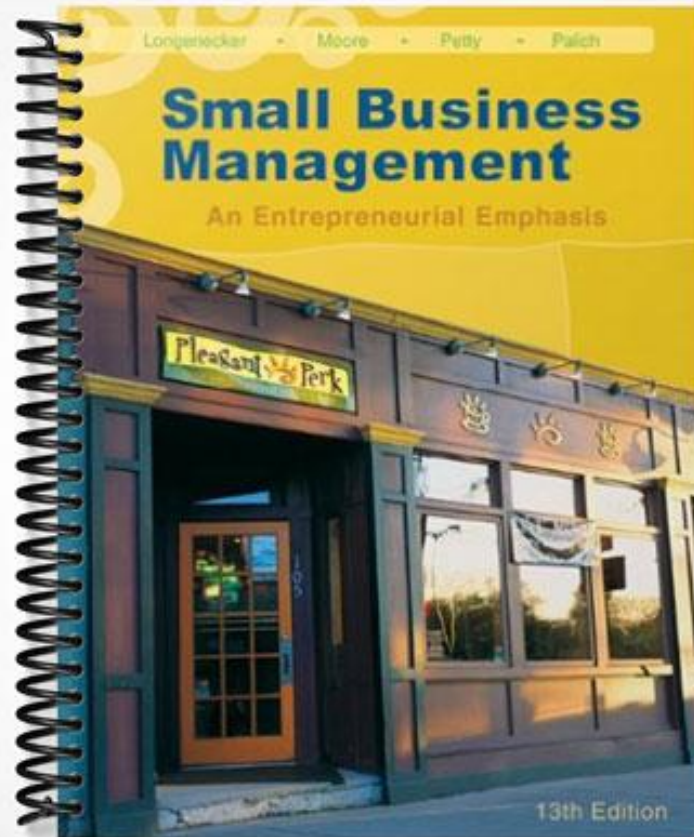


SOLUTIONS MANUAL



2 Entrepreneurial Integrity: A Gateway to Small Business Opportunity

— CHAPTER 2 LECTURE NOTES

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- 1 Identify the kinds of ethical issues in small businesses and explain the special vulnerability of small firms.
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PPT 2-1
Entrepreneurial Integrity

PPT 2-2,3
Looking Ahead

PPT 2-4, 5/TM 2-5, 6
Integrity and Entrepreneurship

A. Integrity and Entrepreneurship

1. **What is integrity?**
 - What one believes to be right and proper
 - Values such as honesty, reliability and fairness are hallmark of integrity
2. **Doing the right thing**
 - Ethical issues involve questions of right and wrong
 - Self-interest versus the needs of others
 - It may not pay to be ethical, at least in the short run.

-
- 2 Describe practical approaches for building an ethical business.
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PPT 2-7/TM 2-7
A Framework for Integrity
[Acetate 2-7]

PPT 2-8,9
Kinds of Ethical Issues

PPT 2-10/TM 2-10
Social Responsibilities and
Small Business

PPT 2-11/TM 2-11
Social Responsibilities of Small

B. A framework for Integrity

- Note: The most common ethical issues faced by small business owners in exhibit 2-2.
 - Stakeholders such as owners, customers, employees, government, and the community must be considered when making ethical decision.
1. **The Personal Integrity of the Owner**
 - Opinions vary regarding the social responsibility of businesses.
 - Multiple business owners complicate the decision-making process.
 - Entrepreneurs must protect others' investments in the business.
 2. **Respecting Customers**
 - Trust customers with respect and build relationships.
 - Advertising and direct selling can cause ethical issues to arise.
 3. **Valuing Employees**
 - The level of integrity in a firm is reflected in how much respect it gives its employees.
 - Management decisions affect employees' private and family lives.
 - Treating employees with respect is good business as well as the right thing to do
 4. **Social Responsibility and Small Business**
 - ➔ Have students provide examples of socially responsible businesses. Do they feel this helps create a competitive advantage?
 - a. Examples of Citizenship in the Community
 - Hall Financial Group of Dallas, TX.
 - PAR Educational Technologies.

