Small Business Management 20th edition Longenecker Solutions Manual

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Instructor Manual

Longenecker/Petty/Palich/Hoy, Small Business Management, 20th Edition, ©2023, 9780357718872; Chapter 2: Integrity, Ethics, and Social Entrepreneurship

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Purpose and Perspective of the Chapter

The purpose of this chapter is to help you understand how to start and run a small business with integrity, taking the ethical path in all that you attempt to do.

Cengage Supplements

The following product-level supplements provide additional information that may help you in preparing your course. They are available in the Instructor Resource Center.

- Instructor's Manual
- PowerPoint Slides
- Test Bank
- Transition Guide that illustrates changes between the previous and current editions

Chapter Objectives

The following objectives are addressed in this chapter:

2-1 Describe the meaning of integrity, including its importance to small businesses.

2-2 Explain how integrity applies to various stakeholder groups.

2-3 Identify some common challenges and benefits of maintaining integrity in small businesses.

2-4 Determine practical approaches for building a business with integrity.

2-5 Describe social entrepreneurship and its influence on small companies and start-up opportunities.

Complete List of Chapter Activities and Assessments

For additional guidance refer to the Teaching Online Guide.

Chapter Objective	PPT slide	Activity/Assessment	Duration
	2	Ice Breaker	5–10 min.
2-1	6–7	Knowledge Check 1	< 5 min.
2-2	18–19	Discussion Activity 1	5–10 min.
2-3	30–31	Discussion Activity 2	5–10 min.
2-4	42–43	Knowledge Check 2	< 5 min.
2-5	48	Polling Activity	< 5 min.

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What's New in This Chapter

The following elements are improvements in this chapter from the previous edition:

- Recognizing that social entrepreneurship continues to be a major topic of conversation, this chapter introduces some of the most important concepts and principles involved in the launch of a socially oriented enterprise.
- Includes examples of socially minded entrepreneurs, such as Craig Gonsenhauser and Stacey Gorlick and their eco-friendly sunglasses startup, Just Human; the community supporting work of Father Greg Boyle at Homeboy Industries; and Bart Weejuns and his venture that uses rats to sniff out unexploded landmines in war-torn nations around the world.
- Presents several new case examples of small business owners who have determined how best to balance stakeholder interests. These efforts provide a model for others who wish to improve their venture results.
- Updated the Living the Dream features, which capture entrepreneurs in action as they face small business and entrepreneurship challenges. Chapter 2 includes two of these feature profiles.
- Incorporated a “Spotlight on Small Business” vignette at the start of the chapter to showcase an entrepreneur’s unique insights into how to start, run, and grow a business. Chapter 2’s spotlight is Bambino’s Frozen Baby Food.
- Replaced the previous edition case with a new case, Hydraloop, as an example of entrepreneurs recycling water to serve the greater good.
- Added discussion questions to the end-of-chapter content.
- Added Experiential Exercises to the end of chapter.

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Chapter Outline

In the outline below, each element includes references (in parentheses) to related content. “CH.##” refers to the chapter objective; “PPT Slide #” refers to the slide number in the PowerPoint deck for this chapter (provided in the PowerPoints section of the Instructor Resource Center). Introduce the chapter and use the Ice Breaker in the PPT if desired, and if one is provided for this chapter. Review learning objectives for Chapter 2. (PPT Slides 1–3).

I. **2-1 What Is Integrity?** (LO 2-1, PPT Slides 4–7, certification standard)
   a. Integrity – A general sense of honesty and reliability that is expressed in a strong commitment to doing the right thing, regardless of the circumstances
   b. Doing “anything” for money can quickly lead to distortions in business behavior.
   c. Acting with integrity requires that an individual first consider the welfare of others.

d. Many small business owners strive to achieve the highest standards of honesty, fairness, and respect in their business relationships.
e. **Knowledge Check 1: < 5 minutes total.**
   Integrity is:
   - d. expressed by doing the right thing.
   - Integrity refers to a general sense of honesty and reliability that is expressed in a strong commitment to doing the right thing, regardless of the circumstances.

