Essentials of Entrepreneurship and Small Business Management 9th edition Scarborough Solutions Manual

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CHAPTER 2. ETHICS AND SOCIAL RESPONSIBILITY: DOING THE RIGHT THING

Part 1: Learning Objectives

1. Define business ethics and describe the three levels of ethical standards.
2. Determine who is responsible for ethical behavior and why ethical lapses occur.
3. Explain how to establish and maintain high ethical standards
4. Explain the difference between social entrepreneurs and traditional entrepreneurs.
5. Define social responsibility.
6. Understand the nature of business's responsibility to the environment.
7. Describe business's responsibility to employees.
8. Explain business's responsibility to customers.
9. Discuss business's responsibility to investors.
10. Describe business's responsibility to the community.

Part 2: Class Instruction

Introduction

Business ethics involves the moral values and behavioral standards that business people draw on as they make decisions and solve problems. The ability to determine the values and ethics that will shape how business will be conducted is a major motivation to launching a venture. The values and morals that entrepreneurs drawn on to guide their ethical behaviors can come from a variety of sources. Ethical dilemmas may be apparent; however, more often ethical issues are less obvious and no clear cut right or wrong answers exist. There may be conflicting interests among the company's stakeholders. ***Stakeholders*** include the various groups and individuals who affect and are affected by a business (Refer to Figure 2.1, Key Stakeholders). Ethical leaders approach their responsibilities with added dimensions of thought and action.

Ethics refers to a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation, and virtue. A business operates as an institution

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in our complex society; therefore, entrepreneurs are expected to behave in ways that are compatible with the value system of society. ***Social responsibility*** refers to how an organization responds to the needs of the many elements in society.

An Ethical Perspective *LO 1*

Business ethics consist of the fundamental moral values and behavioral standards that form the foundation for the people of an organization as they make decisions and interact with stakeholders. Maintaining an ethical perspective is essential to creating and protecting a company's reputation, but it is not easy. While building an ethical reputation takes a long time, destroying that reputation can happen quickly.

Three Levels of Ethical Standards (Refer to Figure 2.2, Three Levels of Ethical Standards)

1. The law – defines what is permissible and what is not permissible.
2. Organizational policies and procedures – specific guidelines for people as they make daily decisions.
3. The moral stance – use when employees encounter a situation that is not governed by the law or organizational policies and procedures.

Moral Management. There are three ethical styles of management, including immoral management, amoral management, and moral management. (Refer to Table 2.1, Approaches to Business Ethics)

- Immoral Management. Managers are motivated by selfish reasons, primarily greed.
- Amoral Management. Managers are motivated to earn a profit, and neglect to consider the impact their decisions have on others.
- Moral Management. Managers strive for success but only within the boundaries of legal and ethical standards.

The Benefits of Moral Management. (Refer to Table 2.2, Reasons to Run a Business Ethically and the Factors That Drive Business Ethics)

- Avoid damage from unethical behavior on their reputation.
- Dealing with stakeholders is easier when a firm has a solid ethical foundation.
- It is easier to attract and retain quality employees.
- Ethical behavior has a positive impact on a firm's bottom line.
- Customers prefer to buy from an ethical company.

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Establishing an Ethical Framework

Step 1: Identify the personal moral and ethical principles that shape all business decisions.

Step 2: Recognize the ethical dimensions involved in the dilemma or decision.

Step 3: Identify the key stakeholders involved and determine how the decision will affect them. The ***triple bottom line*** (3BL) involves measuring business performance using profitability, its commitment to ethics and social responsibility, and its impact on the environment (profit, people, and planet).

Step 4: Generate alternative choices and distinguish between ethical and unethical responses.

Step 5: Choose the "best" ethical response and implement it.

Why Ethical Lapses Occur

The most common causes of ethical lapses (Refer to Figure 2.3, Causes of Ethical Lapses) include:

- Pressure to do whatever it takes to meet business targets.
- Company's code of conduct not taken seriously.
- Will be rewarded for results and not the means used to achieve them.
- Unfamiliar with ethical standards that apply to the job.
- Fear of losing job if business targets not met.
- Believe policies are easy to override.
- Lack resources to get the job done without taking shortcuts.
- Seeking to bend rules for personal gain.

