canadians were neck-and-neck with Americans as the most entrepreneurial of the group. Although it is impossible to fit entrepreneurs into any one category, research has consistently identified a number of common qualities displayed by entrepreneurs. The common elements include the desire to be one's own boss, independence, self-reliance, the desire to build something, and the need to make a contribution to society. There is also an anti-establishment element to the entrepreneurial mind set, accompanied by a fundamental scepticism of big bureaucracies such as those found in government and large corporations. Although money is certainly one motivating factor, it has never been found to be the leading incentive for entrepreneurs. And that is just as well, since many have experienced spectacular failure as well as fantastic success. In fact, surviving the former is often a prerequisite for achieving the latter.

One of the strengths of Canada's entrepreneurial culture is that we have permitted people to fail. To see what happens in societies that do not believe in letting businesses fail, we need only to look at the Asian financial meltdown of last year, where governments propped up inefficient and sometimes corrupt companies and financial institutions until the whole house of cards came crashing down. The way in which Japan and some other Asian countries conducted their affairs was antithetical to true entrepreneurship. Interestingly enough, after the financial crisis last year, these same countries are now looking to the entrepreneurial sector as the best means of reinvigorating their economies.

Negative motivations have also pushed people into entrepreneurship. Many people have become entrepreneurs because the classic societal power groups; big government, big corporations, and big labour have excluded them. This has certainly been the case over the past few decades for many, including new immigrants to Canada. Furthermore, during the past 20 years or so, there has been incredible growth in the number of women entering the ranks of entrepreneurship, in part because they faced resistance in many occupations and sectors. Many young people have also found that in the absence of more traditional employment opportunities, the best way to beat the "no experience, no job, no job, no experience" conundrum is to launch their own enterprises. The expansion of this sector within Canada can therefore be said to have had profoundly positive impacts on society in general.

The growing power and significance of small business in this country has certainly not been lost on the general public. Public opinion polls which canvass the groups within society that are well respected by the public consistently show small businesses at the top of the heap. A public opinion poll by Goldfarb Consultants which the Canadian Federation of Independent Business commissioned in conjunction with Scotiabank as part of a presentation at an international small business conference we co-hosted back in October of this year, confirmed that small businesses and farmers were the groups held in highest esteem by the general public. Large corporations and government were among the lowest in the grouping. And when asked the reasons for holding small firms in such high esteem, the most frequently given responses were that the small business owner was seen to be innovative, understands their customer, does quality work and cares about the community. They were also seen to be dynamic, reliable, and honest. It is also important to note that these views toward small business owners were very consistent across regions and among key demographic groups.

Another part of the same survey sought the views of the public on their own workplace satisfaction, comparing that of small firms, large businesses, and the public sector. The findings showed that, overall, Canadian workers are very satisfied with their jobs. When asked about their level of satisfaction with their workplace, close to 44 per cent said they were very satisfied and another 37 per cent were somewhat satisfied. The most satisfied group were the self-employed and business owners, of whom almost two-thirds said they were very satisfied. The next most satisfied group were those working for smaller businesses, followed by employees of large companies. Public sector employees are the least satisfied of the bunch. Interestingly, this ranking of workplace satisfaction is almost a reversal of the wage and benefit experience. Generally speaking, public sector and large

business employees receive higher incomes and benefits than small business employers, employees, and the self-employed.

As to why these small business workers were so satisfied with their jobs, one key factor which emerged was trust. Over 60 per cent of small business employees say they completely trust their employers, almost double the proportion of employees of large and medium-sized firms, and three times more than public sector employees. Other attributes of small workplaces that were especially appreciated by employees included less tangible factors such as flexibility for personal needs, relations among employees and between managers and employees, and the work ethic. In the public sector, interestingly enough, the most highly regarded aspect of the job was the amount of time off. In the public sector, it seems according to these results that the best part of their job is not being there.

All of these survey results tend to underscore the basic ethical orientation of the small business owner. This segment of the population would not be as highly regarded by the general public or attract such accolades from employees if they were not adhering to some pretty commendable ethical standards. Yet small firms do face some very significant ethical challenges, notably in today's hyper-competitive market environment.

One of the key ethical challenges I see today is the extent to which businesses are tempted or even pushed by government policy to operate in the underground economy. Although the underground economy defies precise measurement, all indications suggest that it is growing in Canada. All economies will always have some underground activity, and the challenge for policy-makers is to keep it down to a dull roar so that it does not ultimately undermine government credibility and programs. The Canadian underground economy got a huge boost back in the early 1990s when the triple whammy of a serious recession, a relatively high value for the Canadian dollar, and the introduction of the much-despised GST coincided. The impact of all of these elements produced a significant growth in underground activity, as well as tremendous growth in cross-border shopping. The phenomenon of cross-border shopping was a quintessentially Canadian type of tax revolt, an action whose result was to punish ourselves as jobs and businesses were lost in Canada as a result of dollars spent south of the border. This was also a tax revolt in which participants used the rationale that it was okay not to declare purchases because governments deserved not to collect the tax on account of their own unethical behaviour.

At the risk of sounding like we told you so, I must say we told you so. No organization, be it business or non-business, including government parties, fought the GST issue as vigorously as we did at the dawn of this decade. We told the then Federal Finance Minister Michael Wilson and others in his government that to bring in such tax before harmonization was achieved with the provinces was an invitation to chaos and digging more tunnels for the underground economy. The government at the time totally misunderstood just how well the Canadian public instinctively sensed the error of their ways, and this became a very major reason in my view, why the federal Tories were decimated as a major political party in this country. Tax policies have profound implications for countries, and even today we believe the major failing of governments at all levels is not being able to get their heads around that basic fact.