II. **2-2 Integrity and the Interests of Major Stakeholders** (LO 2-2, PPT Slides 8–19, certification standard)
   a. Ethical issues go beyond what is legal or illegal to include more general questions of right and wrong.
   b. An Ethics Resource Center survey indicated that employees witness various forms of misconduct in their workplaces, with the most frequently observed offenses involving abusive behavior and lying to employees.
   c. **Exhibit 2.1**: Most Frequently Observed Forms of Workplace Misconduct
   d. When making decisions, small business owners guided by integrity must consider the interests of stakeholders:
      i. Owners
      ii. Customers
      iii. Employees
      iv. The community
      v. The government
   e. Stakeholder – An individual or group that either can affect or is affected by the performance of the company
   f. The various interests of stakeholder groups can complicate the decision-making process.
   g. Four types of responsibilities for small businesses (see **Exhibit 2.2**).
      i. Economic: Be profitable
      ii. Legal: Obey all laws, adhere to all regulations.
      iii. Ethical: Avoid questionable practices.
      iv. Discretionary: Be a good corporate citizen, and give back.
   h. **2-2a The "Big Three" Stakeholders—Owners, Customers, and Employees**
      i. Promoting the Owners' Interests
         (a) A company's owners have a clear and reasonable right to benefit from the financial performance of the business.
         (b) High standards of integrity require an honest attempt to promote the interests of all the owners, as well as the firm's reputation.
      ii. Caring about Customers

(c) Companies that take customers seriously and serve them well are likely to have more of them.
(d) Companies with integrity recognize the importance of treating their customers with care.

iii. Valuing Employees
(e) Showing proper appreciation for employees as human beings and valuable team members is essential in managerial integrity.
(f) According to research, employees who feel valued and socially connected at work tend to be highly engaged and more productive.
(g) Small business owners must be aware of the standards of conduct that guide everyday behavior.
1. Lapses in integrity are often passed down from superiors to subordinates.

i. **2-2b Social Responsibility and Small Business**
i. An ethical small business acts as a good citizen in its community.
ii. Social responsibilities – A company's ethical obligations to the community
iii. Companies have increasingly shown commitment to the communities where they do business.
(a) Contribution starts with creating jobs and adding to local tax revenues causing goodwill in the community.
(b) Many entrepreneurs feel a duty to give back even more to the community in return for the local support they enjoy.
(c) The result is typically increased goodwill.
iv. Entrepreneurs should think carefully about their community commitments, because building a business on a foundation of "doing good" may add to a small company's financial burden.
v. Research suggests that most small business owners exercise great integrity, but some tend to cut corners when it comes to social responsibilities if profits will be affected.

j. **2-2c Integrity and Governmental Regulations**
i. Government regulations encompass workplace safety, equal employment opportunities, fair pay, clean air, and safe products, to name a few.
ii. Entrepreneurs must comply with governmental laws and applicable regulations if they want to maintain their integrity and avoid penalties.
iii. One glaring example of unethical behavior by small firm management is fraudulent reporting of income and expenses for income tax purposes.
(a) This conduct includes skimming (concealing some income), as well as improperly claiming personal expenses to be business-related.

k. **Discussion Activity 1: 5–10 minutes total.**
You are the very busy owner of a small pet store that also does pet grooming and short-term boarding. A salesperson has approached you about contracting with

them to "boost" your online presence, including posting positive reviews. You know that these reviews are "fake" because the postings aren't from actual customers but will probably help you get more customers, and it will take some of the marketing burden off your shoulders. What will you do?
Form small groups of three to four individuals and talk about this scenario and your options.

- First, to act with integrity and have a reputation your customers can trust, you will not allow a company to post fake reviews for your business. In trying to improve your online presence, you can try a number of other options, including rewarding customers for posting honest reviews and continuing to work hard to provide great service that they will review favorably.
- In addition, your employees will take their ethical cues about the business from you, so it is essential act and expect the highest standards of honesty and reliability.

III. **2-3 The Challenges and Benefits of Acting with Integrity** (LO 2-3, PPT Slides 20–31, certification standard)

a. Small companies face unique challenges to integrity, especially at such critical stages as getting started and establishing a name, launching online operations, and expanding internationally.

b. **2-3a Small Companies and the Legitimacy Lie**

i. Small firms' limited resources and desire to succeed make them especially vulnerable to allowing or engaging in unethical practices.
ii. Legitimacy lies involve misrepresenting the facts or creating false impressions to mislead others intentionally and earn their confidence.
iii. Telling legitimacy lies threatens the reputation of the business and the trust that goes along with it.
iv. Research has shown that customers are less likely to decide to purchase if they have significant questions about:
   (a) The product or service that the new venture is offering
   (b) Those who represent and/or run the business
   (c) The organization itself
v. PRO factors—products, representatives, and the organization—promote firm performance when customers are satisfied with them.
vi. Advertising, publicity programs, social media tools, and other promotional strategies are used to address PRO factors.
vii. A small firm's legitimacy is staked on the reputation of its owner, but it is important to highlight and honestly bolster the credibility of anyone who represents the venture.