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Responsibility for Ethical Decisions LO 2

An Unethical Employee and an Unethical Organizational Culture. Employees who are "bad apples" may make unethical decisions. The culture of the entire organization rewards employees for unethical behavior.

Moral Blindness. Sometimes ethical people make unethical blunders because they are blind to the implications of their conduct.

Competitive Pressures. Managers and employees are under such pressure to produce that they may sacrifice their ethical standards to reduce the fear of failure or the fear of losing their jobs.

Opportunity Pressures. When the opportunity to get ahead by taking some unethical action presents itself, some people cannot resist the temptation.

Globalization of Business. Globalization of business has intertwined what once were distinct cultures; this cultural cross-pollination has brought about many positive aspects, but is has created problems as well. (Refer to Table 2.4, Ethics Research Reveals Features of Ethical Cultures)

Establishing and Maintaining Ethical Standards LO 3

Establishing Ethical Standards. Although small businesses may not have formal ethics programs, entrepreneurs can encourage employees to become familiar with the following ethical tests for judging behavior:

- Utilitarian principle: choose the option that offers the greatest good for the greatest number of people.
- Kant's categorical imperative: act in such a way that the action taken under the circumstances could be a universal law or rule of behavior.
- Professional ethic: take only those actions that a disinterested panel of professional colleagues would view as proper.
- Golden rule: treat other people the way you would like them to treat you.
- Television test: would you feel comfortable explaining your actions to a national television audience?
- Family test: would you be comfortable explaining to your children, your spouse, and

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your parents why you took this action?

(Refer to Table 2.5, Ten Ethical Principles to Guide Behavior)

Maintaining Ethical Standards. Implementing and maintaining ethical standards is the real challenge.

- Set the tone. Ethics starts at the top of the organization by the leader.
- Create a ***company credo***, which is a statement that defines the values underlying the entire company and its ethical responsibilities to its stakeholders.
- Establish high standards of behavior.
- Involve employees in establishing ethical standards.
- Create a culture that emphasizes two-way communication.
- Develop a ***code of ethics***, which is a written statement of the standards of behavior and ethical principles a company expects from its employees.
- Enforce the code of ethics through policies.
- Recruit and promote ethical employees.
- Conduct ethics training.
- Reward ethical conduct.
- Separate related job duties.
- Perform periodic ethical audits

Social Entrepreneurship *LO 4*

Social entrepreneurship can be characterized by the following:

1. Social entrepreneurs seek solutions for social problems that are met by neither the market nor the government.
2. Creating social benefit rather than commercial success motivates social entrepreneurs.
3. Social entrepreneurs tackle social problems by taking full advantage of natural market forces.

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Social Responsibility LO 5

There is an expectation that business will produce benefits not only for themselves but also for society as a whole. Companies must go beyond "doing well" – simply earning a profit – to "doing good" – living up to their social responsibility.

Companies that are most successful in meeting their social responsibility select causes that are consistent with their core values and their employees' interests and skill sets. Whether a company supports a social or an environmental cause has a significant effect on shoppers' behavior.

Other studies show a connection between social responsibility and profitability. One study concluded that a positive correlation existed between a company's profitability and its reputation for ethical, socially responsible behavior. (Refer to Table 2.6, Simple Ways for a Small Business to Be Socially Responsible)

Consider using You Be the Consultant: "Funding Social Ventures Through Franchise Businesses" at this point.

Business's Responsibility to the Environment LO 6

Companies have discovered that sound environmental practices make for good business. Examples include lowering operating costs, and producing environmentally safe products that attract environmentally conscious customers which give a company a competitive edge in the marketplace. Socially responsible business owners focus on the three Rs:

- Reduce the amount of energy and materials used.
- Reuse whatever you can.
- Recycle the materials that you must dispose of.

