

## Chapter 02

### Small Business Environment: Managing External Relations

#### True / False Questions

1. The boundary is at the core of exchange in the BRIE model.  
True False
  
2. Modeling is a set of shared beliefs, basic assumptions, or common, accepted ways of dealing with problems and challenges within a company that demonstrate how things get done.  
True False
  
3. The reason why small businesses have flexibility is because they have to deal with a lot of 'first time' situations.  
True False
  
4. The general environment is a part of the external environment made up of those components that the firm deals with directly such as customers, suppliers, consultants, media, interest groups, and the like.  
True False
  
5. The trick with all forward-looking choices is to use a "financial options" approach.  
True False
  
6. Two ways to build social capital are legitimacy and social networking.  
True False
  
7. Wearing uniforms or business attire is a goodwill indicator of people-based legitimacy.  
True False

8. Changing the legitimacy characteristics often does more to build your social capital than repeating one legitimacy characteristic stressed by the firm in hopes of finding the perfect mix of characteristics.

True False

9. One of the key parts of social networking is actually seeking the help or advice of others.

True False

10. Networking is the idea and action of each person helping the other.

True False

11. Electronic social networks are usually fast and easy to develop but cost a lot.

True False

12. One of the steps in handling a crisis is to admit you are in trouble.

True False

13. Only one business in ten has a disaster or crisis plan.

True False

14. Replacing paper copies with Web-based documents is one of the ways to create a more sustainable enterprise.

True False

15. An ethical dilemma occurs when a person's values are in conflict, making it unclear whether a decision we are thinking about making is right or not.

True False

16. One of the questions in the first step of making ethical decisions deals with "Who will benefit, and how much? "

True False

17. Often ethical dilemmas crop up in business because the answer sought by the other person would cost your business money.

True False

18. Universalism is an ethical model that supports seeking the greatest good for the greatest number of people.

True False

19. Small businesses often do not try something innovative.

True False

20. When external relations lapses occur, if they are not so major that legal action is at stake, try to use them as learning experiences for the rest of the firm by talking openly about the issues.

True False

#### Multiple Choice Questions

21. Following the BRIE model in starting a business, the entrepreneur creates a boundary within the environment, setting his firm apart from the rest of the environment. In doing this, the entrepreneur gives the firm a(n)

A. identity.

B. bootstrap.

C. organizational culture.

D. network.

22. Using low-cost or free techniques to minimize your cost of doing business is known as

- A. caveat emptor.
- B. sustainable entrepreneurship.
- C. bootstrapping.
- D. the billboard principle.

23. Which of the following is at the core of exchange in the BRIE model?

- A. The boundary
- B. The environment
- C. Identity
- D. Resources

24. The \_\_\_\_\_ of a firm consists of those people inside the boundary—the owner, any employees, and any other owners or board members of the firm.

- A. macroenvironment
- B. external environment
- C. operating environment
- D. internal environment

25. Identify the set of shared beliefs, basic assumptions, or common accepted ways of dealing with problems and challenges within a company that demonstrate how things get done.

- A. Trust
- B. Modeling
- C. Organizational culture
- D. Social networking

26. When a small business is first getting started, there is a lot of flexibility in terms of

- A. ethics.
- B. finances.
- C. government regulations.
- D. roles and expected behaviors.

27. Those parts of the environment that directly and consistently touch on the firm are called the

- A. task environment.
- B. internal environment.
- C. macroenvironment.
- D. general environment.

28. Which of the following statements about the task environment is true?

- A. The economic sector includes the trends and current conditions of the overall market for goods and services.
- B. This part of the environment is made up of those people the firm deals with every day, as well as important groups you may deal with directly less often, but that are always on your mind.
- C. The technological sector includes innovation, invention, and modernization.
- D. It is a part of the external environment made up of sectors of major forces that shape the people and institutions, such as the economic sector or the demographic sector.

29. Which of the following would be a part of the task environment?

- A. The owners
- B. The political-legal sector
- C. Environmental groups
- D. Employees

30. A part of the external environment made up of sectors of major forces that shape the people and institutions of the task and internal environments is the

- A. general environment.
- B. macroenvironment.
- C. task environment.
- D. internal environment.

31. Which of the following is an example of the general environment?

- A. The government
- B. The board of directors
- C. The economic sector
- D. Unions

32. The economic sector includes

- A. trends in the mix of ages, races, and gender in society.
- B. innovation, invention, and modernization.
- C. the availability of equity and credit.
- D. cultures often based on things such as nationality or religion.

33. The general description for the processes and skills used in the management of a firm's interactions with people, organizations and institutions outside of its boundary is

- A. external relations.
- B. community planning partnerships.
- C. organizational culture.
- D. utilitarianism.

34. According to the text, the goal of any small business owner is to

- A. manage external relations in order to create social capital.
- B. make sure the customer knows about the details of its products.
- C. generate alternatives that could meet ethical, legal, and economic goals.
- D. to keep track of social and business contacts.

35. All of the following are true of social capital EXCEPT

- A. it includes characteristics like trust, consistency, and networks.
- B. it can be accumulated or spent.
- C. it is not associated with the concept of "goodwill."
- D. it is capital in the same sense that cash or land can be.

36. Which of the following includes characteristics of a business, like trust, consistency, and networks that help make business operations smooth and efficient?

- A. Social capital
- B. Universalism
- C. Legitimacy
- D. Utilitarianism

37. Which of the following statements about small businesses that are high in social capital is false?

- A. They are not given the benefit of the doubt when problems occur
- B. They are more trusted
- C. They are treated more fairly by regulators
- D. They are checked up on less

38. The two ways to build social capital are through

- A. consistency and visibility.
- B. legitimacy and social networking.
- C. culture and personal ethics.
- D. individuals and teams.

39. \_\_\_\_\_ is the major component of "goodwill," and can be found on a business's balance sheet.

- A. Economic capital
- B. Social capital
- C. Cultural capital
- D. Financial capital

40. \_\_\_\_\_ means that a firm is worthy of consideration or doing business with because of the impressions or opinions of customers, suppliers, investors, or competitors.

- A. Visibility
- B. Flexibility
- C. Legitimacy
- D. Modeling

41. Achieving \_\_\_\_\_ means building trust among customers and other key groups.
- A. modeling
  - B. legitimacy
  - C. visibility
  - D. flexibility
42. The three general forms of legitimacy that you can develop are based on
- A. products, people, and organization.
  - B. individuals, teams, and industry views.
  - C. universalism, utilitarianism, and the Golden Rule.
  - D. integration, distribution, and universalism.
43. Selling brand name merchandise or services is a people-based legitimate indicator of
- A. attire.
  - B. product/service name recognition.
  - C. business network membership.
  - D. organizational size.
44. Having well-known or well-regarded owners, employees, supporters, or spokespeople is a people-based legitimate indicator of
- A. public recognition.
  - B. goodwill.
  - C. business network membership.
  - D. service name recognition.
45. \_\_\_\_\_ refers to certification for having met a standard of quality that is consistently evaluated around the world.
- A. ANSI
  - B. Six Sigma
  - C. ISO
  - D. TQM



46. The \_\_\_\_\_ is given by the U.S. Government to businesses and nonprofit organizations that have been judged outstanding in quality leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and results.

