

## Chapter 2—Entrepreneurial Integrity and Ethics

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### TRUE/FALSE

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

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

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

ANS: T                      PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: C

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

ANS: T                      PTS: 1                      REF: p. 41                      OBJ: 2-2 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.

PTS: 1                      REF: p. 34                      OBJ: 2-2 TYPE: D

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

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

6. Entrepreneurs who do not behave in a way consistent with the noble values, beliefs, and principles they claim to hold are said to be compromising their *integrity*.

ANS: T                      PTS: 1                      REF: p. 33                      OBJ: 2-1 TYPE: D

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.

PTS: 1                      REF: p. 43                      OBJ: 2-1 TYPE: C

8. In a recent survey of employees of small firms, less than half reported feeling no pressure to compromise their own ethical standards.

ANS: F                      PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: C

9. Nobel Prize winning economist Milton Friedman stated that there is only one social responsibility of business – to use its resources and engage in activities designed to increase profits no matter what is required.

ANS: F                      PTS: 1                      REF: p. 36                      OBJ: 2-2 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                      PTS: 1                      REF: p. 46                      OBJ: 2-4 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.

PTS: 1                      REF: p. 43                      OBJ: 2-3 TYPE: C

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

ANS: T                      PTS: 1                      REF: p. 46                      OBJ: 2-4 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                      PTS: 1                      REF: p. 43                      OBJ: 2-3 TYPE: C

14. Stakeholders are those who neither can affect the performance of a company nor are they affected by it.

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

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

ANS: T                      PTS: 1                      REF: p. 47                      OBJ: 2-5 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.

PTS: 1                      REF: p. 47                      OBJ: 2-5 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                      PTS: 1                      REF: p. 47                      OBJ: 2-5 TYPE: C

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

ANS: T                    PTS: 1                    REF: p. 47                    OBJ: 2-5 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.

PTS: 1                    REF: p. 47                    OBJ: 2-5 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.

PTS: 1                    REF: p. 49                    OBJ: 2-5 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                    PTS: 1                    REF: p. 49                    OBJ: 2-5 TYPE: D

22. Although Jim Hackett, CEO of Steelcase, decided to recall defective fire-retardant wall panels at an expense to the company of \$40 million, the events of September 11, 2001 vindicated his action.

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

23. The level of integrity in a firm is unrelated to the respect given to employees.

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

24. Although PAETEC gives the *employee* prominence in the mission statement, the *customer* comes first in its management practices.

ANS: F

It is the opposite.

PTS: 1                    REF: p. 39                    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                    PTS: 1                    REF: p. 40                    OBJ: 2-2 TYPE: C

26. Many entrepreneurs feel a duty to give back to the community which supports them, but they usually gain benefits from the increased goodwill as a result.

ANS: T                    PTS: 1                    REF: p. 40                    OBJ: 2-2 TYPE: A

27. Local, state, and federal tax obligations such as Social Security, Medicare and unemployment insurance must be withheld, but the largest tax burden on small business is the income tax because it must be paid whether the company makes a profit or not.
- ANS: F                      PTS: 1                      REF: p. 43                      OBJ: 2-2 TYPE: C
28. Most entrepreneurs exercise great integrity, but some are particularly vulnerable with regard to ethical issues that directly affect profits.
- ANS: T                      PTS: 1                      REF: p. 44                      OBJ: 2-3 TYPE: A
29. Socially responsible activities may be consistent with a firm's long-term profit objective.
- ANS: T                      PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: C
30. The goodwill gained from benefiting the community may be worth more than it costs.
- ANS: T                      PTS: 1                      REF: p. 40                      OBJ: 2-2 TYPE: C
31. Since there are laws on the books making it a crime to use someone's intellectual property without their permission, it is strictly a *legal* issue, not an *ethical* one.
- ANS: F                      PTS: 1                      REF: p. 46                      OBJ: 2-4 TYPE: D
32. Employer monitoring of employees' Internet activities has become so commonplace that it is no longer a subject for debate.
- ANS: F                      PTS: 1                      REF: p. 45                      OBJ: 2-4 TYPE: C
33. The law which makes it illegal for U.S. businesses to use bribery in their dealings anywhere in the world is called the *Foreign Corrupt Practices Act*.
- ANS: T                      PTS: 1                      REF: p. 46                      OBJ: 2-4 TYPE: D
34. The Better Business Bureau (BBB) is a government agency that encourages ethical business practices.
- ANS: F  
The Better Business Bureau is a non-governmental organization.
- PTS: 1                      REF: p. 49                      OBJ: 2-5 TYPE: D
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*.
- PTS: 1                      REF: p. 45                      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.

