

## Chapter 2—Integrity and Ethics: Foundations for Success in Small Business

### TRUE/FALSE

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

ANS: T                      PTS: 1                      REF: p. 39                      OBJ: 2-1 TYPE: C  
NAT: Ethics | Dynamics

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

ANS: T                      PTS: 1                      REF: p. 47                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

3. Skimming by small business is sufficiently widespread to be recognized as a general problem.

ANS: T                      PTS: 1                      REF: p. 47                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

4. According to a Baylor University survey, small business owners experienced more ethical problems pertaining to the environment than problems with customer relationships.

ANS: F  
The survey actually showed that few small business owners (4%) experienced ethical problems pertaining to the environment, but many of them (24%) reported ethical problems in relationships with customers.

PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

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

ANS: T                      PTS: 1                      REF: p. 42                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Ethical and Legal

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. 38                      OBJ: 2-1 TYPE: D  
NAT: Ethics | Dynamics

7. Unlike employees in small firms, persons 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. 48                      OBJ: 2-1 TYPE: C  
NAT: Ethics | Dynamics

8. In a nationwide survey of employees of small firms holding managerial and professional positions, less than half reported feeling no pressure to compromise their own ethical standards.

ANS: F

Over 72% reported an absence of pressure to compromise personal standards. However the study from Baylor University also reported over 24% experienced slight pressure (almost 4% experienced extreme pressure) to compromise.

PTS: 1                      REF: p. 45                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

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

Friedman stated businesses should “use its resources and engage in activities designed to increase its profits *so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud.*”

PTS: 1                      REF: p. 41                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Economic Environments

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. 53                      OBJ: 2-4 TYPE: C  
NAT: Global Dynamics | Ethical and Legal

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. 48                      OBJ: 2-3 TYPE: C  
NAT: Ethics | Economic Environments

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. 53                      OBJ: 2-4 TYPE: C  
NAT: Ethics | Ethical and Legal

13. Small business owners may be tempted to rationalize bribery as a way of offsetting what seems to be a competitive disadvantage in relation to large firms.

ANS: T                      PTS: 1                      REF: p. 48                      OBJ: 2-3 TYPE: C  
NAT: Ethics | Ethics and Legal

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

ANS: F

Stakeholders are individuals or groups who either can affect or are affected by the performance of the company.

PTS: 1 REF: p. 40 OBJ: 2-2 TYPE: D  
NAT: Global Dynamics | Ethical and Legal

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

ANS: T PTS: 1 REF: p. 54 OBJ: 2-5 TYPE: D  
NAT: Ethics | Dynamics

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. 54 OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics | Ethics and Legal

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. 54 OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics and Legal

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. 55 OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics and Legal

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. 55 OBJ: 2-5 TYPE: C  
NAT: Ethics | Dynamics

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. 56 OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics and Legal

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. 56                      OBJ: 2-5 TYPE: D  
NAT: Ethics | Ethics and Legal

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. 42                      OBJ: 2-2 TYPE: A  
NAT: Ethics | Dynamics

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

ANS: F  
The level of integrity is related to the value the company places on its employees as management decisions affects employee personal and family lives.

PTS: 1                      REF: p. 42                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

24. Zappos, under the guidance of Tony Hsieh, will pay employees to quit if they are unhappy with their jobs so as to support his employees and protect customer interactions.

ANS: T  
It is the opposite.

PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: A  
NAT: Ethics | Dynamics

25. One reason why entrepreneurs of small, growth-oriented companies tend to be more narrowly focused on profits and thus less socially responsible than CEOs of large businesses is their lack of understanding of social responsibility.

ANS: F  
The reason suggested was simple survival as firms may see social responsibility as a luxury management simply can not afford.

PTS: 1                      REF: p. 46                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Ethics and Legal

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. 46                      OBJ: 2-2 TYPE: A  
NAT: Ethics | Value Creation

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  
Largest burden is local, state and federal taxes are owed whether a company makes a profit or not.

PTS: 1                      REF: p. 47                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

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. 48                      OBJ: 2-3 TYPE: C  
NAT: Ethics | Dynamics

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

ANS: T                      PTS: 1                      REF: p. 46                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

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

ANS: T                      PTS: 1                      REF: p. 45                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Value Creation

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  
Intellectual property protection has become not only a legal and ethical issue but also a political one in the national and international courts.

PTS: 1                      REF: p. 52                      OBJ: 2-4 TYPE: D  
NAT: Global Dynamics | Ethics and Legal

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

ANS: F  
This issue is being debated as employees see this issue an invasion of their privacy. Employers see increased Internet usage for searches not related to the company as a loss of productivity.

