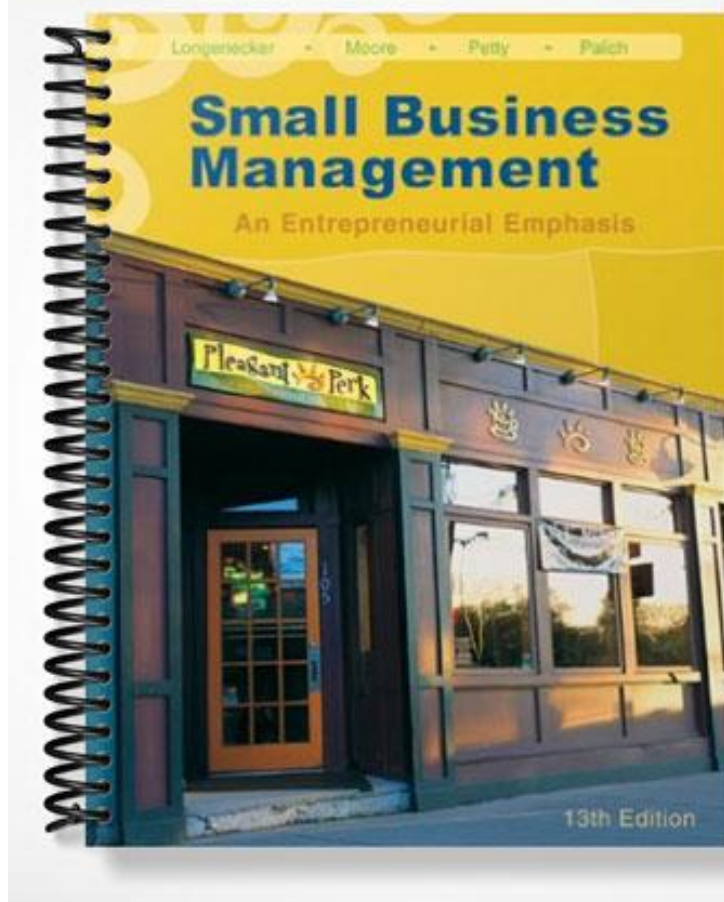


# TEST BANK



## Correlation Table for Chapter 2—Entrepreneurial Integrity

<b>Learning Objectives</b>	<b>Question Type</b>	<b>Definition</b> Define new term, recall facts	<b>Concept</b> Understand or relate concepts	<b>Application</b> Apply knowledge, analyze data
<b>1</b> Define integrity and understand its importance to small businesses.	T/F	4	1,2,3,5,6,7,8,9, 10,11,12,13,14	
	MC	3,14,22	1,2,6,7,8,9,11,12,13	4,5,10
	ES			1
<b>2</b> Explain how integrity applies to various stakeholder groups, including owners, customers, employees, and the community.	T/F	21,23,24	15,16,17,18,19, 20,22	
	MC	19,28,29,30	15,16,17,18,20, 21,22,23,24,26, 27	25
	ES		4	
<b>3</b> Identify challenges to integrity that arise in small businesses and explain the benefits of integrity to small firms.	T/F		25,26,27,28,29, 30,31	
	MC		33,34,35,36,37, 38	31,32
	ES		2,3	
<b>4</b> Explain the impact of the Internet and globalization on the integrity of small businesses.	T/F	35	32,33,34,35,36, 37,38	
	MC	39,46	49,50	40,41,42,43,44,45, 47,48
	ES		5	
<b>5</b> Describe practical approaches for building a business with integrity.	T/F			
	MC	51		
	ES			
<b>6</b> Describe the costs and opportunities of environmental-ism to small businesses.	T/F			
	MC			
	ES			
<b>You Make the Call</b>	ES		6,7,8	

**Total Number of Test Questions: 95 (35 True/False; 51 Multiple-Choice; 9 Essay)**

## Chapter 2—Entrepreneurial Integrity

### TRUE/FALSE

1. Many entrepreneurs are people of principle, and integrity regulates their quest for profits.

ANS: T                      REF: p. 27                      OBJ: 2-1 TYPE: C

2. Small businesses that practice skimming of income are acting unethically and illegally.

ANS: T                      REF: p. 34                      OBJ: 2-1 TYPE: C

3. Income-tax cheating by small business is sufficiently widespread to be recognized as a general problem.

ANS: T                      REF: p. 34                      OBJ: 2-1 TYPE: C

4. According to a recent survey, many small business owners experienced ethical problems pertaining to the environment, but very few of them reported ethical problems in relationships with customers.