PTS: 1 REF: p. 53 OBJ: 2-6 TYPE: C

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

ANS: T PTS: 1 REF: p. 53 OBJ: 2-6 TYPE: C

38. The Ethics Resource Center has adapted a *six-step process* to help small businesses see issues more clearly and make better, more ethical decisions.

ANS: T PTS: 1 REF: p. 50 OBJ: 2-5 TYPE: A

39. In a recent survey of business owners issues related to customers and competitors were the most difficult issue faced.

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

40. An employee loafing on the job or taking an unjustified sick leave would be considered examples of unethical behavior towards the employer.

ANS: T PTS: 1 REF: p. 39 OBJ: 2-2 TYPE: C

41. A recent survey found there was a strong connection between corporate citizen commitments and brand loyalty.

ANS: T PTS: 1 REF: p. 41 OBJ: 2-2 TYPE: C

42. A person selling 2<sup>nd</sup> grade flooring as 1<sup>st</sup> grade flooring is engaging in ethical business practices.

ANS: F PTS: 1 REF: p. 33 OBJ: 2-1 TYPE: A

### MULTIPLE CHOICE

1. While unethical practices do exist, it is good that the great majority of small firms strive to achieve the highest standards of \_\_\_\_ in their quest for profits.

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

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

2. *Stakeholders* in a business are made up of which of the following:

- a. owners (stockholders)
- b. customers
- c. employees
- d. all of the above

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

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                      PTS: 1                      REF: p. 41                      OBJ: 2-2 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
- environmental issues.
  - relationships with customers and competitors.
  - human resource decisions.
  - banking relationships.

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

5. Because a firm has considerable discretion in reporting performance results, financial reports can sometimes be \_\_\_\_\_ without technically being illegal.
- inaccurate
  - misleading
  - unreliable
  - bellicose

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

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

ANS: A                      PTS: 1                      REF: p. 34                      OBJ: 2-2 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?
- 0%
  - 30.1%
  - 62.4%
  - 72.3%

ANS: D                      PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: C

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

ANS: B                      PTS: 1                      REF: p. 43                      OBJ: 2-3 TYPE: C

9. When an *employee* steals money from a firm it is called
- cheating
  - fraud
  - embezzlement
  - promotion

ANS: C                      PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: D

10. An ethical business is one that not only treats customers and employees honestly, but also acts as a good citizen in the community. These broader obligations of citizenship are called \_\_\_\_\_.  
a. community commitment  
b. philanthropy  
c. environmentalism  
d. social responsibilities

ANS: D                      PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: D

11. Entrepreneurs should think carefully about their community commitments because “doing good” may add to a small company’s \_\_\_\_\_.  
a. bottom line  
b. financial burden  
c. payroll  
d. local profile

ANS: B                      PTS: 1                      REF: p. 40                      OBJ: 2-2 TYPE: C

12. Many types of socially responsible actions can be consistent with a firm’s long-term profit. Some degree of \_\_\_\_\_ is earned by such behavior.  
a. money.  
b. respect.  
c. goodwill.  
d. management expertise.

ANS: C                      PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: A

13. Tax avoidance can be flagrant and very intentional, but entrepreneurs often come up short on their tax commitments because of a single-minded focus on their product or service and \_\_\_\_\_.  
a. *casual accounting system.*  
b. *low-cost accounting software.*  
c. *incompetent in-house accountant.*  
d. *cash-basis accounting system.*

ANS: A                      PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: A

14. Ethical issues  
a. seldom involve legal issues.  
b. are questions of right and wrong.  
c. are always clearly defined.  
d. often resolve themselves.

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

15. Perhaps the greatest benefit of integrity in business is the \_\_\_\_\_ it generates.  
a. trust  
b. profit  
c. reputation  
d. sales

ANS: A                      PTS: 1                      REF: p. 44                      OBJ: 2-3 TYPE: C

16. Milton Friedman argues that businesses  
a. should avoid social responsibility whenever it is possible to do so.  
b. should be required to use their resources meet their social responsibilities.  
c. can only earn profits if they do so in a socially responsible manner.

d. are justified in being socially responsible only if doing so increases the firm's value.