PTS: 1                      REF: p. 51                      OBJ: 2-4 TYPE: C  
NAT: Ethics | Dynamics

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. 53                      OBJ: 2-4 TYPE: D  
NAT: Global Dynamics | Ethical and Legal

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. 57                      OBJ: 2-5 TYPE: D  
NAT: Ethics | Ethics and Legal

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 innovation is known as a cookie, not a donut.

PTS: 1                      REF: p. 51                      OBJ: 2-4 TYPE: D  
NAT: Technology | Ethical and Legal

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. 59                      OBJ: 2-6 TYPE: C  
NAT: Ethics | Finance

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

ANS: T                      PTS: 1                      REF: p. 59                      OBJ: 2-6 TYPE: C  
NAT: Ethics | Economic Environments

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. 57                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Economic Environments

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

ANS: T                      PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

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. 40                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

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

ANS: T                      PTS: 1                      REF: p. 46                      OBJ: 2-2 TYPE: C  
NAT: Global Dynamics | Value Creation

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

This practice is unethical as the customer is paying more than what they are receiving.

PTS: 1                      REF: p. 38                      OBJ: 2-1 TYPE: A  
NAT: Ethics | Ethics and Legal

## 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.
- integrity
  - relativism
  - synchronous behavior
  - congruity

ANS: A                      PTS: 1                      REF: p. 39                      OBJ: 2-1 TYPE: C  
NAT: Ethics | Finance

2. Stakeholders in a business are made up of
- owners (stockholders).
  - customers.
  - employees.
  - all of the above.

ANS: D                      PTS: 1                      REF: p. 40                      OBJ: 2-2 TYPE: D  
NAT: Global Dynamics | Dynamics

3. Skimming is an unethical business practice involving
- failure to report all income on tax returns.
  - employees taking cash from the cash register.
  - sales associates offering gifts and inducements to purchasers.
  - managers of competing firms agreeing to charge high prices.

ANS: A                      PTS: 1                      REF: p. 47                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

4. Jenny, as a prospective small business owner, wonders what type of ethical problems may prove most difficult. Which problem is correct for a typical company?
- the environmental impact of her company.
  - customers.
  - employee hiring and training.
  - the relationship with her banker.

ANS: B                      PTS: 1                      REF: p. 39                      OBJ: 2-1 TYPE: A  
NAT: Ethics | Dynamics

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. 41                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

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.

- c. public relations.
- d. harmful production processes.

ANS: A                      PTS: 1                      REF: p. 39                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

7. A nationwide survey showed what proportion of individuals holding managerial and professional positions in small business felt no pressure to act unethically?
- a. 0%
  - b. 30.1%
  - c. 62.4%
  - d. 72.3%

ANS: D                      PTS: 1                      REF: p. 45                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

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

ANS: B                      PTS: 1                      REF: p. 48                      OBJ: 2-3 TYPE: C  
NAT: Ethics | Dynamics

9. The term for when an employee steals money from a firm is
- a. cheating.
  - b. fraud.
  - c. embezzlement.
  - d. promotion.

ANS: C                      PTS: 1                      REF: p. 45                      OBJ: 2-2 TYPE: D  
NAT: Ethics | Finance

10. An ethical business 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. 45                      OBJ: 2-2 TYPE: D  
NAT: Ethics | Economic Environments

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. 46                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

12. Many types of socially responsible actions can be consistent with a firm’s long-term profit resulting in some degree of \_\_\_\_\_ being earned by such behavior.



- a. money
- b. respect
- c. goodwill
- d. management expertise

ANS: C                    PTS: 1                    REF: p. 46                    OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

13. Entrepreneurs often come up short on their tax commitments because of a single-minded focus on their product or service and/or \_\_\_\_.
- 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. 47                    OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

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. 39                    OBJ: 2-2 TYPE: D  
NAT: Ethics | Ethics and Legal

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. 51                    OBJ: 2-3 TYPE: C  
NAT: Ethics | Economic Environments

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. 41                    OBJ: 2-2 TYPE: C  
NAT: Ethics | Economic Environments

17. Jim Hackett, Steelcase's CEO, is an example of
- a. how an employee's integrity can contribute to a business's success.
  - b. how an entrepreneur's integrity contributes to a business's success.
  - c. how a customers' lack of integrity can affect the operations of a firm.
  - d. how an entrepreneur's lack of integrity can cause a business failure.