ANS: F

The survey actually showed that *few* small business owners experienced ethical problems pertaining to the environment, but *many* of them reported ethical problems in relationships with customers.

REF: p. 28                      OBJ: 2-1 TYPE: D

5. Sales people must often walk a fine line between persuasion and deception.

ANS: T                      REF: p. 30                      OBJ: 2-1 TYPE: C

6. Direct selling practices such as pyramid schemes and front-loading are unethical.

ANS: T                      REF: p. 30                      OBJ: 2-1 TYPE: C

7. Unlike employees in small firms, those who work for large corporations face pressure from various sources to act in ways that conflict with their own sense of what is right and wrong.

ANS: F

These pressures are indeed great for employees in large firms, but small firm employees also face these pressures.

REF: p. 34                      OBJ: 2-1 TYPE: C

8. In a survey of employees of small firms, approximately two-thirds of the respondents said they did not feel any pressure to compromise their own ethical standards.

ANS: T                      REF: p. 32                      OBJ: 2-1 TYPE: C

9. Few of those responding to a recent survey believe it would be seriously unethical for an employer to monitor its employees' e-mail.

ANS: F

A survey conducted by the Society of Financial Services found that 44 percent of workers surveyed consider it seriously unethical for employers to monitor employee e-mail.

REF: p. 36            OBJ: 2-1 TYPE: C

10. Unethical business behaviors take place in every country, but some countries must deal with more serious forms of illegal business activity than others.

ANS: T            REF: p. 37            OBJ: 2-1 TYPE: C

11. Temptations and pressures to act unethically are thought to be greater in big business than in small business.

ANS: F

As a result of their size and low public profile, temptations and pressures to act unethically are thought to be greater in *small* business than in *big* business.

REF: p. 35            OBJ: 2-1 TYPE: C

12. The essence of ethical relativism is captured in the following statement: "When in Rome, do as the Romans do."

ANS: T            REF: p. 38            OBJ: 2-1 TYPE: C

13. Small firm owners may be tempted to rationalize bribery as a way of offsetting what seems to be a competitive disadvantage.

ANS: T            REF: p. 35            OBJ: 2-1 TYPE: C

14. In a recent study cited in the textbook, entrepreneurs were more willing than other businesspeople to condone collusive bidding and the duplicating of copyrighted computer software without payment to the manufacturer.

ANS: T            REF: p. 35            OBJ: 2-1 TYPE: C

15. Business practices and other behaviors reflect the underlying values of the leaders and employees of a business.

ANS: T            REF: p. 38            OBJ: 2-2 TYPE: C

16. Judeo-Christian values have traditionally been left in the churches and synagogues and have not entered the marketplace.

ANS: F

Judeo-Christian values have traditionally served as the general body of beliefs underlying business behavior.

REF: p. 38            OBJ: 2-2 TYPE: C

17. Religious values and other deeply felt convictions strengthen a manager's resolve to act ethically in the face of temptation.

ANS: T            REF: p. 38            OBJ: 2-2 TYPE: C

18. Without a strong commitment to integrity on the part of small business leadership, ethical standards can easily be compromised.

ANS: T            REF: p. 39            OBJ: 2-2 TYPE: C

19. Because they are in contact with a much larger body of employees, the ethical influence of a leader in a large business is more pronounced than is that of a leader in a small firm.

ANS: F

The personal ethical influence of the leader *decreases* as a firm grows larger because his or her influence is diffused over a larger organization.

REF: p. 40            OBJ: 2-2 TYPE: C

20. Small business owners cannot formulate codes of ethics; they must be issued by law or by professional associations.

ANS: F

At some point, the owner-manager of a firm should formulate a code of ethics similar to that of most large corporations.

REF: p. 40            OBJ: 2-2 TYPE: C

21. Codes of ethics should not only express the principles that members of the firm should follow but also give examples of situations likely to be faced.

ANS: T            REF: p. 40            OBJ: 2-2 TYPE: D

22. The purpose of a Better Business Bureau is to promote ethical conduct by businesses in a community.

ANS: T            REF: p. 42            OBJ: 2-2 TYPE: C

23. Better Business Bureaus serve primarily as assistants to district attorneys, helping expose corrupt business practices.