ANS: D                      PTS: 1                      REF: p. 36                      OBJ: 2-2 TYPE: C

17. 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                      PTS: 1                      REF: p. 37                      OBJ: 2-2 TYPE: C

18. The application of U.S. standards to ethical issues that are clouded by cultural differences abroad is sometimes categorized as \_\_\_\_\_.
- overly idealistic.
  - ethical imperialism.
  - american arrogance.
  - situation ethics.

ANS: B                      PTS: 1                      REF: p. 46                      OBJ: 2-2 TYPE: D

19. 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                      PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: C

20. 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                      PTS: 1                      REF: p. 48                      OBJ: 2-5 TYPE: C

21. 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                      PTS: 1                      REF: p. 48                      OBJ: 2-5 TYPE: C

22. 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.
  - the existence of a written code of ethics.

ANS: C                      PTS: 1                      REF: p. 48                      OBJ: 2-5 TYPE: C

23. 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.



- b. begins to market products in other countries.
- c. grows larger, with a consequent lessening of the owner's personal influence.
- d. increases borrowing to the extent that one-third of its assets are financed by borrowing.

ANS: C                      PTS: 1                      REF: p. 48                      OBJ: 2-5 TYPE: C

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

ANS: B                      PTS: 1                      REF: p. 49                      OBJ: 2-5 TYPE: A

25. The key to defining the problem, in order to make an ethical decision is to:
- a. Go with the obvious solution
  - b. Look at the surface of the problem
  - c. Find the most cost effective solution
  - d. Identify the root of the problem

ANS: D                      PTS: 1                      REF: p. 51                      OBJ: 2-5 TYPE: C

26. Showing proper appreciation for subordinates as valuable members of the team is an essential ingredient of \_\_\_\_\_ integrity
- a. environmental
  - b. educational
  - c. managerial
  - d. relative

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

27. Which would be an example of an employee acting unethically towards employer?
- a. Taking a vacation
  - b. Taking unjustified sick leave
  - c. Working overtime
  - d. Taking a 15 minute break

ANS: B                      PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: C

28. In a recent survey what percent of respondents said they were “very or somewhat likely” to switch brands based on corporate citizenship commitments?
- a. 12
  - b. 27
  - c. 50
  - d. 86

ANS: D                      PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: C

29. 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 environmentalism and economic development 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                      PTS: 1                      REF: p. 40                      OBJ: 2-2 TYPE: A

30. Entrepreneurs must reconcile their social obligations with \_\_\_\_\_.  
a. their family commitments.  
b. their personal schedule.  
c. the need to earn profits.  
d. their religious beliefs.

ANS: C                      PTS: 1                      REF: p. 40                      OBJ: 2-2 TYPE: C

31. 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                      PTS: 1                      REF: p. 40                      OBJ: 2-2 TYPE: C

32. 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                      PTS: 1                      REF: p. 34-35                      OBJ: 2-2 TYPE: C

33. 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                      PTS: 1                      REF: p. 40                      OBJ: 2-2 TYPE: C

34. A recent National Federation of Independent Business study found that \_\_\_\_\_ percent of small businesses made contributions to their community in one form or another.  
a. 36  
b. 51  
c. 78  
d. 91

ANS: D                      PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: C

35. The price of integrity is high, but the potential payoff is incalculable because it is impossible to compute  
a. the price of a clear conscience.  
b. the cost of environmental destruction.  
c. the value of ethical imperialism.  
d. the profit margin on good deeds.

ANS: A                      PTS: 1                      REF: p. 44                      OBJ: 2-3 TYPE: C

36. 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                      PTS: 1                      REF: p. 44                      OBJ: 2-3 TYPE: C

37. 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                      PTS: 1                      REF: p. 45                      OBJ: 2-4 TYPE: D

38. Environmentalism poses the greatest threat to small
- a. Medical waste disposal
  - b. drugstores.
  - c. movie theaters.
  - d. auto repair shops.

ANS: A                      PTS: 1                      REF: p. 53                      OBJ: 2-6 TYPE: A

39. 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. asbestos removal

ANS: D                      PTS: 1                      REF: p. 53                      OBJ: 2-6 TYPE: A

40. 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                      PTS: 1                      REF: p. 53                      OBJ: 2-6 TYPE: A

41. U.S. Government assistance is available to lead the entrepreneur to compliance with environmental law through the
- a. Small Business Administration.
  - b. Department of Energy.
  - c. Department of Commerce.
  - d. Interior Department.