Firms
[Acetate 2-11]

- b. Varying Views on Social Responsibility
 - Small business owners are more focused on profits than CEOs in large companies
 - Small business owners must spend their own money rather than corporate funds.
 - Small businesses must balance social obligations with the need to earn profits.
 - Social responsibility is consistent with a long-term business perspective
 - Goodwill within a community has value to a small business.
- 5. **Valuing Employees**
 - Small business must comply with laws to maintain integrity

3 Explain the impact of social responsibilities on small businesses.

PPT 2-12/TM 2-12, 13, 14
The Challenges and Benefits of Acting Ethically
[Acetate 2-12]

C. **The Challenges and Benefits of Acting Ethically**

1. **The Vulnerability of Small Companies**

- Many small firms are vulnerable to temptation because of marginality.
- Bribery may be rationalized as an effort to create a level playing field.
- Responses to vignettes compare the ethics of entrepreneurs and others.
- Entrepreneurs were less moral on some issues but more moral on others.

2. **The Integrity Edge**

- Integrity is crucial to small business success.
- Firms perform better when they focus in the needs of all stakeholders
- Greatest benefit of integrity is the trust it generates.

PPT 2-15, 16, 17, 18
Building a Business with Integrity

4 Describe the special challenges of environmentalism and consumerism.

D. **Integrity in an Expanding Economy**

⇒ Discuss how ethical standards may be different across national boundaries.

1. **Integrity and the Internet**

- Ethical issues abound in the Internet world.
- Using personal information—the privacy issue
- Respecting intellectual property rights
- Is it okay to monitor employees' email?

2. **International Issues of Integrity**

- Some countries face higher levels of unethical behavior than others.
- Determining what constitutes ethical behavior is more difficult across different cultures.
- Ethical relativism is troublesome.
- Ethical imperialism—impose US standards on other societies.

E. **Building a Business with Integrity**

1. **A strong foundation**

- Strongly held values lead to difficult choices – *have students discuss a difficult ethical dilemma they faced at work*
- Discuss how Veggie Tales combines its strong underlying values into a successful business.

2. **Leading with Integrity**

- What we believe affects what we do.

- The underlying values that govern the integrity of business practices are often based on religious foundations or personal values.
- Absolute, not situational, ethics help business people resist temptation and choose the honest, the good, and the right, rather than the most expedient or the most profitable, whenever there is a conflict.
- The personal Integrity of the founder or owner is key to a firm's ethical performance.

3. A Supportive Organizational Culture

- As the influence of the entrepreneur is reduced, a code of ethics is necessary for the growing firm.
- A code should include both principles to be followed and examples.
- *Discuss the student's experiences with Codes of Ethics at jobs they have had.*

4. Better Business Bureaus

- Their purpose is to promote ethical conduct of businesses in a community.
- Their functions are to give guidelines and information about a company to consumers before they do business with the company and to resolve questions and disputes over purchases after the fact.

F. Environmentalism – Cost of Opportunity?

☞ *Environmentalism is an effort to preserve and redeem the natural environment.*

1. The Burden of Environmentalism

- How can firms negatively impact the environment?
- Which types of firms may be adversely affected by efforts to protect the environment?
- Difficult for small firms to pass on the increased costs associated with environmentalism.

2. The Potential of Environmentalism

- Environmentalism creates opportunity for some small businesses.
- Doing well by doing good.
- *Have students share examples of how environmentalism creates business opportunities. (ex. Disposal of used tires)*

PPT 2-19/TM 2-19
Environmentalism – Cost or
Opportunity
[Acetate 2-19]

— SOURCES OF AUDIO, VIDEO, AND OTHER INSTRUCTIONAL MATERIALS

Something Ventured, a series on the entrepreneurial approach to small business management, offers a videotape called *For Everyone's Good: Social Responsibility*. "In their struggle to survive, small businesses may be as vulnerable to pressures to act unethically as their much larger counterparts. What is a small firm's responsibility to its community? What does society expect from privately owned firms? We hear from small business owners themselves in this program that explores the roles small businesses play in the areas of ethics and social responsibility." Contact your South-Western/ITP sales rep or ITP Faculty Support (fax (415) 592-9081 or E-mail review@swpco.com).

INTELECOM offers a series called *Taking the Lead: The Management Revolution*, which includes two 28-minute videotapes entitled *Making Choices: Managerial Ethics* and *For the Common Good: Social and Management Responsibility*. The videotapes cost \$100 each. Call (818) 796-7300.