(a) Emphasize the credentials (educational background, expertise, industry experience, etc.) of key employees.

viii. The business itself can establish legitimacy by:

(a) Setting up a high-quality website

(b) Insisting on professional behavior from all employees

(c) Forming strategic alliances with well-respected partner firms

c. **2-3b Integrity Online**

i. An issue of great concern to Internet users is personal privacy.

ii. To minimize customer concerns, a company must:

(a) Be honest and transparent with customers about its practices.

(b) Draft a privacy policy that conforms to the guidelines provided by organizations like the Better Business Bureau or through consultation with an attorney.

iii. The extent to which an employer may monitor an employee's Internet activity is also hotly debated.

(a) Companies that choose to monitor workers' Internet use should be sure to develop a carefully worded and legally sound policy first, and then ensure that all employees are aware of it.

(b) Those choosing to take an even more cautious approach have employees sign a monitoring consent form when they are first hired.

iv. Widespread use of the Internet has also focused attention on the issue of protecting intellectual property.

(a) Intellectual property – Original intellectual creations, including inventions, literary works, and works of art, that are protected by patents, copyrights, trademarks, design rights, and trade secrets

v. The law allows originators of intellectual property to require compensation for its use.

(a) However, the Internet has made it easy for millions of users to copy intellectual property free of charge.

d. **2-3c Integrity and Doing Business Abroad**

i. Cultural differences may complicate ethical decision making for small firms operating abroad.

ii. Ethical imperialism – The belief that the ethical standards of one's own country can be applied universally

(a) The Foreign Corrupt Practices Act makes it illegal for U.S. businesses to use bribery anywhere in the world.

i. Ethical relativism – The belief that ethical standards are subject to local interpretation
    (a) Training is necessary to ensure that employees understand the firm's commitment to integrity.
    (b) One-time practices may set a pattern for future behavior.

e. **2-3d The Integrity Edge**

i. A growing body of research supports the notion that ethical business practices are good for business.

ii. The numerous long-term benefits of adopting ethical and responsible business practices include the following:
    (a) Improved financial performance
    (b) Enhanced brand image and reputation
    (c) Increased sales and customer loyalty
    (d) Improved productivity and quality
    (e) Better recruitment and reduced employee turnover
    (f) Fewer regulatory inspections and less paperwork
    (g) Improved access to capital

iii. Perhaps the greatest benefit of integrity in business is the trust it generates.
    (a) When customers and employees trust a small company to act with integrity, their support can help keep the company going.

f. **Discussion Activity 2: 5–10 minutes total.**

In Discussion Activity 1, you are the owner of a pet store and are facing how to increase customer numbers. Allowing "fake" positive reviews to be posted can be considered a legitimacy lie. What other legitimacy lies might you as a small business owner be tempted to tell? Why should you avoid legitimacy lies? Form small groups of three to four individuals to explore these questions.

- Examples of legitimacy lies for such a situation might include advertising a low price, but then adding on charges; claims of greater support of animal causes than actual amounts donated; or claiming greater employee experience than they have.
- Telling legitimacy lies threatens the reputation of the business and the trust that goes along with it. If (when) the truth is revealed, future sales or support could very well be compromised. It's better to understand the factors that create customer confidence in a purchase and to provide truthful information.

IV. **2-4 Building a Business with Integrity** (LO 2-4, PPT Slides 32–43, certification standard)

a. The goal of a small business owner with integrity should be to operate honorably in all areas of practice, which sets the entrepreneur on the path toward crafting a worthy legacy.

b. To build a business with integrity, those at the top must provide the leadership, culture, and training that support appropriate ethical perspectives and proper behavior.

c. **2-4a The Foundations of Integrity**

i. The business practices that a firm's leaders and employees view as right or wrong reflect their underlying values.

(a) Underlying values – Beliefs that provide a foundation for ethical behavior in an individual or a firm

ii. An individual's beliefs affect what that person does on the job and how they act toward customers and others.

(a) Business behavior, then, reflects a person's commitment to honesty, respect, truthfulness, and more—in other words, to integrity in all of its dimensions.

iii. Values that serve as a foundation for integrity in business are based on personal views and are part of basic philosophical and/or religious convictions.