ANS: F

The function of Better Business Bureaus is twofold: (1) to provide information about companies to consumers and (2) to resolve disputes concerning purchases.

REF: p. 42            OBJ: 2-2 TYPE: D

24. Bait advertising is considered unethical because the business lures customers with an attractive price only to try to convince them to purchase more expensive products or services.

ANS: T                    REF: p. 41                    OBJ: 2-2 TYPE: D

25. One study cited in the textbook found entrepreneurs tend to be more narrowly focused on profits and thus less socially responsible than CEOs of large businesses.

ANS: T                    REF: p. 33                    OBJ: 2-3 TYPE: C

26. Acting in a socially responsible manner can be costly to small businesses because acting in the public interest always requires spending money, which reduces profits.

ANS: F                    REF: p. 34                    OBJ: 2-3 TYPE: C

27. The Baucus and Baucus study of 255 corporations found that returns on assets and sales of law-abiding firms only marginally higher than those convicted of corporate wrongdoing, indicating that socially responsible practices have, at best, a minimal long-term impact on profits.

ANS: F                    REF: p. 34                    OBJ: 2-3 TYPE: C

28. Only large corporations can afford to be socially responsible.

ANS: F

While it is true that entrepreneurs tend to be less socially sensitive than CEOs of large corporations, most entrepreneurs still accept some degree of social responsibility.

REF: p. 34                    OBJ: 2-3 TYPE: C

29. Socially responsible activities may be consistent with a firm's long-term profit objective.

ANS: T                    REF: p. 34                    OBJ: 2-3 TYPE: C

30. The goodwill gained from benefiting the community may be worth more than it costs.

ANS: T                    REF: p. 34                    OBJ: 2-3 TYPE: C

31. Research has always shown that socially responsible practices have a negative impact on profits.

ANS: F

A study by Baucus and Baucus has shown that socially responsible practices can have a *positive* impact on profits.

REF: p. 34                    OBJ: 2-3 TYPE: C

32. Employer monitoring of employees' Internet activities has become so commonplace that it is no longer a subject for debate.

ANS: F                    REF: p. 36                    OBJ: 2-4 TYPE: C

33. The Internet is a prime venue for fraudulent activities.

ANS: T                    REF: p. 37                    OBJ: 2-4 TYPE: C

34. Businesses that operate on the Internet can safely ignore the ethical standards that exist in other countries.

ANS: F                      REF: p. 37                      OBJ: 2-4 TYPE: C

35. An Internet innovation known as *donuts* were developed so that Web sites could recognize return visitors and thus generate a customized and personalized response.

ANS: F  
This is an innovation known as *cookies*, not *donuts*.

REF: p. 36                      OBJ: 2-4 TYPE: D

36. In most cases, the pressures of environmentalism have contributed to the profitability of small firms.

ANS: F  
Though some small businesses have been in a position to benefit from the general emphasis on the environment, a good numbers are adversely affected by environmental protections.

REF: p. 42                      OBJ: 2-4 TYPE: C

37. The interests of small business owners and environmentalists are not always in conflict.

ANS: T                      REF: p. 42                      OBJ: 2-4 TYPE: C

38. Most small firms pass on the costs of environmental regulation to customers.

ANS: F  
A small firm can pass on these costs only in a favorable market situation.

REF: p. 42                      OBJ: 2-4 TYPE: C

## MULTIPLE CHOICE

1. While unethical practices do exist, it is good that many small firms strive to achieve the highest standards of \_\_\_\_\_ in their business relationships.

- a. truthfulness
- b. relativism
- c. synchronous behavior
- d. congruity

ANS: A                      REF: p. 27                      OBJ: 2-1 TYPE: C

2. One glaring example of poor ethics practiced by small businesses in general is

- a. lack of pollution controls.
- b. untruthful labeling of products.
- c. lack of loyalty to employees.
- d. fraudulent reporting of income and expenses for income tax purposes.

ANS: D                      REF: p. 34                      OBJ: 2-1 TYPE: C

3. Skimming is an unethical business practice involving

- a. failure to report all income on tax returns.
- b. employees taking cash from the cash register.
- c. sales associates offering gifts and inducements to purchasers.
- d. managers of competing firms agreeing to charge high prices.