ANS: B                    PTS: 1                    REF: p. 37                    OBJ: 2-2 TYPE: A  
NAT: Ethics | Dynamics

18. The application of U.S. standards to ethical issues that are clouded by cultural differences abroad is sometimes categorized as \_\_\_\_.

- a. overly idealistic.
- b. ethical imperialism.
- c. USA arrogance.
- d. situation ethics.

ANS: B                      PTS: 1                      REF: p. 53                      OBJ: 2-4 TYPE: D  
NAT: Global Dynamics | Ethical and Legal

19. A band who fails to record the cash they collected for admission to their shows could be charged with what illegal practice?
- a. cash diversion
  - b. tax evasion
  - c. skimming
  - d. payroll tax avoidance

ANS: C                      PTS: 1                      REF: p. 47                      OBJ: 2-2 TYPE: A  
NAT: Ethics | Finance

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

ANS: D                      PTS: 1                      REF: p. 55                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Dynamics

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

ANS: B                      PTS: 1                      REF: p. 55                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Economic Environments

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

ANS: C                      PTS: 1                      REF: p. 55                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics and Legal

23. A code of ethics becomes increasingly appropriate and necessary as a small business
- a. 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. 56                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics and Legal

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. 56                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics and Legal

25. In order to make an ethical decision, the key to problem definition 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. 57                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics and Legal

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. 43                      OBJ: 2-2 TYPE: D  
NAT: Ethics | Dynamics

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

ANS: B                      PTS: 1                      REF: p. 45                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

28. According to the text, 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. 46                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Value Creation

29. A small computer retailer makes every effort to satisfy customer needs both before and after the sale. However, this retailer regards social problems as being beyond the scope of his business. This firm's management has 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 not social responsibilities.
  - d. social responsibility as the domain of big business.

ANS: C                      PTS: 1                      REF: p. 45                      OBJ: 2-2 TYPE: A  
NAT: Ethics | Value Creation

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. 46                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

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. 45                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Economic Environments

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

ANS: C                      PTS: 1                      REF: p. 45                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Economic Environments

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. 46                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

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. 47                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Economic Environments

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. 50                      OBJ: 2-3 TYPE: C  
NAT: Ethics | Dynamics

36. The ethical standards of entrepreneurs
- are unaffected by profit motives.
  - are affected by customer perceptions.
  - are seldom challenged by real-world events.
  - are higher overall than those of corporate managers.

ANS: B                      PTS: 1                      REF: p. 47                      OBJ: 2-3 TYPE: C  
NAT: Ethics | Dynamics

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 cookie.
  - a saucer.
  - an inverted collector.
  - a contact signature.

ANS: A                      PTS: 1                      REF: p. 51                      OBJ: 2-4 TYPE: D  
NAT: Technology | Ethical and Legal

38. Environmentalism poses the greatest threat to small
- medical waste disposal businesses.
  - drugstores.
  - movie theaters.
  - auto repair shops.

ANS: A                      PTS: 1                      REF: p. 59                      OBJ: 2-6 TYPE: C  
NAT: Ethics | Economic Environments

39. An example of an industry especially vulnerable to efforts to protect the environment is the \_\_\_\_\_ industry.
- glass manufacturing
  - military construction
  - restaurants
  - asbestos removal

ANS: D                      PTS: 1                      REF: p. 59                      OBJ: 2-6 TYPE: A  
NAT: Ethics | Economic Environments

40. A baker looking for new retail space has returned from a seminar on environmentalism and wishes to act responsibly in this area. Which action will best accomplish this purpose?
- Looking into leasing a LEED certified space
  - Reduce product prices
  - Eliminate undesirable processing odors
  - Increase service to customers

ANS: A                      PTS: 1                      REF: p. 59                      OBJ: 2-6 TYPE: A  
NAT: Ethics | Economic Environments

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

ANS: A                   PTS: 1                   REF: p. 60                   OBJ: 2-6 TYPE: D  
NAT: Ethics | Economic Environments

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

ANS: B                   PTS: 1                   REF: p. 60                   OBJ: 2-6 TYPE: A  
NAT: Ethics | Economic Environments

43. Green Foam Blanks produces and sells a recycled polyurethane center for surfboards to
- improve surfer balance.
  - decrease the use of endangered materials.
  - decrease exposure to cancer causing materials.
  - improve surfer speed while decreasing board prices.