- A. Economic Times Award
- B. Ron Brown Award
- C. Malcolm Baldrige National Quality Award
- D. Deming Prize

47. Documentation and demonstration offered for products are product-based legitimacy indicators of

- A. customer assurance.
- B. experiential supports.
- C. customer service.
- D. quality standards.

48. Which of the following is a product-based legitimacy indicator?

- A. Organization size
- B. Testimonials
- C. Business network membership
- D. Internet identity

49. Having trademarks, service marks, patents, or copyrights are product-based legitimacy indicators of

- A. certifications.
- B. customer service.
- C. intellectual property.
- D. quality standards.

50. Setting technological or service standards adopted by competitors are product-based legitimacy indicators of

- A. quality standards.
- B. certifications.
- C. experiential supports.
- D. industry leadership.

51. Which of the following is an organization-based legitimacy indicator?

- A. Testimonials
- B. Intellectual property
- C. Legal form
- D. Attire

52. Which of the following legal forms of organization-based legitimacy indicators would be the least legitimate?

- A. Corporation
- B. LLC
- C. Sole proprietorship
- D. Partnership

53. Following rules and orders, not swearing, and dressing appropriately would be examples of which class of ethical standards?

- A. Employees should be dependable organizational citizens
- B. Employees should not do anything that will harm the organization
- C. Employees should be good to customers
- D. Employees should protect confidential information

54. Which of the following statements about legitimacy indicators is true?
- A. Across the three types of legitimacy indicators, there are 15 characteristics.
  - B. Part of legitimacy and building trust comes from the consistency of a firm's actions over time.
  - C. Most small businesses incorporate all the elements of the different types of legitimacy indicators.
  - D. Changing the legitimacy characteristics daily does more to build social capital than repeating one legitimacy characteristic stressed by the firm.
55. An entrepreneur's relationships and contacts with others is termed as
- A. a social network.
  - B. visibility.
  - C. the Golden Rule.
  - D. mutuality.
56. The number one type of help sought by entrepreneurs from the PSED is
- A. introduction.
  - B. information.
  - C. financial resources.
  - D. physical resources.
57. According to the text, what is the most important part of social networking that would make a difference in how you would conduct business every day?
- A. Asking for help when you need it
  - B. Respecting the other person's time
  - C. Respecting the other person's expertise
  - D. Being willing to reciprocate if asked
58. The idea and action of each person helping another refers to
- A. networking.
  - B. flexibility.
  - C. mutuality.
  - D. consistency.

59. Interacting with others in order to build relationships useful to a business refers to

- A. networking.
- B. flexibility.
- C. mutuality.
- D. consistency.

60. Which of the following is the largest online social networking site?

- A. Facebook.com
- B. MySpace.com
- C. LinkedIn.com
- D. Twitter.com

61. Which of the following is NOT a key to success in electronic networking?

- A. Making it easy for people to contact you
- B. Taking initiative to ask others on the network to link with you
- C. Taking time to develop networks
- D. Finding and linking up with network mavens

62. Electronic social networks

- A. often have membership costs.
- B. offer the all-important personal touch.
- C. are usually fast and easy to develop.
- D. offer the all-important local connections.

63. When faced with a crisis, what is the first step that a small business owner should follow?

- A. Get to the scene as soon as possible
- B. Communicate facts you know
- C. Appoint one person as the spokesperson
- D. Admit you are in trouble

64. According to the gold standard for crisis leadership, all of the following are steps to follow in a crisis EXCEPT

- A. show caring and accountability.
- B. have one person serve as the firm's spokesperson.
- C. deal with the crisis quickly.
- D. desegregate crisis management with the everyday management of the firm.

65. To help small businesses with crisis planning, the federal government recommends all of the following steps for preparing for disasters EXCEPT

- A. plan to stay in business.
- B. plan when the crisis arises.
- C. talk to your people.
- D. protect your investment.

66. \_\_\_\_\_ is an approach to operating a firm or a line of business which identifies, creates and exploits opportunities to make a profit in a way that can minimize the depletion of natural resources, maximize the use of a recycled material, or improve the environment.

- A. Business entrepreneurship
- B. Economic entrepreneurship
- C. Sustainable entrepreneurship
- D. Intrapreneurship

67. \_\_\_\_\_ is a certification standard from the U.S. Green Building Council for buildings that are more environmentally friendly.

- A. LEED
- B. Green audit
- C. ISO
- D. BATNA

68. Green retailing is

- A. is at the core of exchange in the BRIE model.
- B. another term for sustainable entrepreneurship taken from the belief that green is the color of a healthy environment.
- C. minimizing waste and environmental degradation.
- D. selling products that have a better environmental footprint.

69. A system of values that people consider in determining whether actions are right or wrong is referred to as

- A. organizational culture.
- B. ethics.
- C. trust.
- D. modeling.

70. \_\_\_\_\_ occurs when a person's values are in conflict, making it unclear whether a particular decision is the right thing to do.

- A. Modeling
- B. Social networking
- C. Ethical dilemma
- D. Mutuality

71. Which of the following can occur when there are several different options for a decision one has to make and the best choice is not clear?

- A. Community impact
- B. Lack of flexibility
- C. Innovation
- D. Ethical dilemma

72. Which of the following is a three-step process that helps people make better and more ethical decisions?

- A. First principles
- B. Golden rules
- C. Ethical decision-making
- D. Mutuality development process

73. The first step of ethical decision-making is

- A. creating options for action.
- B. defining the moral problem.
- C. conducting ethical tests.
- D. obtaining employee approval on planning.

74. Which of the following is NOT a question in step one of ethical decision-making?

- A. Who will be hurt, and how badly?
- B. What do others owe you, if anything?
- C. What regulations get broken, and how badly?
- D. Who will benefit, and how much?

75. The question in step one of ethical decision-making, "What do you owe others?" focuses on the \_\_\_\_\_ of people who make decisions.

- A. mutuality
- B. distributive view
- C. integrative view
- D. obligations

76. \_\_\_\_\_ means "let the buyer beware" is a philosophy sometimes used by businesses to put the burden for consumer protection onto the customer.

- A. Caveat emptor
- B. Habeas corpus
- C. Quid pro quo
- D. Respondeat superior

77. Which of the following statements about caveat emptor is true?

- A. Caveat emptor is often the first line of defense by producers of mediocre merchandise.
- B. As a legal principle, the phrase "caveat emptor" has been routinely approved.
- C. Using it as a defense puts the entrepreneur who uses it in a positive light.
- D. If you find a business using caveat emptor as a principle, accept them.

78. Which ethical model supports seeking the greatest good for the greatest number of people?

- A. Utilitarianism
- B. The billboard principle
- C. The Golden Rule
- D. Universalism

79. An ethical model that suggests that there is a code of right and wrong that everyone can see and follow refers to

- A. the billboard principle.
- B. universalism.
- C. the Golden Rule.
- D. utilitarianism.

80. Which of the following observations concerning the Golden Rule is NOT true?

- A. It is an ethical model.
- B. It suggests that you treat others in the same manner you wish to be treated.
- C. Almost every major religious tradition in the world has some version of it.
- D. It suggests that there is a code of right and wrong that everyone can see and follow.

81. An ethical model which suggests you treat others in the manner you wish to be treated refers to

- A. the billboard principle.
- B. universalism.
- C. the Golden Rule.
- D. utilitarianism.