ANS: A                      REF: p. 34                      OBJ: 2-1 TYPE: D

4. A prospective small business owner wonders what types of ethical problems may prove most difficult. If the business is typical, the owner should realize that problems are most likely to relate to
- a. environmental issues.
  - b. relationships with customers and competitors.
  - c. human resource decisions.
  - d. banking relationships.

ANS: B                      REF: p. 27                      OBJ: 2-1 TYPE: A

5. A small business owner finds that his salesperson has lied to a customer about test results on a new product. The owner recognizes that this breach of good ethics falls into the category of
- a. management processes and relationships.
  - b. governmental obligations and relationships.
  - c. human resources decisions.
  - d. relationships with customers and competitors.

ANS: D                      REF: p. 28                      OBJ: 2-1 TYPE: A

6. After issues related to customers and competitors, the second most common category of ethical issues that challenge small businesses is concerned with
- a. the treatment of employees.
  - b. international relations.
  - c. public relations.
  - d. harmful production processes.

ANS: A                      REF: p. 27                      OBJ: 2-1 TYPE: C

7. A nationwide survey showed that no pressure to act unethically was felt by what proportion of individuals holding managerial and professional positions in small business?
- a. 0 (zero-None report pressure.)
  - b. 30.1%
  - c. 62.4%
  - d. 72.3%

ANS: B                      REF: p. 32                      OBJ: 2-1 TYPE: C

8. Temptations and pressures to act unethically are such that small firms are
- a. less vulnerable than large firms.
  - b. more vulnerable than large firms.
  - c. as vulnerable as large firms.
  - d. not subject to the temptations and pressures facing large firms.

ANS: B                      REF: p. 34                      OBJ: 2-1 TYPE: C

9. Small firms are likely to be tempted to act unethically because
- a. founders or owners of small businesses are usually crooked.
  - b. breaking the rules often seems to be the only way to make a profit and survive.
  - c. small businesses are exempt from federal regulations.



d. Better Business Bureaus don't deal with small businesses.

ANS: B REF: p. 35 OBJ: 2-1 TYPE: C

10. A local building inspector suggested to a small business owner that a generous "tip" would help speed up the process of gaining approval for some new construction. The power of a small business firm to resist such pressure is
- greater than that of a big business.
  - less than that of a big business.
  - equal to that of a big business.
  - dependent on the type of construction.

ANS: B REF: p. 35 OBJ: 2-1 TYPE: A

11. In a recent study of small business ethics, entrepreneurs were more likely than other business managers and professionals to be unethical with respect to issues that
- were not visible to the community.
  - directly affected the environment.
  - directly affected profits.
  - were perceived as important to production operations.

ANS: C REF: p. 33 OBJ: 2-1 TYPE: C

12. The hallmarks of business integrity include all of the following EXCEPT:
- duplicity.
  - reliability.
  - honesty.
  - fairness.

ANS: A REF: p. 25 OBJ: 2-1 TYPE: C

13. Integrity is as much about *what to do* as it is
- when to do it.*
  - where it fits in.*
  - who it affects.*
  - who to be.*

ANS: D REF: p. 25 OBJ: 2-1 TYPE: C

14. Ethical issues
- seldom involve legal issues.
  - are questions of right and wrong.
  - are always clearly defined.
  - often resolve themselves.

ANS: B REF: p. 27 OBJ: 2-1 TYPE: D

15. Entrepreneurs who are deeply committed to ethical values operate their businesses in ways that reflect
- the standard practices of the industry.
  - their personal interpretations of those values.
  - profit motivations above all others.
  - their personal religious values.

ANS: B REF: p. 25 OBJ: 2-2 TYPE: C

16. Unethical business practices often decline when firms
- collude with one another.
  - face challenging business situations.
  - set a flexible code of ethics.
  - cooperate to organize a Better Business Bureau.

ANS: D                      REF: p. 42                      OBJ: 2-2 TYPE: C

17. Milton Friedman argues that businesses
- should avoid social responsibility whenever it is possible to do so.
  - should be required to use their resources meet their social responsibilities.
  - can only earn profits if they do so in a socially responsible manner.
  - are justified in being socially responsible only if doing so increases the firm's value.

ANS: D                      REF: p. 29                      OBJ: 2-2 TYPE: C

18. Marc Katz is an example of
- how an employee's integrity can contribute to a business's success.
  - how an entrepreneur's integrity contributes to a business's success.
  - how a customers' lack of integrity can affect the operations of a firm.
  - how an entrepreneur's lack of integrity can cause a business failure.