The *Ethics at Work* video series is a collection of video programs offered by the Ethics Resource Center to assist the discussion of ethics issues in the workplace. One program, entitled *A Matter of Judgment: Conflicts of Interest in the Workplace*, has five dramatized segments that realistically portray managers and

supervisors in everyday situations. Issues include favoritism in hiring decisions, exploiting business opportunities for personal gain, accepting gratuities and favors from vendors, freelance consulting for suppliers, and doing business with family or friends. Other programs in the series are *Marketplace Ethics: Issues in Sales and Marketing*, *Buying Trouble: Ethics Issues in Purchasing*, and *It's Up To You: A Management Accountant's Decisions*. A leader guide accompanies the series, which sells for \$500; academic discounts are available. Call (202) 737-2258.

Business Enterprise Trust Videotapes present the provocative stories of the recipients of the Business Enterprise Awards—individuals and businesses that have found creative ways to fulfill social objectives while improving the competitiveness of their companies. Each tape can be used to focus discussion on new definitions of business responsibility in the 1990s, the impact of business responsibility and business ethics on corporate competitiveness, and the role of the individual in making business more responsive to its stockholders. *Business Enterprise Trust 1995 Awards* video (65 minutes), Product Number 996551, is available for \$135 from Harvard Business School Publishing, (800) 545-7685.

Insight Media distributes a series of videotapes on business ethics. Call (212) 721-6316 for information, or write to Insight Media, 2162 Broadway, New York, NY 10024.

— ANSWERS TO END-OF-CHAPTER

DISCUSSION QUESTIONS

1. *The owner of a small business felt an obligation to pay \$15,000 to a subcontractor, even though, because of an oversight, the subcontractor had never submitted a bill. How can willingness to pay under these circumstances be reconciled with the profit goal of a business in a free enterprise system?*

p. 27

Of course, this is obviously the "right" thing to do, but it may also be the prudent response as well. First of all, just because the subcontractor has not submitted the bill does not necessarily forgotten about the small firms legal obligation to pay. Failing to follow through would certainly raise suspicions about the small company in this case. Secondly, if the subcontractor has indeed forgotten about the obligation, paying the bill will leave a great impression on the subcontractor and ensure perceptions that the small firms is trustworthy, which may lead to favorable business dealings between the two parties in the future. Finally, if the small business does not pay and word of this gets out, it is likely to damage the reputation of the firm, which can lead to a loss of business in the future, less favorable credit terms on the part of future lenders, etc. Doing the wrong thing can create some very negative fallout over time.

2. *Give an example of an unethical business practice that you have personally encountered.*
Most students, if they think a moment, can describe some personal business experience that struck them as unethical.
3. *Based on your experience as an employee, customer, or observer of some particular small business, how would you rate its ethical performance? On what evidence or clues do you base your opinion?*

No doubt students will report examples of both ethical and unethical performance. It should be interesting to observe the overall effect of conduct they sense and the clues on which they base their opinions.

4. *Give some examples of the practical application of a firm's basic commitment to supporting the family life of its employees.*

p. 32

One example cited in the chapter was a bus driver who refused to take poor people away to gambling facilities. Other examples would include policies restricting excessive overtime work that interferes with family life, setting adequate wage levels, and allowing flexibility in leave policies to permit employees to deal with family emergencies.

5. *What is skimming? How do you think owners of small firms might attempt to rationalize such a practice?*

p. 34

Skimming is a method of reducing income taxes by falsifying tax returns through under-reporting of income. It might be rationalized in many ways—for example, "We're already paying too many taxes,"

“It provides compensation for unnecessary paperwork required by the government,” “Others do it,” or “It’s the only way we can survive.”