82. "Would others think worse of you if they knew what you had done to resolve your ethical dilemma?" This question is fundamental to which ethical model?

- A. The billboard principle
- B. Universalism
- C. The Golden Rule
- D. Utilitarianism



83. In a negotiation, \_\_\_\_\_ is the second-best outcome identified by the parties to help clarify the value of achieving a successful negotiation.

- A. caveat emptor
- B. bootstrapping
- C. LEED
- D. BATNA

84. Often, the alternative to negotiating together can be \_\_\_\_\_ if the amounts are small, or undertaking legal action if the amounts warrant legal fees or the hassles of enforcing small claims court decisions.

- A. "holding a strike"
- B. "lumping it"
- C. seeking a new job
- D. seeking results from higher authorities

85. The creation of something new or trying something for the first time refers to

- A. personal ethics.
- B. innovation.
- C. universalism.
- D. flexibility.

Scenario: Amanda Albertson and "Durable Doors"

Amanda is a small business owner of "Durable Doors", a manufacturer and installer of garage doors, based in the northeast. Amanda has built the business working very hard in the community. She has earned the reputation as a reliable, trustworthy business owner with solid garage doors. However, given the soft economic conditions with higher gasoline and wood prices, Amanda faces a tough situation. If she continues with her quality standard, she will lose money, but if she inserts panels of mixed lower quality wood she can remain profitable.

86. The situation that Amanda faces can be described as a(n)

- A. mutuality.
- B. ethical dilemma.
- C. decadence.
- D. discourse ethic.

87. If Amanda has tried many ways to think the situation through and still cannot decide whether what she plans to do is ethical, she should explore the ethical model of \_\_\_\_\_ by asking herself whether she would be comfortable having her decision and name advertised for the public to see.

- A. the billboard principle
- B. universalism
- C. utilitarianism
- D. the Golden Rule

88. Which of the following might help Amanda with her situation of inserting a lower quality panel in the garage doors to remain profitable?

- A. Consistency and visibility
- B. Social obligations
- C. People-based legitimacy
- D. Ethical decision-making

89. If Amanda wants a solution that is the best thing for most people, she should explore the ethical model of

- A. universalism.
- B. the Golden Rule.
- C. utilitarianism.
- D. the billboard principle.

90. 'Durable Doors' is known for its high quality standards, exceptional personalized customer service, and industry leadership. These are indicators of which type of legitimacy?

- A. Product-based
- B. Organization-based
- C. People-based
- D. Industry-based

#### Essay Questions

91. Compare and contrast between task environment and general environment.

92. Discuss some of the ways to monitor the environment.

93. Briefly describe the three types of legitimacy. Provide a few indicator examples for each type.

94. Define social capital. How can a business owner build social capital? Explain.

95. What are the three best practices that can make online social networking successful?

96. When faced with a crisis situation, what steps should a small business owner follow? Explain.

97. What is sustainable entrepreneurship? What can entrepreneurs do to manage their firm's impact on the environment?

98. How can an entrepreneur make a more ethical decision using ethical decision-making? Explain.

99. Identify the four questions that should be asked in the first step of ethical decision-making. Why are they important and what is the focus of these questions?

100. Briefly describe the four philosophies used to evaluate alternatives you have generated to solve an ethical problem.

## Chapter 02 Small Business Environment: Managing External Relations **Answer Key**

### True / False Questions

1. (p. 28) The boundary is at the core of exchange in the BRIE model.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-1*

2. (p. 29) Modeling is a set of shared beliefs, basic assumptions, or common, accepted ways of dealing with problems and challenges within a company that demonstrate how things get done.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-1*

3. (p. 29) The reason why small businesses have flexibility is because they have to deal with a lot of 'first time' situations.

**TRUE**

*AACSB: Reflective Thinking  
Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 02-1*

4. (p. 30) The general environment is a part of the external environment made up of those components that the firm deals with directly such as customers, suppliers, consultants, media, interest groups, and the like.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-1*

5. (p. 32) The trick with all forward-looking choices is to use a "financial options" approach.

**FALSE**

*AACSB: Reflective Thinking  
Bloom's: Comprehension  
Difficulty: Easy  
Learning Objective: 02-2*

6. (p. 33) Two ways to build social capital are legitimacy and social networking.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-2*

7. (p. 34) Wearing uniforms or business attire is a goodwill indicator of people-based legitimacy.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-3*

8. (p. 36) Changing the legitimacy characteristics often does more to build your social capital than repeating one legitimacy characteristic stressed by the firm in hopes of finding the perfect mix of characteristics.

**FALSE**

*AACSB: Reflective Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-3*

9. (p. 37) One of the key parts of social networking is actually seeking the help or advice of others.

**TRUE**

*AACSB: Analytic*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-4*

10. (p. 38) Networking is the idea and action of each person helping the other.

**FALSE**

*AACSB: Analytic*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-4*

11. (p. 40) Electronic social networks are usually fast and easy to develop but cost a lot.

**FALSE**

*AACSB: Analytic*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-4*



12. (p. 41) One of the steps in handling a crisis is to admit you are in trouble.

**TRUE**

*AACSB: Reflective Thinking  
Bloom's: Comprehension  
Difficulty: Medium  
Learning Objective: 02-5*

13. (p. 41) Only one business in ten has a disaster or crisis plan.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-5*

14. (p. 42) Replacing paper copies with Web-based documents is one of the ways to create a more sustainable enterprise.

**TRUE**

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Easy  
Learning Objective: 02-6*

15. (p. 42) An ethical dilemma occurs when a person's values are in conflict, making it unclear whether a decision we are thinking about making is right or not.

**TRUE**

*AACSB: Ethical Understanding/Reasoning Abilities  
Bloom's: Knowledge  
Difficulty: Easy  
Learning Objective: 02-7*

16. (p. 43) One of the questions in the first step of making ethical decisions deals with "Who will benefit, and how much? "

**TRUE**

*AACSB: Ethical Understanding/Reasoning Abilities  
Bloom's: Knowledge  
Difficulty: Easy  
Learning Objective: 02-7*

17. (p. 44) Often ethical dilemmas crop up in business because the answer sought by the other person would cost your business money.

**TRUE**

*AACSB: Ethical Understanding/Reasoning Abilities  
Bloom's: Knowledge  
Difficulty: Easy  
Learning Objective: 02-7*

18. (p. 46) Universalism is an ethical model that supports seeking the greatest good for the greatest number of people.

**FALSE**

*AACSB: Ethical Understanding/Reasoning Abilities  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-7*

19. (p. 47) Small businesses often do not try something innovative.

**FALSE**

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-7*

20. (p. 49) When external relations lapses occur, if they are not so major that legal action is at stake, try to use them as learning experiences for the rest of the firm by talking openly about the issues.

**TRUE**

*AACSB: Ethical/Legal Responsibilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-7*

### **Multiple Choice Questions**

21. (p. 28) Following the BRIE model in starting a business, the entrepreneur creates a boundary within the environment, setting his firm apart from the rest of the environment. In doing this, the entrepreneur gives the firm a(n)

**A.** identity.

B. bootstrap.

C. organizational culture.

D. network.

Identity is not just the name of a firm, but its basic description—what it does and where it does this. It can include formal elements like a registration with the state, or a Web site or e-mail account with the firm's name on it, or a telephone number in the firm's name.