ANS: B                      REF: p. 30                      OBJ: 2-2 TYPE: C

19. When Jean Romano lost her job at Deepcanyon.com, she
- felt the firm lacked integrity how it managed its employees.
  - sued the firm for being summarily dismissed without explanation for cause.
  - started her own successful employment agency based on her experience there.
  - believed that the firm dealt fairly with her regarding the closure of the business.

ANS: D                      REF: p. 32                      OBJ: 2-2 TYPE: D

20. The John E. Long family was charged by the IRS with income tax fraud for failing to record the cash they collected for admission to their country folk art shows. This illegal practice is known as \_\_\_\_\_.
- cash diversion
  - gunkholing
  - skimming
  - mattress-stuffing

ANS: C                      REF: p. 34                      OBJ: 2-2 TYPE: C

21. The ethical influence of a leader of a small business is
- relatively minor.
  - overpowered by profit concerns of stockholders.
  - less important than the views of others within the firm.
  - more pronounced than that of a leader of a large corporation.

ANS: D                      REF: p. 39                      OBJ: 2-2 TYPE: C

22. In a small business, the most important key to ethical performance is
- a code of ethics.
  - the personal integrity of the founder or owner.
  - a training program based on the code of ethics.
  - the amount of legislation affecting the organization.

ANS: B                      REF: p. 40                      OBJ: 2-2 TYPE: C

23. The most important influence on ethics in a small business is
- the accountant or bookkeeper who keeps honest financial records.
  - the salesperson who quotes a fair price to customers.
  - the founder or owner whose values are put into practice.

d. the existence of a written code of ethics.

ANS: C REF: p. 40 OBJ: 2-2 TYPE: C

24. A code of ethics becomes increasingly appropriate and necessary as a small business
- expands its credit sales and acquires more customers who buy on credit.
  - begins to market products in other countries.
  - grows larger, with a consequent lessening of the owner's personal influence.
  - increases borrowing to the extent that one-third of its assets are financed by borrowing.

ANS: C REF: p. 40 OBJ: 2-2 TYPE: C

25. In drawing up a code of ethics, a small business owner should adopt a code
- provided by the Ethics Resource Center of Washington, D.C.
  - that outlines ethical principles and gives examples.
  - that outlines ethical principles but avoids examples.
  - suggested by the Better Business Bureau.

ANS: B REF: p. 40 OBJ: 2-2 TYPE: A

26. A Better Business Bureau should
- help enforce laws regulating conduct of local businesses.
  - promote ethical conduct on the part of business firms in the community.
  - provide free consumer education classes.
  - lobby for improved legislation to protect consumers.

ANS: B REF: p. 42 OBJ: 2-2 TYPE: C

27. One function of a Better Business Bureau is to
- survey businesses in a community to determine which are ethical.
  - take legal action against businesses for unethical conduct.
  - provide customers with free buying guidelines and information about local companies.
  - advertise against unethical business practices.

ANS: C REF: p. 42 OBJ: 2-2 TYPE: C

28. Better Business Bureaus are
- federal government agencies established by Congress.
  - part of the Chamber of Commerce.
  - organizations composed of business firms.
  - associations of religious groups interested in the improvement of business ethics.

ANS: C REF: p. 42 OBJ: 2-2 TYPE: D

29. Bait advertising consists of an
- alluring but insincere offer to sell a product.
  - attempt to sell a product that adversely affects the environment.
  - attempt to sell a defective and possibly unsafe product.
  - advertisement of expensive products.

ANS: A REF: p. 41 OBJ: 2-2 TYPE: D

30. Bait advertising attempts to
- conceal product defects.

- b. lure customers with the intention of selling them a different product.
- c. use customer service as an incentive to buy a product.
- d. persuade users to purchase products that may be injurious to their health or welfare.

ANS: B                    REF: p. 41                    OBJ: 2-2 TYPE: D

31. A small computer retailer makes every effort to satisfy customer needs—both before and after the sale. However, this retailer regards social problems such as hunger and juvenile crime as being beyond the scope of his business. We can correctly describe this firm's management as having recognized
- a. some degree of social responsibility in its commitment to customers.
  - b. the existence of social responsibilities but having failed to do anything about them.
  - c. ethical obligations to customers but no social responsibilities.
  - d. social responsibility as the domain of big business.