(a) A leader's personal commitment to certain basic values is an important determinant of their firm's commitment to business integrity.

d. **2-4b Leading with Integrity**

i. In a small organization, the influence of a leader is more pronounced than it is in a large corporation where leadership can be diffused.

ii. A leader's behavior has much greater influence on employees than their stated philosophy does.

iii. A leader's conduct establishes the culture of the company, underscoring what is allowed or encouraged or what is prohibited.

e. **2-4c An Ethical Organizational Culture**

i. A good starting place for articulating and reinforcing principles of integrity among employees is establishing a code of ethics.

ii. Code of ethics – Formally established standards of employee behavior communicated by a business owner

iii. Authors Kenneth Blanchard and Norman Vincent Peale suggest five fundamental principles as bases for an ethics policy:

(a) Purpose: The vision for the company and your core values will guide business conduct.

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

(c) 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.
(d) Persistence: Stand by your word, which is the foundation of trust.
(e) Perspective: Stop 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.

iv. Codes of ethics can shape and improve conduct in organizations:
(a) By defining behavioral expectations
(b) By communicating that those expectations apply to employees at all levels
(c) By helping employees convey the company's standards of conduct to suppliers and customers
(d) By serving as a guide for handling peer pressure
(e) By providing a formal channel for communicating with superiors without fear of reprisal

v. A well-written code expresses the principles and gives examples of these principles in action.

vi. If a code of ethics is to be effective, employees must be aware of its nature and convinced of its importance.

f. **2-4d Better Business Bureaus**

i. Many small companies join Better Business Bureaus (B B Bs) to promote ethical conduct throughout the business community.

ii. B B Bs encourage ethical practices in the following ways:
(a) By providing consumers with free information to help them make informed decisions when dealing with a company
(b) By creating an incentive for businesses to adhere to proper business practices and earnestly address customer complaints
(c) By resolving questions or disputes concerning purchases through mediation or arbitration

g. **2-4e The Ethical Decision-Making Process**

i. Step 1: Define the Problem
(a) How you define the problem is important because this will guide where you look for solutions.
(b) Looking for the root of the problem is the best place to start in your search for a solution to a challenging ethical problem.

ii. Step 2: Identify Alternative Solutions to the Problem

(a) It is tempting to go with an "obvious" solution or one that has been used in the past, but often this is not the best answer—even if it is ethical.

(b) Be open-minded and consider creative alternatives.

iii. Step 3: Evaluate the Identified Alternatives

(a) Ask these questions when making a decision about what to think, say, or do:

1. Is it the truth?
2. Is it fair to all concerned?
3. Will it build goodwill and better friendships?
4. Will it be beneficial to all concerned?

(a) The most widely recommended principle for ethical behavior is follow the Golden Rule: "Treat others as you would want to be treated."

iv. Step 4: Make the Decision

(a) Keeping vision and core values in mind is essential.

v. Step 5: Implement the Decision

(a) Avoiding action on the decision may allow a small problem to grow into a major crisis.

(b) Avoiding action may also cause you to spend more time thinking about the problem when other important matters deserve your attention.

vi. Step 6: Evaluate the Decision

(a) If the situation has not gotten better, or if new information has come to light indicating that a decision was not the most ethical course of action, reopening the matter may be necessary to make things right.

h. **Knowledge Check 2: < 5 minutes total.**
According to Kenneth Blanchard and Norman Vincent Peale, the principles of purpose, pride, patience, persistence, and perspective provide a basis for:

- c. code of ethics.
- They suggested in *The Power of Ethical Management* that the development of an ethics policy be based on these fundamental principles.

V. **2-5 Social Entrepreneurship: A Continuing Trend** (LO 2-5, PPT Slides 44–48, certification standard)

a. A social entrepreneur is one who comes up with innovative solutions to society's most pressing needs, problems, and opportunities and then makes them happen.

b. **2-5a Social Entrepreneurship and the Triple Bottom Line**

i. Social entrepreneurship – Entrepreneurial activity that provides innovative solutions for social issues
ii. Social entrepreneurs focus on an expanded set of priorities—a triple bottom line, which takes into account a venture's impact on people, profits, and the planet.

c. **2-5b Small Business and the Natural Environment**
i. Sustainable small business – A profitable company that responds to customers' needs while showing reasonable concern for the environment
ii. This trend recognizes that a company must be profitable to stay in business, but it also promotes the use of eco-friendly operational practices.
iii. Sustainability Matters
(a) Environmentalism – The effort to protect and preserve the environment
(b) The commitment to the cause of environmentalism makes financial sense for many businesses.
(c) Firms whose products leave minimal environmental impact are generally preferred by customers over competitors whose products pollute.
iv. Green Opportunities for Small Businesses

(a) Small companies are sometimes launched precisely to take advantage of opportunities created by environmental concerns.
(b) Creating environmentally friendly products and services requires creativity and flexibility, areas in which small businesses tend to excel.

d. **Polling Activity: < 5 minutes total.**
In your opinion, what is the most compelling reason for a small business to "go green"?
- This question has no right or wrong answer. Use the distribution of answers to prompt discussion about students' awareness of and general impression of environmentalism and sustainable small businesses.