ANS: A                      PTS: 1                      REF: p. 53                      OBJ: 2-6 TYPE: D

42. An example of a small business that actually benefits from the growing interest in environmentalism would be
- a. a fast-lube and oil change center.
  - b. a producer of ethanol from farm waste.
  - c. a self-service car wash.
  - d. an asbestos removal service.

ANS: B                      PTS: 1                      REF: p. 53                      OBJ: 2-6 TYPE: C

43. The Seahorse Power Company was founded in 2003 to develop, manufacture, and sell innovative energy-efficient products. The company's flagship product is the
- Segway.
  - Green Electric Generator.
  - Big Belly Solar Compactor.
  - StarRotor Engine.

ANS: C                      PTS: 1                      REF: p. 54                      OBJ: 2-6 TYPE: D

44. According to *Advertising Age* magazine, american workers spent the equivalent of \_\_\_\_\_ years' worth of 40-hour work weeks reading non-work-related blogs on the internet.
- 2.3
  - 2.3 hundred
  - 2.3 thousand
  - 2.3 million

ANS: D                      PTS: 1                      REF: p. 45                      OBJ: 2-4 TYPE: D

45. 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 \_\_\_\_\_.
- cultural insensitivity
  - ethical elitism
  - ethical imperialism
  - cultural integrity

ANS: C                      PTS: 1                      REF: p. 46                      OBJ: 2-4 TYPE: A

46. The saying "When in Rome, do as the Romans do" reflects a philosophy of \_\_\_\_\_.
- ethical insensitivity
  - ethical elitism
  - ethical imperialism
  - ethical relativism

ANS: D                      PTS: 1                      REF: p. 46                      OBJ: 2-4 TYPE: A

47. 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.
- collective
  - intangible
  - intellectual
  - real

ANS: C                      PTS: 1                      REF: p. 45                      OBJ: 2-4 TYPE: C

48. As the Internet continues to grow, it is safe to assume that property rights will
- become less difficult to protect.
  - become more difficult to protect.
  - become an irrelevancy of the past.
  - become universally assumable.

ANS: B                      PTS: 1                      REF: p. 46                      OBJ: 2-4 TYPE: C

49. A few years ago sellers on eBay were mostly private individuals selling second-hand goods. But now eBay is increasingly used by professional retailers selling new items, many of which are fake (i.e., copies of Gucci and Louis Vuitton handbags). The fake goods are called *counterfeit* goods and violate laws related to
- internet fraud.
  - intellectual property.
  - bait-and-switch marketing.
  - ethical imperialism.

ANS: B                      PTS: 1                      REF: p. 46                      OBJ: 2-2 TYPE: D

50. A person misrepresenting income or claiming personal expenses as business expenses is guilty of \_\_\_\_\_.
- bait and switch
  - skimming
  - scaling
  - relativism

ANS: B                      PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: D

51. Members of a community will react \_\_\_\_\_ to a business they trust
- negatively
  - positively
  - indifferently
  - indecisively

ANS: B                      PTS: 1                      REF: p. 44                      OBJ: 2-3 TYPE: C

52. Which is NOT a question a business owner should ask when evaluating the identified alternatives for an ETHICAL decision?
- It is the truth?
  - Will it be beneficial to all concerned?
  - Is it fair to all concerned?
  - Will it result in the most profits?

ANS: D                      PTS: 1                      REF: p. 51                      OBJ: 2-5 TYPE: C

53. The most widely recommended principle for ethical behavior is
- Do what is best for yourself
  - Do what will yield the most profits
  - Do what you would want others to do for you
  - Reduce product prices

ANS: C                      PTS: 1                      REF: p. 51                      OBJ: 2-5 TYPE: C

54. Alicia Polak moved to South Africa to create jobs in the poor townships outside Capetown. This is “entrepreneurial activity with an embedded social purpose” which Harvard researchers would define as
- sustainable entrepreneurship.
  - ethical relativism.
  - social entrepreneurship.
  - ethical imperialism.

ANS: C                      PTS: 1                      REF: p. 52                      OBJ: 2-6 TYPE: D

## ESSAY

1. Explain how integrity applies to various stakeholder groups, including owners, customers, employees, the community and the government.