ANS: C                    REF: p. 33                    OBJ: 2-3 TYPE: A

32. An example of a firm that would least likely be recognized as socially responsible is
- a. a farm that specializes in organically grown produce.
  - b. a builder that constructs energy-efficient homes.
  - c. a manufacturer of pollution-control equipment.
  - d. a high fee, low return investment company.

ANS: D                    REF: p. 33                    OBJ: 2-3 TYPE: A

33. Social responsibilities go far beyond a firm's relationships with customers, and typically include diverse areas such as
- a. protection of the environment.
  - b. educational activism.
  - c. consumer protection for all business dealings within the community.
  - d. protection of religious liberties.

ANS: A                    REF: p. 42                    OBJ: 2-3 TYPE: C

34. The viewpoint expressed in the textbook is that social responsibility should be recognized by
- a. manufacturing firms in particular, since they tend to pollute more.
  - b. businesses that operate in communities with greater social needs.
  - c. small businesses.
  - d. any firm that wants to make profits quickly.

ANS: C                    REF: p. 33                    OBJ: 2-3 TYPE: C

35. There is a limit to the possible social responsiveness of small businesses because they must
- a. make a profit to survive.
  - b. be responsive to their customers.
  - c. first of all be fair to their employees.
  - d. not harm the environment.

ANS: A                    REF: p. 33                    OBJ: 2-3 TYPE: C

36. Though it is sometimes expensive to make socially responsible choices,
- a. small businesses should be exempt from environmental regulations.
  - b. manufacturing concerns always have lower profits.
  - c. long-term and short-term profits are invariably reduced.

d. businesses must recognize that profits are not the only important factor.

ANS: D REF: p. 34 OBJ: 2-3 TYPE: C

37. Which of the following sayings would best summarize the relationship between social responsibility and small firm performance?

- a. Crime pays.
- b. Nice guys can finish first.
- c. A bird in the hand is worth two in the bush.
- d. Better to be the head of a chicken than the tail of a cow.

ANS: B REF: p. 34 OBJ: 2-3 TYPE: C

38. The ethical standards of entrepreneurs

- a. are unaffected by profit motives.
- b. are affected by profit motives.
- c. are seldom challenged by real-world events.
- d. are higher overall than those of corporate managers.

ANS: B REF: p. 34 OBJ: 2-3 TYPE: C

39. A data file that is electronically sent to the customer's computer when other requested materials are downloaded from a Web site is known as

- a. a cookie.
- b. a saucer.
- c. an inverted collector.
- d. a contact signature.

ANS: A REF: p. 36 OBJ: 2-4 TYPE: D

40. Environmentalism poses the greatest threat to small

- a. iron foundries.
- b. drugstores.
- c. movie theaters.
- d. auto repair shops.

ANS: A REF: p. 42 OBJ: 2-4 TYPE: A

41. An example of an industry especially vulnerable to efforts to protect the environment is the \_\_\_\_\_ industry.

- a. glass manufacturing
- b. military construction
- c. restaurants
- d. pet-food processing

ANS: D REF: p. 42 OBJ: 2-4 TYPE: A

42. A pet-food manufacturer has returned from a seminar on environmentalism and wishes to act responsibly in this area. Which of the following actions will accomplish this purpose?

- a. Increase the firm's gross margins
- b. Reduce product prices
- c. Eliminate undesirable processing odors
- d. Increase service to customers

ANS: C                    REF: p. 42                    OBJ: 2-4 TYPE: A

43. A small manufacturer is concerned about a possible cost disadvantage caused by expensive environmental requirements. She should realize that her own firm's competitive position is best served by restrictions imposed by
- city ordinances.
  - county requirements.
  - state laws.
  - federal legislation.

ANS: D                    REF: p. 42                    OBJ: 2-4 TYPE: A

44. Bob's Bistro and Come-by & Take-out are two restaurants located within one mile of each other, but they operate within two separate city jurisdictions. Which of the following best describes the legal and competitive situation for these two businesses?
- Local environmental laws may prove discriminatory by forcing higher costs on one competitor than the other.
  - Federal law may create a competitive advantage for one of these two restaurants.
  - The legal situation will not impact the competitive situation of these two businesses.
  - These two firms have equal chances of competing because they both tap the same market.