VI. **Self-Assessment** (PPT Slide 49)
a. What aspects of integrity are most important to you, individually and as a (potential) small business owner?
b. Consider where you might draw the line if confronted with a situation in which your business's social responsibility might negatively affect its profitability.

c. Social entrepreneurship offers a variety of opportunities for small business. Think of a social purpose you might want to put as a central goal of a small business.

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Discussion Questions

You can assign these questions several ways: in a discussion forum in your LMS; as whole-class discussions in person; or as a partner or group activity in class.

1. **Define the concept of integrity. What are the major features of integrity?**
Integrity is an uncompromising adherence to the lofty values, beliefs, and principles that an individual claims to hold. Integrity refers to a general sense of honesty and reliability that is expressed in a strong commitment to doing the right thing, regardless of the circumstances. A successful entrepreneur seeks financially rewarding opportunities while creating value, first and foremost. Relationships are critical, and integrity is essential to success. Financial gain is important, but it should not be the only goal of interest. To act with integrity requires an individual to think differently by considering the welfare of others.

2. **What are the major stakeholder groups that influence and are influenced by small companies? What are the primary interests of each of these groups? How can a small business owner manage potential conflicts that may arise, given the demands of these groups?**
The major stakeholder groups include owners, customers, employees, the community, and the government. There are four types of responsibility for small business:
   - Economic: This is a required societal expectation where the general thrust is to be profitable.
   - Legal: This is a required societal expectation where the general thrust is to obey all laws and adhere to all regulations.
   - Ethical: This is an expected expectation where the general thrust is to avoid questionable practices.
   - Discretionary: This is a desired expectation where the general thrust is to be a good corporate citizen and give back to society.

   The big three stakeholders are:
   - Owners: Milton Friedman argued that businesses should be expected to earn profits honestly; any other use of the firm's resources is justified only if it enhances the firm's value. It is undeniable that owners have a clear and legitimate right to benefit from the financial performance of the company.

- Customers: One of the most important stakeholder groups that a company must please. Entrepreneurs who take customers seriously and care about them as individuals are apt to have more of them.
- Employees: A firm's level of integrity is also expressed by the value it places on employees. Showing proper appreciation for subordinates as human beings and as valuable members of the team is an essential ingredient of managerial integrity.

The concerns of important stakeholders are fundamental to the management of the business. If neglected, any one group can use its influence to negatively affect the performance of a company. To avoid this conflict, stakeholder interests should be carefully considered and wisely balanced.

3. **Why might small business CEOs focus more attention on profit and less on social goals than large business CEOs do?**
Most small business CEOs are close to the action. They must often work aggressively to earn profits. Large business CEOs often have more abundant resources and can afford to be more socially conscious. Also, they face greater pressure to be socially responsible as a result of their size. Small firm CEOs are spending their own money, and they may be making contributions from their personal rather than their business resources (which makes them conscious of costs).

4. **How do small business owners sometimes end up avoiding paying taxes? If it is intentional, how do you think owners of small firms might attempt to rationalize such a practice?**
Small business owners might resort to skimming, which is a method of reducing income taxes by falsifying tax returns through under-reporting of income. It might be rationalized in many ways—for example, "We're already paying too many taxes," "It provides compensation for unnecessary paperwork required by the government," "Others do it," or "It's the only way we can survive."

5. **What is a legitimacy lie? In the case of a start-up, how can an entrepreneur use *PRO factors* to win the confidence of potential customers and investors and avoid telling legitimacy lies?**
The legitimacy lie is caused when small business owners create false impressions to make their companies look good. That is, sometimes small businesses misrepresent the facts to mislead others intentionally to earn their confidence. PRO factors (products, representatives, and the organization) can promote the firm's performance when customers are satisfied with them. Small businesses can win confidence by demonstrating the following:
    - Show the customer of the PRODUCT (or service) that it will serve the needs of the customer better than the alternatives.

- Ensure that the company REPRESENTATIVES know what they are talking about.
- Make sure the ORGANIZATION will stand behind its product or service.