*AACSB: Analytic*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-1*

22. (p. 28) Using low-cost or free techniques to minimize your cost of doing business is known as

- A. caveat emptor.
- B. sustainable entrepreneurship.
- C. bootstrapping.**
- D. the billboard principle.

As entrepreneurs face resource constraints, they often learn to get by with less, or substitute a more readily obtained resource, or ask to borrow, rent, or trade for the resource. These techniques are called bootstrapping and are part of the culture of most successful start-ups.

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-1*

23. (p. 28) Which of the following is at the core of exchange in the BRIE model?

- A. The boundary
- B. The environment**
- C. Identity
- D. Resources

The environment is at the core of exchange in the BRIE model, since exchange is literally the firm or entrepreneur dealing with the environment—buying, selling, or trading across the boundary of the firm.

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Easy  
Learning Objective: 02-1*

24. (p. 29) The \_\_\_\_\_ of a firm consists of those people inside the boundary—the owner, any employees, and any other owners or board members of the firm.

- A. macroenvironment
- B. external environment
- C. operating environment
- D.** internal environment

The internal environment consists of everyone within the firm.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

25. (p. 29) Identify the set of shared beliefs, basic assumptions, or common accepted ways of dealing with problems and challenges within a company that demonstrate how things get done.

- A. Trust
- B. Modeling
- C.** Organizational culture
- D. Social networking

As every company matures, it adds to its organizational culture a set of shared beliefs or basic assumptions that demonstrate how things get done.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-1*

26. (p. 29) When a small business is first getting started, there is a lot of flexibility in terms of
- A. ethics.
  - B. finances.
  - C. government regulations.
  - D.** roles and expected behaviors.

Being a small business makes managing organizational culture easier than in larger businesses because, in a small business, there is a lot of flexibility in terms of roles and expected behaviors, especially when the business is first getting started.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

27. (p. 30) Those parts of the environment that directly and consistently touch on the firm are called the
- A.** task environment.
  - B. internal environment.
  - C. macroenvironment.
  - D. general environment.

The task environment is made up of those people your firm deals with directly such as customers, suppliers, consultants, media, interest groups, and the like.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-1*

28. (p. 30) Which of the following statements about the task environment is true?

A. The economic sector includes the trends and current conditions of the overall market for goods and services.

**B.** This part of the environment is made up of those people the firm deals with every day, as well as important groups you may deal with directly less often, but that are always on your mind.

C. The technological sector includes innovation, invention, and modernization.

D. It is a part of the external environment made up of sectors of major forces that shape the people and institutions, such as the economic sector or the demographic sector.

Options a, c, and d pertain to the general environment.

*AACSB: Reflective Thinking*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-1*

29. (p. 30) Which of the following would be a part of the task environment?

A. The owners

B. The political-legal sector

**C.** Environmental groups

D. Employees

Options a, b, and d pertain to the internal and general environments.

*AACSB: Analytic*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-1*

30. (p. 30) A part of the external environment made up of sectors of major forces that shape the people and institutions of the task and internal environments is the

- A. general environment.
- B. macroenvironment.
- C. task environment.
- D. internal environment.

The general environment represents the major forces on the lives of people and institutions like businesses, and even nations.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-1*

31. (p. 30) Which of the following is an example of the general environment?

- A. The government
- B. The board of directors
- C. The economic sector
- D. Unions

The general environment is a part of the external environment made up of sectors of major forces that shape the people and institutions of the task and internal environments, such as the economic sector or the demographic sector.

*AACSB: Analytic*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-1*



32. (p. 30) The economic sector includes
- A. trends in the mix of ages, races, and gender in society.
  - B. innovation, invention, and modernization.
  - C.** the availability of equity and credit.
  - D. cultures often based on things such as nationality or religion.

The economic sector includes the trends and current conditions of the overall market for goods and services, the availability of equity and credit, and employment.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-1*

33. (p. 33) The general description for the processes and skills used in the management of a firm's interactions with people, organizations and institutions outside of its boundary is
- A.** external relations.
  - B. community planning partnerships.
  - C. organizational culture.
  - D. utilitarianism.

The goal of any small business owner is to manage external relations in order to create social capital.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

34. (p. 33) According to the text, the goal of any small business owner is to
- A. manage external relations in order to create social capital.
  - B. make sure the customer knows about the details of its products.
  - C. generate alternatives that could meet ethical, legal, and economic goals.
  - D. to keep track of social and business contacts.

The goal of any small business owner is to manage external relations in order to create social capital.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

35. (p. 33) All of the following are true of social capital EXCEPT
- A. it includes characteristics like trust, consistency, and networks.
  - B. it can be accumulated or spent.
  - C. it is not associated with the concept of "goodwill."
  - D. it is capital in the same sense that cash or land can be.

Social capital is the major component of what accountants call "goodwill," and you can find it on a business's balance sheet.

*AACSB: Reflective Thinking*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

36. (p. 33) Which of the following includes characteristics of a business, like trust, consistency, and networks that help make business operations smooth and efficient?

- A. Social capital
- B. Universalism
- C. Legitimacy
- D. Utilitarianism

Social capital includes characteristics of a business, like trust, consistency, and networks, that represent potential social obligations which are an asset of the firm or entrepreneur.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

37. (p. 33) Which of the following statements about small businesses that are high in social capital is false?

- A. They are not given the benefit of the doubt when problems occur
- B. They are more trusted
- C. They are treated more fairly by regulators
- D. They are checked up on less

Small businesses high in social capital are more trusted, checked up on less, treated more fairly by regulators, and given the benefit of the doubt when problems occur.

*AACSB: Reflective Thinking*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

38. (p. 33) The two ways to build social capital are through

- A. consistency and visibility.
- B.** legitimacy and social networking.
- C. culture and personal ethics.
- D. individuals and teams.

Five techniques for managing external relations and building social capital are building legitimacy, developing a social network, handling a crisis, achieving sustainability, and making ethical decisions.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

39. (p. 33) \_\_\_\_\_ is the major component of "goodwill," and can be found on a business's balance sheet.

- A. Economic capital
- B.** Social capital
- C. Cultural capital
- D. Financial capital

Social capital includes characteristics of a business, like trust, consistency, and networks, that help make business operations smooth and efficient.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-2*

40. (p. 33) \_\_\_\_\_ means that a firm is worthy of consideration or doing business with because of the impressions or opinions of customers, suppliers, investors, or competitors.

- A. Visibility
- B. Flexibility
- C. Legitimacy**
- D. Modeling

Gaining legitimacy is one of the top challenges facing new small businesses.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

41. (p. 33) Achieving \_\_\_\_\_ means building trust among customers and other key groups.

- A. modeling
- B. legitimacy**
- C. visibility
- D. flexibility

Gaining legitimacy is one of the top challenges facing new small businesses.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-3*

42. (p. 33) The three general forms of legitimacy that you can develop are based on

- A. products, people, and organization.**
- B. individuals, teams, and industry views.
- C. universalism, utilitarianism, and the Golden Rule.
- D. integration, distribution, and universalism.

There are three general forms of legitimacy that you can develop—based on your people, based on your product, and based on your organization.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

43. (p. 34) Selling brand name merchandise or services is a people-based legitimate indicator of
- A. attire.
  - B. product/service name recognition.**
  - C. business network membership.
  - D. organizational size.