ANS: C                   PTS: 1                   REF: p. 60-61                   OBJ: 2-6 TYPE: D  
NAT: Ethics | Economic Environments

44. According to *Advertising Age* magazine, USA 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. 52                   OBJ: 2-4 TYPE: D  
NAT: Ethics | Dynamics

45. A U.S. manager is upset with the company's overseas representative 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 a sense of \_\_\_\_\_.
- cultural insensitivity
  - ethical elitism
  - ethical imperialism
  - cultural integrity

ANS: C                   PTS: 1                   REF: p. 53                   OBJ: 2-4 TYPE: A  
NAT: Global Dynamics | Ethical and Legal

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. 53                   OBJ: 2-4 TYPE: C  
NAT: Global Dynamics | Ethical and Legal

47. If a student copies a favorite CD and gives it away to a friend to use, the student is engaged in the theft of \_\_\_\_\_ property.
- collective

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

ANS: C                    PTS: 1                    REF: p. 52                    OBJ: 2-4 TYPE: C  
NAT: Global Dynamics | Ethical and Legal

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

ANS: B                    PTS: 1                    REF: p. 52                    OBJ: 2-4 TYPE: C  
NAT: Global Dynamics | Ethical and Legal

49. An eBay retailer selling counterfeit *Gucci* and *Louis Vuitton* handbags is a violation of laws related to
- a. Internet fraud.
  - b. intellectual property.
  - c. bait-and-switch marketing.
  - d. ethical imperialism.

ANS: B                    PTS: 1                    REF: p. 52-53                    OBJ: 2-4 TYPE: C  
NAT: Global Dynamics | Ethical and Legal

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

ANS: B                    PTS: 1                    REF: p. 47                    OBJ: 2-2 TYPE: D  
NAT: Ethics | Finance

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

ANS: B                    PTS: 1                    REF: p. 51                    OBJ: 2-3 TYPE: C  
NAT: Ethics | Economic Environments

52. When evaluating alternatives for an ethical decision, all of the following questions should be asked *except* for which one?
- a. It is the truth?
  - b. Will it be beneficial to all concerned?
  - c. Is it fair to all concerned?
  - d. Will it result in the most profits?

ANS: D                    PTS: 1                    REF: p. 58                    OBJ: 2-5 TYPE: C  
NAT: Ethics | Dynamics

53. The most widely recommended principle for ethical behavior is to do what
- a. is best for yourself.

- b. will yield the most profits.
- c. you would want others to do for you.
- d. will reduce product prices.

ANS: C                      PTS: 1                      REF: p. 58                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Dynamics

54. PortionPac Chemical's dedication to its customers, employees and environment is an example of
- a. sustainable small business.
  - b. ethical relativism.
  - c. social entrepreneurship.
  - d. ethical imperialism.

ANS: A                      PTS: 1                      REF: p. 59                      OBJ: 2-6 TYPE: A  
NAT: Ethics | Economic Environments

55. Integrity is
- a. when a person's character remains whole, despite the pressure and circumstances of the worst situations.
  - b. a general sense of honesty and reliability that is shown by the person always doing the right thing.
  - c. an uncompromising adherence to the lofty values, beliefs, and principles that an individual claims to hold.
  - d. All of the above statements describe integrity,

ANS: C                      PTS: 1                      REF: p. 41-48                      OBJ: 2-1 TYPE: D  
NAT: Ethics | Dynamics

56. Which action does *not* violate an entrepreneur's integrity?
- a. Accepting cash and not reporting it on the books
  - b. Flattering a prospective customer to make a sale
  - c. Going back on a deal when a better opportunity arises
  - d. All of the above actions violate integrity.

ANS: D                      PTS: 1                      REF: p. 50                      OBJ: 2-1 TYPE: C  
NAT: Ethics | Dynamics

57. Karl Eller reports in his book, *Integrity Is All You've Got*, which of the following characteristics of entrepreneurial businesses with integrity?
- a. The entrepreneur with integrity gives the company a competitive edge.
  - b. The management of these companies understand the bottom line so that is still their singular focus.
  - c. For the most part, founders with integrity are stressed to balance growing the business and following their principles.
  - d. A solid financial performance needs to be achieved so that customers will know about the company's integrity.

ANS: A                      PTS: 1                      REF: p. 50                      OBJ: 2-3 TYPE: C  
NAT: Ethics | Economic Environments

58. Researchers Niels van Quaquebeke and Steffen Giessner found what in their study on integrity?
- a. Perceptions of integrity make a difference.
  - b. Asymmetrical company logos are seen as more ethical.
  - c. The nature and quantity of a relationship strengthen ethical perceptions
  - d. Customers must be told about the company's dedication to integrity.



## 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. 41-48                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Dynamics

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.