ANS: A                    REF: p. 42                    OBJ: 2-4 TYPE: A

45. Raymond Cassion, a café owner, is also a member of the city council. Cassion believes that a proposed ordinance requiring restaurants in the city to be smoke-free would be good for consumers. Cassion's vote for the proposed ordinance would
- create an unfair advantage for his restaurant.
  - increase operating costs for his restaurant.
  - aid most consumers without handicapping any particular restaurant in the city.
  - run contrary to the whole idea of social responsibility.

ANS: C                    REF: p. 30                    OBJ: 2-4 TYPE: A

46. Websense Inc. found that \_\_\_ percent of employees in small businesses it surveyed visited Web sites unrelated to their work.
- |       |       |
|-------|-------|
| a. 49 | c. 26 |
| b. 18 | d. 64 |

ANS: A                    REF: p. 37                    OBJ: 2-4 TYPE: D

47. A U.S. manager is upset with his overseas representative in Fannelstan for paying a small “access fee” to a local customs official to ensure the expedited release of a customer order. The manager’s belief such payments are wrong reflects his sense of \_\_\_\_\_.
- |                           |                        |
|---------------------------|------------------------|
| a. cultural insensitivity | c. ethical imperialism |
| b. ethical elitism        | d. cultural integrity  |

ANS: C                    REF: p. 37                    OBJ: 2-4 TYPE: A

48. The saying “When in Rome, do as the Romans do” reflects a philosophy of \_\_\_\_\_.
- |                          |                        |
|--------------------------|------------------------|
| a. ethical insensitivity | c. ethical imperialism |
| b. ethical elitism       | d. ethical relativism  |

ANS: D                    REF: p. 38                    OBJ: 2-4 TYPE: A

49. If a student copies his favorite record album and gives it away to a friend to use, the student is engaged in the theft of \_\_\_\_\_ property.

- a. collective
- b. intangible
- c. intellectual
- d. real

ANS: C                      REF: p. 37                      OBJ: 2-4 TYPE: C

50. As the Internet continues to grow, it is safe to assume that property rights will

- a. become less difficult to protect.
- b. become more difficult to protect.
- c. become an irrelevancy of the past.
- d. become universally assumable.

ANS: B                      REF: p. 37                      OBJ: 2-4 TYPE: C

51. A web site lists a digital camera at sale price that is twenty percent less than the online prices of its competitors. When a customer attempts to purchase the camera online, the customer is redirected to web page that offers a different camera at a higher price, with the disclaimer that the originally-offered camera is out-of-stock for an “indefinite period.” The web site is engaging in \_\_\_\_\_.

- a. in-cart conversion
- b. customer deflection
- c. aggressive merchandising
- d. bait advertising

ANS: D                      REF: p. 41                      OBJ: 2-5 TYPE: A

## ESSAY

1. Give an example of an unethical practice that might tempt a small business in each of the following areas: marketing, management, and finance or accounting.

ANS:

Unethical marketing practices include bait advertising, price fixing among competitors, deceptive selling practices, and improper inducements to buy. Unethical management practices include discrimination in hiring and promotions; unfair work assignments, dismissals, and layoffs; and dishonesty in communications with employees. Unethical financial or accounting practices include not only understating profits to reduce taxes, but withholding or disguising unpleasant financial conditions to mislead bankers, stockholders, or others with a need to know.

REF: p. 28                      OBJ: 2-1 TYPE: A

2. What are some important social responsibilities of small businesses?

ANS:

Small firms, as well as large ones, have responsibilities to their communities, their customers, and their employees. Protecting the environment from pollution and conserving resources such as soil, water, endangered species, and old-growth forests benefit not only personal interests but those of future generations as well. Small businesses have an opportunity to sponsor worthwhile charitable causes within the community, simultaneously making a positive impact and obtaining goodwill. Treating people fairly rather than manipulating them for gain is a social responsibility both large and small businesses should assume, through responsiveness to consumers and through fair labor practices. Other issues might also be mentioned.

REF: p. 33, 42                      OBJ: 2-3 TYPE: C

3. Discuss the relationship between profits and social responsibility in the small firm.

ANS:

Some of the points that should be made are the following:

- Some socially responsible actions are consistent with the profit goal—particularly long-run profits.
- Profits are a limiting factor. A business cannot survive if it gives away all of its profits.
- Some actions for community betterment are very costly—e.g., eliminating pollution from an iron foundry.
- There are motivations for social responsibility that go beyond profits.
- A firm that consistently ignores social responsibility may contribute to the passing of restrictive legislation and possibly alienate customers.