- p.35
6. *What are some of the advantages of conducting business with integrity? Some people say they have no responsibility beyond maximizing the value of the firm in financial terms—can this position be defended? If so, how?*
 There are many advantages to conducting business with integrity, beginning with maintaining a clear conscience! Integrity suggests that due attention will be given to the interests of the owners who, after all, have put up their personal resources to make the business possible, and more investment is likely to follow that which is appropriately managed. Integrity generates trust, which leads to repeat business by customers, low levels of turnover among employees, and a positive reputation in the community. These are all likely to lead to a financial edge for the company, but the primary motivation should run deeper, established on the knowledge that operating with integrity is simply the right thing to do, regardless of the outcomes. It should also be noted, though, that conducting business with integrity (e.g., paying all taxes owed under the law) can offer the important advantage of keeping the entrepreneur out of jail. Economist Milton Friedman, among others, argues that the only purpose of the business is to generate profits in an honest way, and this position seems sound. However, the path to profitability is not as clear as most people think. For example, the chapter cites research suggesting that companies perform best when they focus on all of the important stakeholders of the firm. In fact, the differences in performance levels are substantial. Those who accept Friedman’s position argue that it is not the right of decision makers in the firm to redirect the investment of the firm’s owners to community needs and other causes with which the owners may not have an interest, and this is a valid concern. It should be noted, however, that small companies often face a different situation since they are usually owned by a single person—or a small group of investors—who can legitimately decide to spend their resources in any way they choose.
- p. 38
7. *Explain the connection between underlying values and ethical business behavior.*
 A person’s basic values show in ethical or unethical behavior. If a business leader deals unscrupulously with employees or customers, for example, it is evident that he or she lacks a strong internalized value system. Judeo-Christian values are the most widely accepted framework of values in our business world.
- p. 33
8. *Why might small business CEOs focus more attention on profit and less on social goals than large business CEOs do?*
 Most small business CEOs are close to the action. They must often work aggressively to earn profits. Large business CEOs often have more abundant resources and can afford to be more socially conscious. Also, they face greater pressure to be socially responsible as a result of their size. Small firm CEOs are spending their own money, and they may be making contributions from their personal rather than their business resources (which makes them conscious of costs).
- p. 42
9. *Give some examples of expenditures required on the part of small business firms to protect the environment.*
 Numerous examples are possible; students should be encouraged to cite examples of which they are personally aware. Some of those mentioned in the chapter refer to added costs borne by livestock feed lots, cement plants, and pet-food processors.
10. *Should all firms use biodegradable packaging? Would your answer be the same if you knew that using such packaging added 25 percent to the price of the product?*
 Before we think about costs, the answer is an easy “yes.” If it costs 25 percent more, however, the answer is less clear. Society benefits and suffers in different ways from each solution. Creative solutions may avoid this either/or choice—perhaps the company could use less packaging or returnable packaging, such as The Body Shop uses. Opinions will differ concerning the best solution in such a case.

— COMMENTS ON CHAPTER “YOU MAKE THE CALL” SITUATIONS

Situation 1

1. *What decision on Sally’s part would contribute most to the success of her business?*

Hiring Julie seems to be the best choice. The fact that she is superior to the other candidates, based on experience and ability, suggests that she should be able to contribute most to the business. (Of course, one might also argue that hiring Julie is more ethical and that ethical decisions pay off in the long run.)

2. *What ethical reasoning would support hiring Mary?*

Sally has given her word to applicant Mary. She has told Mary that she has the job. The starting time has been specified. Since the instructions were verbal, it is probably not legally enforceable. However, does the principle of keeping one's promise allow for backing down at this stage? Mary may already have made commitments in view of the new job, and that fact that Mary needs the job to support her family makes this especially difficult.

3. *What ethical reasoning would support hiring Julie?*

Can the instructions to Mary be construed as merely tentative? If the agreement with Mary is not yet finalized, the job is still open until Monday. It might be argued that Sally can hire Julie and still be ethical. The welfare of Sally's own family would pull in this direction, even though it would be a big disappointment to Mary. Which of these positions or arguments is more persuasive?

Situation 2

1. *Is the assistant manager acting with integrity if he purchases unauthorized copies of the software on the streets?*

Based on the position taken in the chapter, the assistant manager would not be acting with integrity if he purchased unauthorized copies of the software, though it may be expensive to make the right choice in this situation. The logic behind intellectual property rights is that these offer protections that encourage the development of more innovations that can benefit all of society, so there is a greater purpose behind making the "right" decision.