See Table 2.1 for the major examples of people-based legitimacy.

*AACSB: Analytic*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

44. (p. 34) Having well-known or well-regarded owners, employees, supporters, or spokespeople is a people-based legitimate indicator of
- A. public recognition.
  - B. goodwill.**
  - C. business network membership.
  - D. service name recognition.

See Table 2.1 for the major examples of people-based legitimacy.

*AACSB: Analytic*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

45. (p. 34) \_\_\_\_\_ refers to certification for having met a standard of quality that is consistently evaluated around the world.
- A. ANSI
  - B. Six Sigma
  - C. ISO**
  - D. TQM

ISO stands for the International Standards Organization.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

46. (p. 34) The \_\_\_\_\_ is given by the U.S. Government to businesses and nonprofit organizations that have been judged outstanding in quality leadership; strategic planning; customer and market focus; measurement, analysis, and knowledge management; human resource focus; process management; and results.

- A. Economic Times Award
- B. Ron Brown Award
- C. Malcolm Baldrige National Quality Award**
- D. Deming Prize

The Malcolm Baldrige National Quality Award is given by the U.S. Government to businesses and nonprofit organizations that have been judged outstanding in seven measures.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

47. (p. 34) Documentation and demonstration offered for products are product-based legitimacy indicators of

- A. customer assurance.
- B. experiential supports.**
- C. customer service.
- D. quality standards.

See Table 2.2 which describes many forms of product-based legitimacy.

*AACSB: Analytic*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

48. (p. 34) Which of the following is a product-based legitimacy indicator?

- A. Organization size
- B. Testimonials**
- C. Business network membership
- D. Internet identity

See Table 2.2 which describes many forms of product-based legitimacy.

*AACSB: Analytic*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

49. (p. 34) Having trademarks, service marks, patents, or copyrights are product-based legitimacy indicators of

- A. certifications.
- B. customer service.
- C. intellectual property.**
- D. quality standards.

See Table 2.2 which describes many forms of product-based legitimacy.

*AACSB: Analytic*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

50. (p. 34) Setting technological or service standards adopted by competitors are product-based legitimacy indicators of

- A. quality standards.
- B. certifications.
- C. experiential supports.
- D. industry leadership.**

See Table 2.2 which describes many forms of product-based legitimacy.

*AACSB: Analytic*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-3*



51. (p. 35) Which of the following is an organization-based legitimacy indicator?

- A. Testimonials
- B. Intellectual property
- C. Legal form**
- D. Attire

See Table 2.3 indicating the key factors for organizational legitimacy.

*AACSB: Analytic*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

52. (p. 35) Which of the following legal forms of organization-based legitimacy indicators would be the least legitimate?

- A. Corporation
- B. LLC
- C. Sole proprietorship**
- D. Partnership

See Table 2.3 indicating the key factors for organizational legitimacy.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

53. (p. 35) Following rules and orders, not swearing, and dressing appropriately would be examples of which class of ethical standards?

- A. Employees should be dependable organizational citizens**
- B. Employees should not do anything that will harm the organization
- C. Employees should be good to customers
- D. Employees should protect confidential information

Employees should be dependable organizational citizens (e.g., finish your work, follow rules and orders, be on time, do not swear, dress appropriately, etc.)

*AACSB: Ethical Understanding/Reasoning Abilities*  
*Bloom's: Application*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

54. (p. 36) Which of the following statements about legitimacy indicators is true?

- A. Across the three types of legitimacy indicators, there are 15 characteristics.
- B.** Part of legitimacy and building trust comes from the consistency of a firm's actions over time.
- C. Most small businesses incorporate all the elements of the different types of legitimacy indicators.
- D. Changing the legitimacy characteristics daily does more to build social capital than repeating one legitimacy characteristic stressed by the firm.

Across the three types of legitimacy indicators, there are 30 characteristics, and few small businesses incorporate all these elements. Repeating one legitimacy characteristic daily does more to build your social capital than changing the legitimacy characteristics stressed by the firm in hopes of finding the perfect mix of characteristics.

*AACSB: Reflective Thinking*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-3*

55. (p. 36) An entrepreneur's relationships and contacts with others is termed as

- A.** a social network.
- B. visibility.
- C. the Golden Rule.
- D. mutuality.

Social networking is a way to work trust, reciprocity, and long-term relationships into your day-to-day business operations.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-4*

56. (p. 37) The number one type of help sought by entrepreneurs from the PSED is
- A. introduction.
  - B. information.**
  - C. financial resources.
  - D. physical resources.

The PSED provides some insight as to the type of help people starting their own business seek out. Information is the number one type of help.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Hard*  
*Learning Objective: 02-4*

57. (p. 38) According to the text, what is the most important part of social networking that would make a difference in how you would conduct business every day?
- A. Asking for help when you need it
  - B. Respecting the other person's time
  - C. Respecting the other person's expertise
  - D. Being willing to reciprocate if asked**

Social networking means asking for help when you need it, respecting the other person's time and expertise, and most importantly being willing to reciprocate if asked.

*AACSB: Analytic*  
*Bloom's: Comprehension*  
*Difficulty: Hard*  
*Learning Objective: 02-4*

58. (p. 38) The idea and action of each person helping another refers to
- A. networking.
  - B. flexibility.
  - C. mutuality.**
  - D. consistency.

Through mutuality, social networking helps build long-lasting relationships.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-4*

59. (p. 38) Interacting with others in order to build relationships useful to a business refers to
- A. networking.
  - B. flexibility.
  - C. mutuality.
  - D. consistency.

Building social capital through social networking involves giving information, letting people know they belong, and providing social support and approval. You have to take the time to build and keep up your relationships with others in your network.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-4*

60. (p. 40) Which of the following is the largest online social networking site?
- A. Facebook.com
  - B. MySpace.com
  - C. LinkedIn.com
  - D. Twitter.com

See Table 2.4 for online social networking sites.

*AACSB: Use Of Information Technology*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-4*

61. (p. 40) Which of the following is NOT a key to success in electronic networking?

- A. Making it easy for people to contact you
- B. Taking initiative to ask others on the network to link with you
- C. Taking time to develop networks**
- D. Finding and linking up with network mavens

There are three best practices which can help any online social networking effort become more successful: make it easy for people to contact you, take the initiative to ask others on the network to link with you, and find and link up with network mavens—people who like to gather and share their enormous networks.

*AACSB: Use Of Information Technology*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-4*

62. (p. 40) Electronic social networks

- A. often have membership costs.
- B. offer the all-important personal touch.
- C. are usually fast and easy to develop.**
- D. offer the all-important local connections.

Options a, b, and d pertain to face-to-face social networks.

*AACSB: Analytic*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-4*

63. (p. 41) When faced with a crisis, what is the first step that a small business owner should follow?

- A. Get to the scene as soon as possible
- B. Communicate facts you know
- C. Appoint one person as the spokesperson
- D.** Admit you are in trouble

Although originally given for large businesses, the six steps to follow can be readily adapted to small ones. The first step is: Admit you're in trouble—quickly. It is better to say, "If there is a problem, I will find it and fix it," than to delay an admission until fact finding is done.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-5*

64. (p. 41) According to the gold standard for crisis leadership, all of the following are steps to follow in a crisis EXCEPT

- A. show caring and accountability.
- B. have one person serve as the firm's spokesperson.
- C. deal with the crisis quickly.
- D.** desegregate crisis management with the everyday management of the firm.