REF: p. 33-34      OBJ: 2-3 TYPE: C

4. How are Better Business Bureaus formed, and how do they contribute to ethical business behavior?

ANS:

Better Business Bureaus are formed by privately owned business firms as an effort to self-police. They work with consumers who need guidance in purchasing or who believe they have been subjected to unethical treatment. They attempt to resolve disputes between customers and businesses. They also draw up codes of ethics, such as the code of values shown in the textbook.

REF: p. 41      OBJ: 2-2 TYPE: C

5. What are some of the ways in which small businesses may gain from consumerism, and what are some dangers?

ANS:

Consumerism deals with the rights of consumers to purchase high-quality goods and services at a fair price. Since small firms have traditionally been strong in attending to customer needs, they have a competitive advantage in the marketplace. Small firms are more able to be flexible in meeting customers' desires and in providing excellent service. The threat of consumerism is the result of ever-increasing consumer expectations and the increased likelihood that customers will sue.

REF: p. 30-31      OBJ: 2-4 TYPE: C

6. **You Make the Call - Situation 1**

Sally started her consulting business a year ago and has been doing very well. About a month ago, she decided she needed to hire someone to help her since she was getting busier and busier. After interviewing several candidates, she decided to hire the best one of the group, Mary. She called Mary on Monday to tell her she had gotten the job. They both agreed that she would start the following Monday and that Mary could come in and fill out all the hiring paperwork at that time.

On Tuesday of the same week, a friend of Sally's called her to say that she had found the perfect person for Sally. Sally explained that she had already hired someone, but the friend insisted. "Just meet this girl. Who knows, maybe you might want to hire her in the future!"

Rather reluctantly, Sally consented. "Alright, if she can come in tomorrow, I'll meet with her, but that's all."

"Oh, I'm so glad. I just know you're going to like her!" Sally's friend exclaimed.



And Sally did like her. She liked her a lot. Sally had met with Julie on Wednesday morning. She was everything that Sally had been looking for and more. In terms of experience, Julie far surpassed any of the candidates Sally had previously interviewed, including Mary. On top of that, she was willing to bring in clients of her own which would only increase business. All in all, Sally knew this was a win-win situation. But what about Mary? She had already given her word to Mary that she could start work on Monday.

*Source:* SBA Management Institute, "Business Ethics: The Foundation of Effective Leadership," <http://www.onlinewbc.org>, September 27, 2000.

- Question 1**      What decision on Sally's part would contribute most to the success of her business?  
**Question 2**      What ethical reasoning would support hiring Mary?  
**Question 3**      What ethical reasoning would support hiring Julie?

ANS:

1. 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. 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. 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?

REF: p. 32              OBJ: YMTC TYPE: C

#### 7. **You Make the Call - Situation 2**

Software piracy is rampant in China. As a result, a bootleg copy of the latest release of Microsoft's Windows, which normally sells for more than \$100 when purchased through a legitimate vendor, can be found on the streets of Shanghai for as little as \$1. An assistant manager working for the Chinese subsidiary of an American educational services firm ponders the question of whether or not to buy 325 copies of pirated software through a local source for \$1 each. Purchasing through an authorized vendor would cost about 100 times more. He recognizes that he is up against extremely strong competitors that usually purchase pirated software to control costs, so paying the price for legitimate copies could make it difficult for the subsidiary to stay in business. Furthermore, social standards in China do not emphasize proprietary property rights.

- Question 1**      Is the assistant manager acting with integrity if he purchases unauthorized copies of the software on the street?  
**Question 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?  
**Question 3**      What course of action do you recommend? Why?

ANS:

1. 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. 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. 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.

REF: p. 35

OBJ: YMTC TYPE: C

### 8. You Make the Call - Situation 3

A self-employed commercial artist reports taxable income of \$7,000. Actually, her income is considerably higher, but much of it takes the form of cash for small projects and thus is easy to conceal. She considers herself part of the “underground economy” and defends her behavior as a tactic that allows her small business to survive. If the business were to fail, she argues, the government would receive even less tax revenue.

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

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

ANS:

1. 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. 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.

REF: p. 35

OBJ: YMTC TYPE: C