Since the introduction of the GST, growth in the underground economy has abated somewhat as the economy improved, but the bad news is that it has not stopped growing entirely. And if it is growing now, just wait to see what happens when the economy turns down again if governments do not make some pretty significant changes in their policies. What is seemingly perverse is that governments, and notably the federal government, seem to be doing all they can to tip the balance and make the underground economy even more enticing. Of course high taxes are one main motivation for consumers and businesses to conduct their affairs "under the table". But research on underground activity levels shows that high taxes alone are not a key reason for people to go underground. What is vital is the perception that people's money is being spent wisely. Some countries have both high taxes and a relatively small underground economy, as their taxpayers are regularly consulted on tax changes and the government's credibility is high.

In Canada, it is obvious that a growing number of Canadians do not believe their tax dollars to be well spent, but unfortunately too many out of frustration are taking their tax protest underground. I should point out that the vast majority of small businesses do not yield to the temptation of operating underground for moral reasons, such as the example they would be setting for their family members, who often work in their business, and out of concern that they would be damaging their community. Canadian governments should focus more on establishing equitable tax policies and on keeping their promises than on increasing the number of audits they perform, as they have been doing in recent years. This is akin to having speed limits set at 30 miles an hour on the 401 and the law enforcement people being amazed that there are so many speeding tickets being handed out. Our Employment Insurance system is an especially dismal example of how policies foster unethical activities on the part of governments, businesses and individuals. The economies of entire regions of this country are founded on a regular reliance on EI. The Transitional Jobs Fund, a component of the EI system which has been much in the news lately, seems to have been used more to create short-term employment just long enough to requalify a person for more EI benefits than it has to actually help train people for the workplace. And the collection of several billions dollars more every year by the government from EI premiums than is actually required by the system, monies which subsequently have just been rolled into the big revenue pot for whatever purposes are deemed appropriate by the politicians, is just one more reason this program has lost any credibility among employers and employees, which has fostered various unethical practices.

Treatment of employees is also a key ethical element for any employer. The public opinion data I cited earlier suggests that small employers are doing a very good job overall, but once again rigid policies which act more to the detriment of small firms than large ones are very unhelpful. A recent example was the very arbitrary doubling of parental leave provisions by the federal government, with no consultation as to its effect and seemingly no big demand for this change from any constituency. This action was taken by the same government which championed pay equity and imposed it on business, but then refused to pay its own employees in response to court rulings.

In other related policy areas, looking back at when our economy first started to recover from the recession of the early 1990s, many businesses large and small initially hired people on a part-time or contract basis until they were assured that the growth period would continue and these jobs could reasonably be converted into full-time employment. Payroll tax and employment standard policies over the years that are very unbalanced against employers have increased this tendency to resist creating full-time employment until conditions were better known. This is not atypical for the early stages of an economic recovery. But instead of welcoming this job creation and encouraging its migration into full time jobs, labour groups egged on governments to extend benefit coverage to part-timers and others to make this form of employment more expensive. There has been considerable discussion in ethical debates over promoting an approach to part-time employment instead of downsizing, or less overtime and more new jobs, but in Canada there are only disincentives for employers to do this. Instead of advocating policies which would provide carrots, or at least smaller sticks with which to beat employers, labour groups and others promote punitive approaches such as outlawing or limiting overtime and forcing more benefits to be provided to part-timers. These negative measures may capture some interesting headlines, but they do not promote more reasonable and ethical treatment of employees on the part of employers.

Many new ethical considerations for businesses of all sizes are being raised by the Internet and the increased ability to transcend the rules and regulations of any particular country. As governments are unable to regulate this rapidly growing sector with any effectiveness, it will make it even more important that governments foster an atmosphere of voluntary compliance by setting a much better example than it has done in the past with respect to ethical policies and practices.

Before closing, I would like to make a few comments about CFIB and how we attempt to promote ethical practices as an organization. As you may know, CFIB is quite unique among business groups as we form our positions on policy issues exclusively on the basis of feedback from our members, with each member having the same say. The one member, one vote principle has been a mainstay of CFIB since its inception in 1971. We are steadfastly non-partisan, although many a political party of varying stripes has thought us to be an ally or foe because of the position we took on an issue based on members' views. Another vital policy that ensures we stay true to our members' interests is that we never accept any remuneration from anyone but our members. Many groups find themselves linked financially with, say, a government department on some joint research or become reliant on a revenue stream from some service offered to their members, and their focus on members is diverted as a result. Our mission as an organization is, of course, to better the climate for small businesses in Canada, but as a means of contributing to the creation of a better society, not simply for its own ends. And I believe that these principles have served CFIB and our members, as well as the small business sector as a whole, very well for nearly 30 years, as we really are an independent organization which is accountable first and last to our members. They call the tune, we broadcast the music.

In a larger context, international research has shown that a healthy small business sector is an essential component of a healthy democracy, as an offset to other powerful vested interests and as a check and balance on politicians as small firms are such a credible constituency and also, not incidentally, pretty significant campaign contributors. Canada has a growing small business component for a variety of reasons, both positive and not-so-positive. To foster further growth in this vital sector, some changes in policy direction are needed at all levels of government to ensure that the right climate can be achieved, not just from an economic standpoint, but from an ethical perspective as well.