6. **What privacy issues are most important to small businesses? What should a company do to guard against violations of the privacy rights of customers, employees, and others?**
An issue of great concern to Internet users is personal privacy. A recent poll found that more than 80% of Internet users worry about whether and how their personal information is being protected. Businesses and consumers often disagree about how private the identity of visitors to websites should be. To minimize customer concerns, it is important that a company be honest and transparent with customers about its practices and that it drafts a privacy policy that conforms to the guidelines provided by organizations like the Better Business Bureau or through consultation with an attorney.

Privacy issues extend to employees as well. The extent to which an employer may monitor an employee's Internet activity is hotly debated. Many workers believe it is inappropriate for employers to monitor their e-mail. Employers are concerned that employees may be wasting company time dealing with personal e-mail, shopping online, and surfing the Internet. Data show there is reason for this concern. An increasing number of small businesses are installing software to monitor Internet use, and one study found that 38% of firms go so far as hiring staff to read or analyze employees' e-mail.

Beyond productivity concerns, companies are very worried these days about deliberate or accidental leaks of sensitive information, employee access to inappropriate content, and system exposure to risky viruses and malware.

Taking measures to protect privacy, on both ends, communicates that the firm respects its employees and signals sound commitment to high standards or integrity.

7. **What are some of the advantages of conducting business with integrity? Some people say they have no responsibility beyond maximizing the value of the firm in financial terms. Can this position be defended? If so, how?**
There are many advantages to conducting business with integrity, beginning with maintaining a clear conscience. Integrity suggests that due attention will be given to the interests of the owners who, after all, have put up their personal resources to make the business possible, and more investment is likely to follow that which is appropriately managed. Integrity generates trust, which leads to repeat business by customers, low turnover among employees, and a positive reputation in the community. These are all likely to lead to a financial edge for the company, but the

primary motivation should run deeper, established on the knowledge that operating with integrity is simply the right thing to do, regardless of the outcome. It should also be noted, though, that conducting business with integrity (e.g., paying all taxes owed under the law) can offer the important advantage of keeping the entrepreneur out of jail. Economist Milton Friedman, among others, argued that the only purpose of a business is to generate profits in an honest way, and this position seems sound. However, the path to profitability is not as clear as most people think. For example, the chapter cites research suggesting that companies perform best when they focus on all of the important stakeholders of the firm. In fact, the differences in performance levels are substantial. Those who accept Friedman's position argue that it is not the right of decision makers in the firm to redirect the investment of the firm's owners to community needs and other causes with which the owners may not have an interest, and this is a valid concern. It should be noted, however, that small companies often face a different situation since a single person—or a small group of investors—who can legitimately decide to spend their resources in any way they choose, usually owns them.

8. **Explain the connection between underlying values and integrity in business behavior.**
   A person's basic values show in ethical or unethical behavior. If a business leader deals unscrupulously with employees or customers, for example, it is evident that they lack a strong internalized value system. Judeo-Christian values are the most widely accepted framework of values in our business world.

9. **What are the six steps in the ethical decision-making process presented in this chapter? What is the practical value of this process to a small business?**
   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.
   Ethical decision making often is not a very clear-cut process. In fact, the appropriate course of action may still not be apparent in some business situations. This six-step process may help small business owners see the issues more clearly and help them to make better ethical decisions.

10. **Give some examples of expenditures required on the part of small business firms to protect the environment. In your opinion, do rising concerns for the**

environment create more costs or more business opportunities for small companies?
Numerous examples are possible; students should be encouraged to cite examples of which they are personally aware. Some of those mentioned in the chapter refer to added costs borne by livestock feed lots, cement plants, and pet-food processors.

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Suggested Answers to You Make the Call Exercises

Situation 1

1. **What decision on Rachel's part would contribute most to the success of her business**?
   Hiring Jenna 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.

2. **What ethical reasoning would support hiring Madeline?**
   Rachel has given her word to applicant Madeline. She has told Madeline 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? Madeline may already have made commitments in view of the new job, and the fact that Madeline needs the job to support her family makes this especially difficult.

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

Situation 2

1. **What are the advantages and possible drawbacks to Wilson's title-transfer scheme?**
   The only false advantage here is the increase in revenue for Darryl. Darryl believes he is profitable because he's able to skim money that is owed to the state of Texas. The drawbacks to this indiscretion are many. Darryl's integrity is in jeopardy. He runs the risk of getting caught and losing his business, going to jail, and being unable to provide for his family. If caught, his reputation will be tarnished, he will incur legal costs in trying

to defend himself, he will have embarrassed himself and his family, and he will have a hard time recovering from this indiscretion.

