

ethikos Volume 32, Number 6. November 01, 2018 "That's not fair": Why you need more than rules to have an ethical culture

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How many of us asked our parents when we were young to do something stupid that our best friend was going to do, and the response was "No"? Or better yet, how many of you are being asked the same question by your kids? Of course, you are giving the same response to your kids, "No." Likewise, your kids are saying what you said years ago, "That's not fair."

In many companies today, employees are either saying the same thing or feeling that or worse, particularly in small-to-midsize companies. Larger companies usually have more structures and hierarchies in place to manage how employees are hired, compensated, promoted, and fired. On the other hand, as smaller companies get bigger, they are usually more concerned about growth, managing capital expenditures, and return on investment (ROI), as opposed to creating a positive corporate culture.

One of the biggest mistakes that smaller companies make as their balance sheets grow is to do whatever is the least costly and less time consuming to be legally compliant or to do what is considered "best practices." This is mostly true with privately held entities, because they lack the staff, money, expertise, or time to devote to such matters.

A good example is having an effective compliance program. Because privately held companies do not have the same burdens as publicly held companies with respect to reporting (e.g., SOX, SEC), they tend to have programs that look good on paper and only on paper. They also tend to do minimal or no compliance training or have policies that their employees do not understand or cannot locate. Having such a program can cause low morale throughout the company, which can lead to increased violations or, at a minimum, high retention costs. Per the 2018 Deloitte Millennial Survey,^[1] which surveyed 10,455 millennial and 1,844 Generation Z participants across 36 countries, only 48% of the millennial participants believed that businesses today are behaving ethically (versus 65% last year), but the majority of the millennials believed that being ethical is necessary to being successful. A majority of the millennials also believed that businesses "have no ambition beyond wanting to make money."

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