2. *What might be the long-term effects of deciding to buy the pirated software? Of insisting on buying only legitimate copies of the software?*

As mentioned above, buying pirated goods discourages new innovation, which leads to less economic development and lower quality of life for society over the long run. It also encourages others to do the same thing, which could spill over to one's own customers. In other words, if it is widely known that you engage in this activity, then your customers may follow your example and buy counterfeit versions of the products you sell (assuming these exist). In any case, your customers, lenders, and other important stakeholders could legitimately conclude that the standards of integrity of the company are low and thus come to distrust the firm, which could have serious effects on the company. On the other hand, refusing to buy illegitimate goods would avoid these potential problems, despite short-term costs. It is also important to mention that the purchase of counterfeit goods is against the law (even in China), though enforcement of the law is usually very weak.

3. *What course of action do you recommend? Why?*

Hopefully, students will choose, on principle, to avoid the purchase of unauthorized goods. However, it will seem proper to some students to decide to purchase the pirated software with the thought that doing so will boost the competitive position of the firm and thus protect the financial interests of the owners of the company. Other justifications for both courses of action are likely to vary considerably.

Situation 3

1. *Is the need to survive a reasonable defense for the practice described here?*

The explanation offered by the commercial artist sounds more like a rationalization than a defense. Even if the firm is fighting for its very survival, the practice described is clearly illegal. It is difficult to justify a clearly illegal practice as being ethical.

2. *If the practice of concealing income is widespread, as implied by the phrase “underground economy,” is it really wrong?*

In other words, is it wrong if everybody is doing it? The answer is yes—the practice is wrong. She is violating the law and would be subject to fines and/or imprisonment. It appears that this person is concealing substantial amounts, although this is not spelled out. The illegal conduct of others does not excuse flagrant violation of the law.

— ANSWERS TO EXPLORING THE WEB EXERCISES

For each chapter, the instructor’s manual will include a short summary of suggested results students will have after completing the various Web exercises. Because the Web is a constantly changing medium, the answers may vary, and the links may change as well. Thus, answers are only suggested, and the URL for resources, where required, is provided.

Exercise 1

The scores will vary. There are ten questions and students will use a 5-point Likert scale (5 = strongly agree and 1 = strongly disagree) to determine their honesty and sincerity level. The integrity self-test was developed by Dr. Denis Waitley in his book, *Empires of the Mind*. The questions address both work and personal life situations.

Exercise 2

Answers will vary.

Exercise 3

Students’ answers will vary. They will be reviewing the current and past winners of the Business Ethics Awards.

— SUGGESTED SOLUTION TO CASE 2: DIVERSIFIED CHEMICAL

1. *Based on what you saw in the videos, describe Arnold Joseff’s strong underlying values.*

Diversified Chemical is an expression of the strong underlying values of its founders. Joseff and Hill believe in diversity, in helping people maximize their potential, in reviving depressed neighborhoods and creating opportunities for their residents, and in giving back to the community. Diversified Chemical employs new immigrants from around the world and gives them all the opportunity to educate themselves to the highest levels, to grow as employees and managers, and to contribute to the company’s growth. Hill and Joseff believe that the company’s diverse employees are responsible for its ability to creatively solve customers’ problems and to create a continuous stream of innovations. In the video, Joseff says, “You can have ethics and you can have the desire to renovate and to be an uplifting spirit within an area.” Diversified does this by taking over abandoned properties and bringing them back to life. It also does this by mentoring elementary schoolchildren in the neighborhoods where the company and its subsidiaries are located.

2. *Describe how Arnold sees fiscal responsibility as a sine qua non of ethical business practices.*

Social responsibility is often depicted as a pyramid containing four levels. The first, foundational level, is a company's economic responsibility to the community. That is, the company must make a profit so that it can continue to operate in the community, employ people from the community, pay taxes to the community, and serve customers in and outside of the community. Arnold Joseff considers fiscal responsibility of primary importance to Diversified, and he and George Hill act on this belief by putting their money back into the business and by keeping cash. Arnold and George believe that a strong bank account allows the company to take advantage of opportunities without exposing itself to risk through credit, which ultimately could weaken the company. A strong cash position, they believe, is also a kind of covenant with their employees. "It makes it comfortable for us and for our employees to know that our backs are never against the wall," Arnold said in the video.