PTS: 1                      REF: p. 45-47                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Economic Environments

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. 45-47                      OBJ: 2-2 TYPE: C  
NAT: Ethics | Finance

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

ANS:

Purpose: The vision for the company and its core values should guide business conduct.

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

Patience: Pushing others too hard for short-term results may cause unethical actions sooner or later as it will seem to be the only way to achieve those outcomes.

Persistence: People should stand by their word, as it is the foundation of trust. If the company is not committed to an ethical framework, personal integrity is at risk, as is the reputation of the company.

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

PTS: 1                      REF: p. 55-56                      OBJ: 2-5 TYPE: C  
NAT: Ethics | Ethics and Legal

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 an evaluation of all the alternatives, always keeping the 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 the response solved the dilemma? or made it worse? or had no effect? The matter may need to be reopened to make things right.

PTS: 1 REF: p. 57-59 OBJ: 2-5 TYPE: C  
NAT: Communication | Ethics and Legal

6. Using examples discussed in the book, discuss how sustainability has resulted in different goals for small businesses.

ANS:

Goals vary by the business based on the stakeholders. Examples include saving the planet, decreasing company costs, increasing customer growth, and increased shareholder value. The book discusses the following examples.

1. PortionPac Chemical
  - \*decreased product packaging and shipping energy
  - \*decreased environmentally harmful cleaning chemicals
  - \*
1. Buying, rehabbing, or leasing a LEED-certified building - helps achieve company goals of
  - \*decreased energy costs
  - \*improving employee air quality - possible improved morale
2. Green Foam Blanks
  - \*increased recycled materials
  - \*decreased employee and customer exposure to carcinogens
3. Hydrolosophy
  - \*decreased customer utility
  - \*decreased customer natural resource use
4. Boo Bicycles
  - \*increased use of renewable resources
  - \*improved customer satisfaction

PTS: 1 REF: p. 59-91 OBJ: 2-6 TYPE: A  
NAT: Ethics | Economic Environments

7. How can integrity and financial success be related? Use *PortionPac Chemical* as an example to strengthen the argument.

ANS:

Success in an entrepreneurial endeavor involves financial gain while creating value for the company's stakeholders (owners, stockholders, customers, employees, the community, and the government). To have integrity means others are considered even if the company is not as financially successful. Most companies are directed by entrepreneurs who balance the two concepts.

*PortionPac Chemical* produces environmentally friendly cleaning products using a culture specializing in trust, satisfaction and good relationships. Customers and employees are of concern over profits. As a result, *Winning Workplaces* and *Inc.* magazine awarded the company a "2010 Top Small Company Workplace" recognition for its dedication to the employees and customers. In 2009, the company turnover was 2% and annual revenue's had increased by 8% for annual sales of almost \$20 million.

PTS: 1 REF: p. 38 OBJ: 2-1 TYPE: A  
NAT: Ethics | Finance

8. Describe PRO factors and how these factors relate to customers.

ANS:

Customers are less likely to buy a product or service if they question the company's products/services, representatives or the organization. Therefore a new company should be able to provide the following information for prospective customers.

1. The product/service should serve customer needs better than the competition's product or service. Brand substitution should be easy. Since knowledge about the product/service is more important than customer service or how long the company has been in business, providing that information in a format that customers want is essential.
2. The employees of the company should provide excellent service by being able to answer questions and what they can do for the customer.
3. The company should leave the customer with the understanding they will stand behind the product or service especially if they have a problem.

PTS: 1                      REF: p. 49                      OBJ: 2-3 TYPE: C  
NAT: Ethics | Value Creation

9. Discuss the issues related to Internet usage and personal privacy from both a business perspective and employee standpoint. What should a small business do to decrease conflict?

ANS:

The issues center around privacy and monitoring usage. While businesses are known to use cookies to collect data on their customers for marketing research, employees may see the company using that information to gain information from the employee's business computer as an invasion of privacy. A good company policy for customers should be to inform them of such usage and promise not to sell that information to a third party. The same promise should be issued to an employee.

Some businesses may be concerned with employees wasting time on personal use of the Internet while at work and therefore monitor the amount of time an employee spends on personal emails, shopping, or surfing. They may also feel that employees may inadvertently expose the company system to viruses and malware causing harm to the entire system. Employees see this practice as an invasion of privacy especially when limited use of the Internet may increase employee productivity. Also some employee positions require the worker to be online for monitoring customer trends. Again, the business needs to make the employee aware that the company is monitoring usage to prevent possible lawsuits.

PTS: 1                      REF: p. 51                      OBJ: 2-4 TYPE: C  
NAT: Ethics | Information Technologies