Separate crisis management from the everyday management of the firm.

*AACSB: Reflective Thinking*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-5*

65. (p. 41) To help small businesses with crisis planning, the federal government recommends all of the following steps for preparing for disasters EXCEPT

- A. plan to stay in business.
- B. plan when the crisis arises.**
- C. talk to your people.
- D. protect your investment.

The best way to manage a crisis is to plan ahead, but in the middle of a crisis, the key for a small business owner is to keep calm, take care of the people involved, and keep people informed.

*AACSB: Reflective Thinking*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-5*

66. (p. 41) \_\_\_\_\_ is an approach to operating a firm or a line of business which identifies, creates and exploits opportunities to make a profit in a way that can minimize the depletion of natural resources, maximize the use of a recycled material, or improve the environment.

- A. Business entrepreneurship
- B. Economic entrepreneurship
- C. Sustainable entrepreneurship**
- D. Intrapreneurship

Sustainable entrepreneurship is a method for managing external relations with customers, governments, and the physical environment.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-6*

67. (p. 42) \_\_\_\_\_ is a certification standard from the U.S. Green Building Council for buildings that are more environmentally friendly.

- A. LEED**
- B. Green audit
- C. ISO
- D. BATNA

LEED stands for "Leadership in Energy and Environmental Design" and is a certification standard from the U.S. Green Building Council for buildings that are more environmentally friendly.

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-6*

68. (p. 42) Green retailing is

- A. is at the core of exchange in the BRIE model.
- B. another term for sustainable entrepreneurship taken from the belief that green is the color of a healthy environment.
- C. minimizing waste and environmental degradation.
- D. selling products that have a better environmental footprint.**

Green retailing, selling products that have a better environmental footprint, is a growing segment.

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-6*



69. (p. 42) A system of values that people consider in determining whether actions are right or wrong is referred to as

A. organizational culture.

**B.** ethics.

C. trust.

D. modeling.

We consider ethics in determining whether a decision we are about to make is good or bad.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-7*

70. (p. 42) \_\_\_\_\_ occurs when a person's values are in conflict, making it unclear whether a particular decision is the right thing to do.

A. Modeling

B. Social networking

**C.** Ethical dilemma

D. Mutuality

An ethical dilemma occurs when there are several different options for a decision we have to make and the best choice is not clear.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-7*

71. (p. 42) Which of the following can occur when there are several different options for a decision one has to make and the best choice is not clear?

- A. Community impact
- B. Lack of flexibility
- C. Innovation
- D.** Ethical dilemma

An ethical dilemma occurs when a person's values are in conflict, making it unclear whether a decision we're thinking about making is right or not.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-7*

72. (p. 42) Which of the following is a three-step process that helps people make better and more ethical decisions?

- A. First principles
- B. Golden rules
- C.** Ethical decision-making
- D. Mutuality development process

LaRue Hosmer came up with a model of making ethical decisions in business, widely used today, but it is focused more on big business than small ones. Adapting his approach to small business making ethical decisions involves three steps: define, generate, and implement.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-7*

73. (p. 42) The first step of ethical decision-making is

- A. creating options for action.
- B.** defining the moral problem.
- C. conducting ethical tests.
- D. obtaining employee approval on planning.

Adapting LaRue Hosmer's approach to small business making ethical decisions involves three steps, the first step being, defining the moral problem.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-7*

74. (p. 43) Which of the following is NOT a question in step one of ethical decision-making?

- A. Who will be hurt, and how badly?
- B. What do others owe you, if anything?
- C.** What regulations get broken, and how badly?
- D. Who will benefit, and how much?

For small businesses, there are typically four questions: Who will be hurt (and how much)? Who will benefit (and how much)? What do you (or your firm) owe others? What do others owe you (or your firm)?

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Hard*

*Learning Objective: 02-7*

75. (p. 43) The question in step one of ethical decision-making, "What do you owe others?" focuses on the \_\_\_\_\_ of people who make decisions.

- A. mutuality
- B. distributive view
- C. integrative view
- D.** obligations

What do you (or your firm) owe others? When you make a decision, it should reflect your real or presumed obligations to people and institutions in your firm and in its task environment.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-7*

76. (p. 44) \_\_\_\_\_ means "let the buyer beware" is a philosophy sometimes used by businesses to put the burden for consumer protection onto the customer.

- A.** Caveat emptor
- B. Habeas corpus
- C. Quid pro quo
- D. Respondeat superior

Caveat emptor is often the first line of defense by rip-off artists, frauds, and producers of shoddy merchandise.

*AACSB: Analytic*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-7*

77. (p. 44-45) Which of the following statements about caveat emptor is true?

- A.** Caveat emptor is often the first line of defense by producers of mediocre merchandise.
- B. As a legal principle, the phrase "caveat emptor" has been routinely approved.
- C. Using it as a defense puts the entrepreneur who uses it in a positive light.
- D. If you find a business using caveat emptor as a principle, accept them.

As a legal principle, caveat emptor has been routinely discredited. Using it as a defense puts the entrepreneur who uses it, and, usually by association, the whole small business community, in a negative light. If you find a business using caveat emptor as a principle, avoid them.

*AACSB: Reflective Thinking, Ethical/Legal Responsibilities*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-7*

78. (p. 46) Which ethical model supports seeking the greatest good for the greatest number of people?

- A.** Utilitarianism
- B. The billboard principle
- C. The Golden Rule
- D. Universalism

"Is my solution the best thing for the most people over the long term?" This idea is called utilitarianism.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-7*

79. (p. 46) An ethical model that suggests that there is a code of right and wrong that everyone can see and follow refers to

A. the billboard principle.

**B.** universalism.

C. the Golden Rule.

D. utilitarianism.

"What if everyone did what I want to do? What kind of world would it be?" Those questions in a nutshell are the idea of universalism.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Easy*

*Learning Objective: 02-7*

80. (p. 46) Which of the following observations concerning the Golden Rule is NOT true?

A. It is an ethical model.

B. It suggests that you treat others in the same manner you wish to be treated.

C. Almost every major religious tradition in the world has some version of it.

**D.** It suggests that there is a code of right and wrong that everyone can see and follow.

Universalism is an ethical model that suggests that there is a code of right and wrong that everyone can see and follow.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Comprehension*

*Difficulty: Hard*

*Learning Objective: 02-7*

81. (p. 46) An ethical model which suggests you treat others in the manner you wish to be treated refers to
- A. the billboard principle.
  - B. universalism.
  - C. the Golden Rule.**
  - D. utilitarianism.

Am I treating others the way I would want to be treated? This is the Golden Rule.

*AACSB: Ethical Understanding/Reasoning Abilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-7*

82. (p. 46) "Would others think worse of you if they knew what you had done to resolve your ethical dilemma?" This question is fundamental to which ethical model?
- A. The billboard principle**
  - B. Universalism
  - C. The Golden Rule
  - D. Utilitarianism

The billboard principle is an ethical model that asks whether someone would be comfortable having his/her decision and name advertised on a billboard for the public to see.