2. **Which stakeholders are affected by this approach, either positively or negatively? How great are their gains/losses?**
   Assuming Darryl doesn't get caught, the primary stakeholders that are affected negatively by this are the state of Texas, private sellers, and private buyers. Primary stakeholders that are affected positively by this are Darryl, his family, and the company business. However, the losses far outweigh the gains. The gains are small; roughly $250 per car. If caught, the private sellers and private buyers could be impacted by this as they may be questioned by police officials during the investigation. Moreover, if caught, Darryl will lose his business and will incur a significant cost in trying to defend himself. He will also likely have to pay a fine for this theft. His family relationships may suffer, and he may serve time in jail. The IRS will also file charges and fine him for tax evasion. The costs far outweigh the benefits. Overall, this is a bad decision by Darryl.

3. **Wilson finds it hard to identify a downside to his approach. What risks might he be overlooking?**
   It's only a matter of time before Darryl gets caught. He may get caught during an audit. He may get caught because a wise private seller may be astute enough to fill in the property transfer paperwork correctly or pick up on Darryl's evasive tactics (and report Darryl to the authorities). Darryl may get caught in an undercover investigation, perhaps even a public investigation which would be hugely embarrassing to him and his family. Darryl may be turned into the Better Business Bureau for unethical conduct. His lapse of judgment also impinges on the qualities of social responsibility. Darryl has an obligation to conduct himself in an ethical way within his community. Should his community find out about his governmental violations, there will surely be varying degrees of responses among the citizens, which will most likely be negative.

4. **What would you do if you were in Wilson's shoes? If his competitors are following the same practice (and some of them surely are), would that make any difference to you?**
   Darryl has adopted a philosophy of ethical relativism; he is acting the way others may be acting in his industry because no one has been caught (yet). He has found a "loophole" and is exploiting it. This doesn't make this act right, nor is it right even if others in his industry are behaving the same way. Rather, Darryl should think about adopting an attitude of ethical imperialism whereby his standards (high standards) are the ones that should guide him, regardless of others' lower ethical standards. Darryl needs to determine his values and make decisions based on these values.

Situation 3

1. **In your opinion, whose responsibility is it to initiate the payment of this debt?**

While the contractor is responsible for submitting an invoice for payment, London has a moral obligation to pay this debt and initiate contact with the contractor to solicit a copy of the invoice.

2. **What if London is unable to come up with the money to pay the bill when (if) it is finally submitted? What should he do then?**
   He should contact the accounting department and establish a payment plan.

3. **What are the options available to London in this case? Assess these using each of the following tests: (1) the Rotary Club's four-question test, (2) the "news report" test, (3) the "explain it to your mother" test, and (4) the Golden Rule. Do you arrive at the same conclusion when applying each of these? If not, which one should London use to decide what he should do?**
   - The Rotary Club's four-question test could be applied to this scenario as follows:
     - *Is it the truth?* YES
     - *Is it fair to all concerned?* To avoid paying the contractor is not fair. To pay would be fair.
     - *Will it build goodwill and better friendships?* If London pays, then YES.
     - *Will it be beneficial to all concerned?* If London pays, then YES.
   - The "news report" asks, "How would I feel if my decision were reported in the daily news?" Under these circumstances, London would not feel good about his decision.
   - The "explain it to your mother" test asks, "How well could I explain this decision to my mother or children?" While London may be able to rationalize his decision, no one would really accept his answer.
   - The Golden Rule states, "Treat others as you would want to be treated." Under this covenant, London again fails. No one would want to be treated this way.

   Using each of these ethical tests, one arrives at the same conclusion. Any one of these tests will point London in the morally and ethically right direction.

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Suggested Solution to Case 2: Hydraloop

1. **Do you believe Hydraloop is a good example of a social venture? If this is determined by a start-up's performance on the "triple bottom line" (people, profits, and the planet), on which of these outcomes does the company seem to perform best? Please list these in rank order and offer your justification for that order.**

   Hydraloop's focus on a triple bottom line would categorize it as a social venture, but legally they are a private corporation and do not post a social audit on their website. The product was designed for regions where water consumption is a concern specifically water availability, volume, and quality. The website focuses on sale of the product and why recycling is important. As their financials are not available and they do not have a social audit it is difficult to discern which of the three areas they perform best in.

2. **If you were to purchase a Hydraloop system for your home, apartment, or workplace, how would you research the product? Would you need to see one before investing over $5,000 for purchase and installation? How do you feel about the location and sales strategy the founders have selected?**

   Potential clients would research it online and then want to see this product in person. Due to the unites complexity, most customers would need to have some understanding of the installation requirements as it would be a permanent fixture in their home or business. They would want to be assured of its quality and longtime reliability as repairs would be inconvenient, having water available is a basic need of a residence. Customers would also need to feel confident that repair people are available, qualified, and affordable.