ANS:

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

- Integrity is behaving in a way that is consistent with the noble values, beliefs, and principles an entrepreneur claims to hold.
- High standards of integrity require an honest attempt to promote the interests of all the owners, which include a commitment to financial performance and protection of the firm's reputation.
- Small businesses must care for their customers as individuals, and the marketing of their products or services must "tell the truth, the whole truth and nothing but the truth."
- A firm's integrity is also expressed by the value it places on its employees. Showing proper appreciation for subordinates as human beings and as valuable members of the team is an essential ingredient of managerial integrity.
- An ethical business is one that acts as a good citizen in the community, starting with job creation and adding to the local tax revenues, but also giving back even more to the community in return for the local support it enjoys.
- A small business with integrity will report fully and properly the income and expenses of the business and avoid concealing income or claiming personal expenses as a business expense. Further, it will comply with all laws and regulations of the various governmental jurisdictions within which it operates.

PTS: 1                      REF: p. 34-43                      OBJ: 2-2 TYPE: C

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.

PTS: 1                      REF: p. 39-40                      OBJ: 2-2 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.

PTS: 1                      REF: p. 40-41                      OBJ: 2-2 TYPE: C

4. Describe the five fundamental principles that an ethics policy should address.

ANS:

Purpose. The vision for the company and your core values will guide business conduct.

Pride. When employees take pride in their work and their company, they are much more likely to be ethical in their dealings.

Patience. If you push too hard for short-term results, sooner or later acting unethically will seem to be the only way to achieve the outcomes you seek.

Persistence. Stand by your word, as it is the foundation of trust. If you are not committed to an ethical framework, your integrity is at risk, as is the reputation of the company.

Perspective. Stopping from time to time to reflect on where your business is going, why it is going that way, and how you plan to get there will allow you to be more confident that you are on the right track now and will continue to be in the future.

PTS: 1                      REF: p. 48-49                      OBJ: 2-5 TYPE: C

5. List the *six-step decision making process* in order and comment on each of the steps in resolving ethical issues.

ANS:

Step 1: Define the problem. How one defines the problem will guide where one looks for the solutions. The *root* of the problem must be found in the search for a solution.

Step 2: Identify alternative solutions to the problem. Be open-minded and consider creative alternatives rather than just the most obvious.

Step 3: Evaluate the identified alternatives. Perhaps the most widely recommended principle for ethical behavior is to follow the Golden Rule: “Treat others as you would like to be treated.” Following this principle is a potential way to evaluate ethical decisions.

Step 4: Make the decision. Choose the “best” ethical response based on your evaluation of all the alternatives, always keeping your vision and core values in mind.

Step 5: Implement the decision. Entrepreneurs sometimes put off responding to ethical challenges, but delaying implementation of the decision may allow a small problem to grow into a major crisis.

Step 6: Evaluate the decision. Has your response solved the dilemma? or made it worse? or had no effect? You may need to reopen the matter to make things right.

PTS: 1                      REF: p. 51-52                      OBJ: 2-5 TYPE: A

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 because 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?

PTS: 1

REF: p. 32

OBJ: 2-3 TYPE: C

## 7. You Make the Call - Situation 2



Software piracy is a serious problem in Ukraine. While the latest version of Microsoft's Windows normally sells for more than \$100 when purchased through a legitimate vendor, the same package can be picked up on the black market in Kiev for around \$2, and it is usually bundled with additional software as a bonus! Brad, a project manager working in the Ukrainian office of an American consulting services firm, ponders the question of whether or not to buy 325 copies of pirated software through a local source for \$1.85 per copy, versus purchasing them through an authorized vendor. The cost saving from this one decision would be nearly \$32,000, and Brad knows that annual bonuses are tied to any cost savings. To complicate matters further, Brad's office is up against strong rivals in the same market, and they usually purchase pirated software to control costs. The competition is so fierce and margins are so thin that Brad's company is thinking about pulling out of the market. Having to pay full price for legitimate software might be "the straw that broke the camel's back"—that is, it might be all it takes to convince management in the U.S. to close the office down. The move to Ukraine was hard on Brad's wife and their twin daughters. After 14 months of settling in, everyone is finally getting comfortable with their new life in Kiev. Brad really doesn't want to move them again, at least not now. And furthermore, it is well known that social standards in Ukraine do not emphasize proprietary property rights anyway. Microsoft is so big that one lost order would hardly be noticed, and it won't even get the order if the company decides to close the Kiev office down.