*AACSB: Ethical Understanding/Reasoning Abilities*  
*Bloom's: Knowledge*  
*Difficulty: Medium*  
*Learning Objective: 02-7*

83. (p. 47) In a negotiation, \_\_\_\_\_ is the second-best outcome identified by the parties to help clarify the value of achieving a successful negotiation.

- A. caveat emptor
- B. bootstrapping
- C. LEED
- D. BATNA**

Starting from a small patch of common ground is not uncommon in negotiating sessions. If this does not work, be ready to talk about your BATNA, or Best Alternative to a Negotiated Settlement.

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-7*

84. (p. 47) Often, the alternative to negotiating together can be \_\_\_\_\_ if the amounts are small, or undertaking legal action if the amounts warrant legal fees or the hassles of enforcing small claims court decisions.

- A. "holding a strike"
- B. "lumping it"**
- C. seeking a new job
- D. seeking results from higher authorities

Often, the alternative to negotiating together can be "lumping it" (suffering with what aggravated you or the other party, possibly with loud complaints to others) if the amounts are small, or undertaking legal action if the amounts warrant legal fees or the hassles of enforcing small claims court decisions.

*AACSB: Analytic  
Bloom's: Knowledge  
Difficulty: Medium  
Learning Objective: 02-7*



85. (p. 48) The creation of something new or trying something for the first time refers to
- A. personal ethics.
  - B. innovation.**
  - C. universalism.
  - D. flexibility.

Innovation suggests that you are not sure how a new idea is going to turn out.

*AACSB: Analytic*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-7*

Scenario: Amanda Albertson and "Durable Doors"

Amanda is a small business owner of "Durable Doors", a manufacturer and installer of garage doors, based in the northeast. Amanda has built the business working very hard in the community. She has earned the reputation as a reliable, trustworthy business owner with solid garage doors. However, given the soft economic conditions with higher gasoline and wood prices, Amanda faces a tough situation. If she continues with her quality standard, she will lose money, but if she inserts panels of mixed lower quality wood she can remain profitable.

86. (p. 42) The situation that Amanda faces can be described as a(n)
- A. mutuality.
  - B. ethical dilemma.**
  - C. decadence.
  - D. discourse ethic.

An ethical dilemma occurs when a person's values are in conflict, making it unclear whether a decision we're thinking about making is right or not.

*AACSB: Ethical Understanding/Reasoning Abilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-7*

87. (p. 46) If Amanda has tried many ways to think the situation through and still cannot decide whether what she plans to do is ethical, she should explore the ethical model of \_\_\_\_\_ by asking herself whether she would be comfortable having her decision and name advertised for the public to see.

- A.** the billboard principle
- B. universalism
- C. utilitarianism
- D. the Golden Rule

As the name implies, the billboard principle asks whether you'd be comfortable having your decision (with your name, of course) advertised on a billboard for everyone you know to see.

*AACSB: Ethical Understanding/Reasoning Abilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-7*

88. (p. 42-43) Which of the following might help Amanda with her situation of inserting a lower quality panel in the garage doors to remain profitable?

- A. Consistency and visibility
- B. Social obligations
- C. People-based legitimacy
- D.** Ethical decision-making

Adapting LaRue Hosmer's approach to small business is widely used today for making ethical decisions in business.

*AACSB: Ethical Understanding/Reasoning Abilities*  
*Bloom's: Knowledge*  
*Difficulty: Easy*  
*Learning Objective: 02-7*

89. (p. 46) If Amanda wants a solution that is the best thing for most people, she should explore the ethical model of

- A. universalism.
- B. the Golden Rule.
- C. utilitarianism.**
- D. the billboard principle.

Utilitarianism is an ethical model that supports seeking the greatest good for the greatest number of people.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-7*

90. (p. 34) 'Durable Doors' is known for its high quality standards, exceptional personalized customer service, and industry leadership. These are indicators of which type of legitimacy?

- A. Product-based**
- B. Organization-based
- C. People-based
- D. Industry-based

See Table 2.2 which describes many forms of product-based legitimacy.

*AACSB: Analytic*

*Bloom's: Knowledge*

*Difficulty: Hard*

*Learning Objective: 02-3*

### **Essay Questions**

91. (p. 30) Compare and contrast between task environment and general environment.

The task environment is a part of the external environment made up of those components that the firm deals with directly such as customers, suppliers, consultants, media, interest groups, and the like.

The general environment is a part of the external environment made up of sectors of major forces that shape the people and institutions of the task and internal environments, such as the economic sector or the demographic sector.

*AACSB: Domestic And Global Economic Environments*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-1*

92. (p. 32) Discuss some of the ways to monitor the environment.

There are several low-cost and relatively fast ways to monitor the environment. They include:

1. Looking for trends and future-looking articles in the trade and professional press of your industry or those of members of your task environment.
2. Asking your customers, suppliers, banker, attorney, and accountants what they see on the horizon for business in general, for business in your community in general, or for your industry or line of business in particular.
3. Keeping notes on the things that bother you about the way work is done now, or what bothers you about how something has changed (whether a product, service, or process you deal with), and periodically do some fast research (typically searching on the Web) on what causes it and how others feel about it.
4. Subscribing to a couple of magazines/newsletters (online or hard copy) or online news feeds or blogs outside your area of business.

*AACSB: Reflective Thinking, Use Of Information Technology*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-2*

93. (p. 33-35) Briefly describe the three types of legitimacy. Provide a few indicator examples for each type.

There are three general forms of legitimacy that you can develop—based on your people, based on your product, and based on your organization.

Often the owner is the business in many peoples' minds. So, he/she is the most important element of social capital to customers and supporters of a business, such as bankers, lawyers, and suppliers. Having people in the organization—an owner, employees, or even media spokesperson—whom customers know and respect increases the firm's legitimacy. Making sure the people of your business always work in the best, friendliest, and most professional way also helps build the business. Examples: Goodwill, public recognition, product/service name recognition, business network membership, organizational size, attire, etc.

Also, many small business owners think that the most important source of legitimacy comes from an understanding of the product or service offered. If customers do not understand it, the company is unlikely to get any customer attention because customers may not trust it.

Fortunately, most small businesses offer products or services with which customers are already familiar. The goal then becomes making sure the customer knows about the details of the product, its high quality and environmental friendliness, its competitive advantage, how to use it, and has the assurance that it will be backed up by the firm. Examples: Customer assurance, experiential supports, customer service, quality standards, environmental friendliness, etc.

If the customer understands the product, the final key legitimacy factor is promoting knowledge about the organization itself. This might focus on telling about the history or visibility the firm already enjoys. It might come from published information that makes sure your firm looks like a substantial and professional business. Whatever gives customers confidence in the quality and survivability of the firm helps the selling process and in turn increases the all-important trust factor. Examples: Media organization visibility, history, time commitment, legal form, physical setting, internet identity, graphic design, code of ethics, etc. Another approach to building organization-based legitimacy is the creation and display of a company code of ethics. In practice, good codes of ethics reflect the passions of the founder, the culture of the firm, and three classes of ethical standards found in research on existing codes of ethics.

*AACSB: Reflective Thinking, Ethical Understanding/Reasoning Abilities*

*Bloom's: Application*

*Difficulty: Medium*

*Learning Objective: 02-3*

94. (p. 33-38) Define social capital. How can a business owner build social capital? Explain.