3. *Diversified Chemical Technologies operates ethically on many levels. Based on what you have watched in the two videos, describe the various ways in which Diversified Chemical Technologies is an ethical and socially responsible company.*

Diversified Chemical Technologies treats its employees ethically by giving everyone a chance to grow personally and professionally. Employees have the opportunity to increase their education and to participate in the growth of the business. Diversified also creates a supportive culture. When a downturn in the automotive industry caused a slowdown at Diversified, George and Arnold didn't send their college interns home. Instead, they started a paper company and let the students run it during their summer internships.

Arnold and George also run a socially responsible company. The very basis of their work involves finding chemical solutions to complex problems. The video highlights one such example. The culture of innovation and involvement at Diversified led the team of chemists to devise a way to make an automotive part out of recycled rubber rather than virgin rubber. And whereas the old part required 15 minutes to set at super high temperatures, the new part sets at room temperature. In addition to recycling huge amounts of rubber, the new process requires less energy (imagine the machinery and electricity required to back the parts in the old process). And as mentioned in question 1, Diversified recovers abandoned buildings and revives economies in forsaken urban neighborhoods. This practice has led the company to forge partnerships with local elementary schools, where Diversified's employees act as tutors and mentors to low-income schoolchildren.

Activities

Purpose: The purpose of these activities is to give students the opportunity to see how companies express ethical principles and then to think about their own personal ethics. Understanding their own underlying values will then help students to see how those values can inform and support their business ventures.

Setting it up: These three activities are organized so that you can move students from the familiar (what they saw in the video) to the unfamiliar (working on a set of values for their own business venture). The first activity can be done in class as group work after watching the video. Let students spend about 10 minutes in groups of three to four working on mission and values statements for Diversified. After the allotted time is up, reconvene as an entire class to share results and discuss differences of perspectives.

For the second activity, it is probably best to have students work independently. If they have a business venture in mind, they may be reluctant to share it with another student, particularly if they are passionate about it. The purpose of the second activity is to have students think about what mission statements will drive their own business.

Likewise, the third activity is best used as an assignment. Many businesspeople use their companies to express their own values. For example, Howard Shultz, the entrepreneur who founded Starbucks, shows his commitment to the company's employees by offering full health care benefits to part-time workers, offering a tuition reimbursement plan, and by working to create coffee growing technologies that don't deplete the rainforest areas of the world. By doing activity number 3, students will explore the possibilities – and the limitations – of using a business to express core personal values.

1. It is not uncommon for large corporations to have documents that provide ethics guidelines. One of the largest multinational chemical companies, Dow Chemical, is one such corporation. At the company's Web site, <http://www.dow.com>, you will find Dow's Code of Business Conduct (35 pages) and Dow's Mission and Values (a single html page). Review the Mission and Values statement on the Web site. Draft a mission and values statement for Diversified Chemical that reflects what you have seen in the videos. (At the time of publication, there was no such document posted on the Diversified Chemical Web site.) Share your work with your classmates or study group partners.
2. Now practice writing mission and values for your own business enterprise. Even if you don't currently have a business concept or plan, you can still organize your thoughts on the values that will guide your future business ventures. How detailed do you think you want to be? Dow's Code of Business Conduct is 35 pages; Nordstrom's fits on a 3 x 5 index card.
3. Once you have written down your own underlying values, indicate ways that you will act on them. You may find the following list of questions a good starting place for thinking about on how your business will reflect your personal values:
 - Will your business give to charities? If so, how will you select groups that receive donations?
 - Will you be involved in the community? How so? If not, why not?
 - How will you find employees? For example, will your recruitment efforts take into account the disabled, low-income, minorities, and others in underrepresented groups?
 - How will you manage your company's waste? If it costs more to recycle, will you do it?
 - Will you reward employees for their community involvement with non-profit organizations or civic groups? Will you encourage your employees to become active in their community?
 - How will you determine pay levels?
 - What kinds of benefits will you offer?
 - Where will you locate? (Think back to the video: for Diversified Chemical, location has been guided by the founders' underlying values.)

Sources: Small Business School video; "Wayne State to Honor Business Leaders for Commitment to the Community," Wayne State University news release, May 28, 2003; Brenda Schneider, "Hallmark of Black Auto Supplier Group Is Its Leadership, Community Service," *Detroit News*, May 31, 2000, online at <http://detnews.comn/2000/detroit/6000/05/s02-65803.htm>; <http://www.dow.com>.