   Potential clients would probably also look for reviews online, videos of the system working and past customer testimonials.

   Hydraloop has chosen the Southwest as its primary region for expansion in the United States as well as a few major cities. Customer accessibility is a priority especially for products that require expert installation and possible continued or intermittent service. To begin the product should be relevant, are the customers in that area in need of the product and can they afford it? Hydraloop would want to research the demographics to make sure there is a large enough target market to support their location investment. The sales and installation partner model fits this product. It allows for potential customers to see and understand this “new to market” product. But it does not strain Hydraloop’s finances allowing them to control costs and get the product to market. The biggest risk is held by the sales and installation partners. They are adding a new product to their portfolio, requiring training and support systems, without knowing how many they will sell.

3. **Assess the future potential of Hydraloop. What factors do you think will contribute most to its performance in the years ahead? What factors could potentially hold its performance back? What recommendations would you have for Valkiese and Stuiver as they attempt to capitalize on positive factors and navigate the potential risks that they are likely to encounter?**

   The economic downturn created by the COVID-19 pandemic could impact sales and installation of the units. As rents and home prices increase that leaves less free cash for renters and homeowners to invest in water recycling units. At the commercial building level companies may choose to invest if they are responsible for water bills or pass that expense along to new tenants. In contrast, as the physical environment changes and water becomes more scare, the regions already experiencing shortages may prioritize recycling units. Hydraloop's founders should work tirelessly with government agencies to create pro-water recycling regulations and to provide tax breaks to all levels of customer for installation and use of recycling units.

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Appendix

Generic Rubrics

Providing students with rubrics helps them understand expectations and components of assignments. Rubrics help students become more aware of their learning process and progress, and they improve students' work through timely and detailed feedback.

Customize these rubric templates as you wish. The writing rubric indicates 40 points, and the discussion rubric indicates 30 points.

Standard Writing Rubric

Criteria	Meets Requirements	Needs Improvement	Incomplete
Content	The assignment clearly and comprehensively addresses all questions in the assignment. 15 points	The assignment partially addresses some or all questions in the assignment. 8 points	The assignment does not address the questions in the assignment. 0 points
Organization and Clarity	The assignment presents ideas in a clear manner and with strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts, arguments, and conclusions are logically related and consistent. 10 points	The assignment presents ideas in a mostly clear manner and with a mostly strong organizational structure. The assignment includes an appropriate introduction, content, and conclusion. Coverage of facts, arguments, and conclusions are mostly logically related and consistent. 7 points	The assignment does not present ideas in a clear manner and with strong organizational structure. The assignment includes an introduction, content, and conclusion, but coverage of facts, arguments, and conclusions are not logically related and consistent. 0 points
Research	The assignment is based upon appropriate and adequate academic literature, including peer	The assignment is based upon adequate academic literature but does not include peer	The assignment is not based upon appropriate and adequate academic literature and does not

	reviewed journals and other scholarly work. 5 points	reviewed journals and other scholarly work. 3 points	include peer reviewed journals and other scholarly work. 0 points
References/ Works Cited	The assignment follows the required citation guidelines. 5 points	The assignment follows some of the required citation guidelines. 3 points	The assignment does not follow the required citation guidelines. 0 points
Grammar and Spelling	The assignment has two or fewer grammatical and spelling errors. 5 points	The assignment has three to five grammatical and spelling errors. 3 points	The assignment is incomplete or unintelligible. 0 points

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Standard Discussion Rubric

Criteria	Meets Requirements	Needs Improvement	Incomplete
Participation	Submits or participates in discussion by the posted deadlines. Follows all assignment instructions for initial post and responses. 5 points	Does not participate or submit discussion by the posted deadlines. Does not follow instructions for initial post and responses. 3 points	Does not participate in discussion. 0 points
Contribution Quality	Comments stay on task. Comments add value to discussion topic. Comments motivate other students to respond. 20 points	Comments may not stay on task. Comments may not add value to discussion topic. Comments may not motivate other students to respond. 10 points	Does not participate in discussion. 0 points
Etiquette	Maintains appropriate language. Offers criticism in a constructive manner. Provides both positive and negative feedback. 5 points	Does not always maintain appropriate language. Offers criticism in an offensive manner. Provides only negative feedback. 3 points	Does not participate in discussion. 0 points

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