- 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 are the important questions to ask in a situation like this? Follow the ethical decision-making process outlined in the chapter. Does it work in this scenario?
- Question 4** 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. There are many questions that could be asked in an ethical decision making situation, and some of these are covered in Step 3 of the ethical decision making process provided by the Ethics Resource Center in Washington, D.C. and as outlined on pages 51 and 52 of the chapter. For example, the Rotary Club framework asks, "Is it fair to all concerned?" The answer in this situation is that it obviously is not. Though that conclusion may not be so obvious to the average Ukrainian on the street, who comes at this from a different legal and moral perspective, it should be very apparent to the

American manager in question. It would not be fair to expect a company (in this case, Microsoft) to spend millions of dollars on a software development project that many pay for, while others simply take it for free. Indeed, the fairness insured by intellectual property rights creates the financial incentive that drives the innovations that improve work and society in general. Other Rotary Club questions also apply. For example, will this action build goodwill and better friendships? It will certainly not build goodwill with Microsoft, a major vendor to most businesses. And there is a real risk related to friendship-building in this. If a person shows a friend that he or she is willing to cheat others, what is the friend to think about what that person will do to them? The act breeds distrust (or worse). And while a Ukrainian may not be so quick to see it that way, the act may be revealed to friends back in the U.S. and elsewhere who are more likely to see things differently. The last Rotary Club question is, "Will it be beneficial to all concerned?" The decision to use cheap, unauthorized software may be good for those who buy it, but it is not beneficial to the producing company, its shareholders, its employees, and their families. Beyond the Rotary Club framework, the other questions in that section of the chapter are worth asking. Some of these are as follows:

- How would I feel if my decision were reported in the daily newspaper?
- How well could I explain this decision to my mother or children?
- Would this be acting in line with the Golden Rule?
- How would it be if everyone decided to do what you intend to do?

The answers to these questions could be very uncomfortable for the manager facing this software purchasing decision if he decides to do the "wrong" thing.

The ethical decision making process outlined in the chapter involves the following six steps:

1. Define the problem.
2. Identify alternative solutions to the problem.
3. Evaluate the identified alternatives.
4. Make the decision.
5. Implement the decision.
6. Evaluate the decision.

Starting from the beginning of this framework, the problem is not the availability of pirated software (though that contributes to it)—the problem is really the performance pressure that is tied to his decision. The financial performance of his office, annual bonuses, the fierce competitive environment, and even the potential closing of the office and relocation of his family hang in the balance of Brad’s choice (at least that is his read of the situation). That is enough to cause any manager to consider cutting corners. Step 2 asks about alternatives. Brad has many, though he may not be apt to think about them. For example, he should make it clear to management in the home office that his competitors do not feel compelled to obey the law, as he does, and that will weigh on the performance of the office in Ukraine. But necessity is the mother of invention, so he needs to think broadly about alternatives that may help to make up for his increased costs from this purchase. For example, are there other places that cut costs? Being forced to find these might help Brad identify cost savings that will help out his office on a continuing basis, not as a one-time purchase savings. Step 3 has already been covered above. Step 4 pushes the manager to choose the best ethical response. There is no perfect answer here because any solution involves a cost to the company, but the “right” and legal thing to do seems pretty obvious. Brad may not need to make the decision right away, because his office can probably “limp along” on the version of the software that it already uses, but that may not be the best thing for productivity. Delaying would also expose him to the temptation to buy the bootleg software day after day, which makes life more uncomfortable than it needs to be. He should probably implement the decision soon (Step 5). Finally, it would be good for Brad to remember to evaluate the impact of his decision at some point in the future (Step 6). Though there is no way to know for sure what that outcome will be, we can only hope that making the right decision will be an obvious benefit to the company as time goes on, which will be likely to reinforce appropriate behavior when other decision come up.

4. 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.

PTS: 1                      REF: p. 35                      OBJ: 2-4 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.

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

9. List the six steps to making an ethical decision.

ANS:

Step 1: Define the problem

Step 2: Identify alternative solutions to the problem

Step 3: Evaluate the identified alternatives.

Step 4: Make the decision.

Step 5: Implement the decision.

Step 6: Evaluate the decision

PTS: 1

REF: p. 51-52

OBJ: 2-5 TYPE: C