The goal of any small business owner is to manage external relations in order to create social capital. Social capital includes characteristics of a business, like trust, consistency, and networks, that help make business operations smooth and efficient. Small businesses high in social capital are more trusted, checked up on less, treated more fairly by regulators, and given the benefit of the doubt when problems occur. This social capital can be accumulated or spent, and the more of it you have, the greater the value of your firm. Social capital is the major component of "goodwill," and you can find it on a business's balance sheet.

One basis for building social capital is through legitimacy. Often the owner is the business in many peoples' minds. So, he/she is the most important element of social capital to customers and supporters of a business, such as bankers, lawyers, and suppliers.

Having people in the organization whom customers know and respect increases the firm's legitimacy. Making sure the people of your business always work in the best, friendliest, and most professional way also helps build the business. Repeating one legitimacy characteristic daily does more to build your social capital than changing the legitimacy characteristics stressed by the firm in hopes of finding the perfect mix of characteristics.

Another basis for building social capital is through building a social network. Social networking is a way to build your company's expertise by convincing others to share their skills and knowledge with your firm. Part of building social capital with social networking comes from the help people in the network can provide one another. Building social capital through social networking involves giving information, letting people know they belong, and providing social support and approval. You have to take the time to build and keep up your relationships with others in your network.

*AACSB: Value Creation*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-2*  
*Learning Objective: 02-3*  
*Learning Objective: 02-4*

95. (p. 40) What are the three best practices that can make online social networking successful?

Small businesses planning to rely primarily on online social networking as their means of prospecting for customers often use multiple sites, in order to get to potential customers in as many ways as possible. Regardless of the site or sites you use, there are three best practices which can help any online social networking effort become more successful:

1. Make it easy for people to contact you.
2. Take the initiative to ask others on the network to link with you.
3. Find and link up with network mavens—people who like to gather and share their enormous networks.

*AACSB: Use Of Information Technology*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-4*

96. (p. 40-41) When faced with a crisis situation, what steps should a small business owner follow? Explain.

While some challenges come slowly and give the small business owner a chance to think about how to choose, all businesses sooner or later face some sort of crisis. Small business owners are optimists about their businesses. When the crisis is in full swing, knowing what to do is critical. The gold standard for crisis leadership, although originally given for large businesses, can be readily adapted to small ones. The six steps to follow are:

1. Admit you are in trouble—quickly. It is better to say, "If there is a problem, I will find it and fix it," than to delay an admission until fact finding is done.
2. Get to the scene as soon as possible. Show caring and accountability.
3. Communicate facts you know (and those you don't) to employees, customers, and suppliers.
4. Have one person serve as the firm's spokesperson. It is best if it can be the owner, but an articulate employee, family member, or outside professional can stand in.
5. Separate crisis management from the everyday management of the firm. If you are doing both, try to take time to do each separately. Delegate as much as possible of the everyday management to employees or family while you concentrate on dealing with the crisis.
6. Deal with the crisis quickly. Take steps to solve the problem, and make the process of dealing with the problem as open as possible.

*AACSB: Analytic*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-5*

97. (p. 41-42) What is sustainable entrepreneurship? What can entrepreneurs do to manage their firm's impact on the environment?

Sustainable entrepreneurship is an approach to the operation of the firm, the line of business of the firm, or both, which identifies or creates and then exploits opportunities to make a profit in a manner that minimizes the depletion of natural resources, maximizes the use of recycled material, improves the environment, or any combination of these outcomes.

Entrepreneurs can do quite a lot to manage their firm's impact on the environment. Recycling is one approach a lot of businesses use. One way to start thinking about minimizing waste and environmental degradation is to run your thoughts about your business through a "green audit." Minimizing paper use, using telecommuting and electronic communication, replacing paper copies with Web-based documents, buying products for the business made from recycled materials or products which can be recycled are all ways to create a more sustainable enterprise.

The business itself can focus on ways to enhance others' sustainability efforts, and make a profit doing it. You can check if the buildings in your area are LEED certified. It stands for "Leadership in Energy and Environmental Design" is a certification standard from the U.S. Green Building Council for buildings that are more environmentally friendly. Construction companies have found this area to be a new source of sales and profits, as new buildings are designed to be more energy efficient and recyclable, and older buildings get retrofitted for energy savings and healthier internal environments. Similarly, green retailing is a growing segment. Whether talking about greening your own business or making a profit from helping others get greener, sustainable entrepreneurship is another method for managing external relations with customers, governments, and the physical environment.

*AACSB: Value Creation*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-6*



98. (p. 42) How can an entrepreneur make a more ethical decision using ethical decision-making? Explain.

Of the five environment managing techniques, making ethical decisions is the hardest. Part of it is because the ethical problems that keep entrepreneurs up at night are ones where there is not a satisfying yes or no answer.

LaRue Hosmer, initially a professor of entrepreneurship who came from a family logging business, later turned his eye toward the challenge of making ethical decisions in business. He came up with a model widely used today, but it is focused more on big business than small ones. Adapting his approach to small business making ethical decisions involves three steps:

1. Define: Define the moral problem.
2. Generate: Generate alternatives that could meet the ethical, legal, and economic goals every business must balance.
3. Implement: Pick the best alternative you and your business can live with and implement it.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Knowledge*

*Difficulty: Medium*

*Learning Objective: 02-7*

99. (p. 43) Identify the four questions that should be asked in the first step of ethical decision-making. Why are they important and what is the focus of these questions?

Ethical decision-making involves three steps. The first step is defining the moral problem. To determine the moral dimension of a problem, you need to carefully think the problem through. For small businesses, there are typically four questions used to define the moral problem under consideration:

1. Who will be hurt (and how much)? Obviously more hurt is worse, but you also need to consider how likely recovery is and how long will it take to recover.
2. Who will benefit (and how much)? A tiny benefit for many is often of little use. The overall size of the benefit needs to be weighed against the number who benefit, and balanced against the costs of the harm done to others by the solution.
3. What do you (or your firm) owe others? When you make a decision, it should reflect your real or presumed obligations to people and institutions in your firm and in its task environment. How you act under pressure is seen by many as the acid test of who you are and what your firm is about.
4. What do others owe you (or your firm)? Just as you and your firm make a commitment to others, they make commitments to you and your firm. Depending on the decision, there may be obligations from others or forms of support you can expect that help make doing the ethical thing easier on you or the other party involved.

*AACSB: Ethical Understanding/Reasoning Abilities*  
*Bloom's: Comprehension*  
*Difficulty: Medium*  
*Learning Objective: 02-7*

Chapter 02 - Small Business Environment: Managing External Relations

100. (p. 46) Briefly describe the four philosophies used to evaluate alternatives you have generated to solve an ethical problem.

There are four proven philosophies to try when you are thinking through alternatives to help you determine how ethical the choices are.

The Golden Rule: An ethical model which suggests you treat others in the manner you wish to be treated.

Utilitarianism: An ethical model that supports seeking the greatest good for the greatest number of people.

Universalism: An ethical model that suggests that there is a code of right and wrong that everyone can see and follow.

The billboard principle: An ethical model that asks whether someone would be comfortable having his/her decision and name advertised on a billboard for the public to see.

*AACSB: Ethical Understanding/Reasoning Abilities*

*Bloom's: Comprehension*

*Difficulty: Medium*

*Learning Objective: 02-7*