Progressive small firms are designed for "clean" manufacturing systems to avoid waste and pollution, and using resources efficiently.

Business's Responsibility to Employees LO 7

Entrepreneurs who understand the value of their employees follow a few simple procedures by doing the following:

- Listening to employees and respecting their opinions

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- Asking for their input and involving them in the decision-making process
- Providing regular feedback – positive and negative – to employees
- Telling the truth—always
- Letting them know exactly what's expected of them
- Rewarding employees for performing their jobs well
- Trusting them; creating an environment of respect and teamwork

Cultural Diversity in the Workplace. (Refer to Figures 2.4, Diversity Index by County, and Figure 2.5, Projected Composition of the U.S. Workforce in 2020) Cultural diversity provides an incredibly rich blend of ideas, perspectives, skills, talents, ideas, and creativity. However, managing a culturally diverse workforce presents a real challenge for employers. The Equal Employment Opportunity Commission suggests following a "SPLENDID" approach to diversity:

- Study issues related to diversity, including relevant laws.
- Plan
- Lead
- Encourage
- Notice
- Discussion
- Inclusion
- Dedication

Managing a culturally diverse workforce successfully requires a business owner to do the following:

- Assess your company's diversity needs
- Learn to recognize and correct your own biases and stereotypes
- Avoid making invalid assumptions
- Push for diversity in your management team
- Concentrate on communication
- Make diversity a core value in the organization
- Continue to adjust your company to your workers

Drug Testing. Drug and alcohol abuse by employees results in reduced productivity,

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increased medical costs, higher accident rates, and higher levels of absenteeism. An effective, proactive drug program should include the following five elements:

1. Written substance abuse policy.
2. Training for supervisors to detect substance-abusing workers.
3. An employee education program.
4. A drug testing program.
5. An ***employee assistance program (EAP)***, which is a company-provided benefit designed to help reduce workplace problems such as alcoholism, drug addiction, a gambling habit, and other conflicts and to deal with them when they arise.

Sexual Harassment

Sexual harassment is any unwelcome sexual advance, request for sexual favors, and other verbal or physical sexual conduct made explicitly or implicitly as a condition of employment. Types of behavior that may result in sexual harassment charges include:

- Quid Pro Quo Harassment occurs when a superior conditions the granting of a benefit such as a promotion or raise on the receipt of sexual favors from a subordinate.
- Hostile Environment refers to behavior that creates an abusive, intimidating, offensive, or hostile work environment. Examples include: displaying sexually suggestive pictures or posters, engaging in sexually related humor within hearing of someone who takes offense, talking about sexual matters where others can hear, making sexual comments to other employees, dispensing assignments based on sexual orientation, and repeated asking a coworker for a date after having been refused multiple times.
- Harassment by Nonemployees occurs when third parties (such as customers, sales representatives, and others) engage in sexual harassment when the employer has the ability to stop the improper behavior.

A company's best weapons against sexual harassment are education, policy, and procedures.

- Education: training programs designed to raise employees' awareness.
- Policy: enact policies that management can enforce, including: clearly define what behaviors constitute harassment, state that harassment will not be tolerated, identify supervisors and employee responsibilities, define the sanctions and penalties, spell out steps for reporting an incident.
- Procedure: when a complaint arises, managers should do the following:

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- Listen to the complaint and take notes.
- Investigate promptly. (Refer to Table 2.7, What to Do When an Employee Files a Sexual Harassment Complaint)
- Interview the accused party and witnesses privately.
- Keep findings confidential.
- Decide what action to take relying on policies.
- Inform complaining person and alleged harasser of action.
- Document entire investigation.

The 'Hands On… How To' feature includes a test on sexual harassment for both employees and managers.

- Privacy. Modern technology has given business owners the ability to monitor workers' performance, but there is a line between monitoring productivity and invasion of privacy. To avoid ethical and legal problems, business owners should follow these guidelines:
  - Establish a clear policy for monitoring employees' communications.
  - Create guidelines for the proper use of the company's communication technology and communicate them to everyone.
  - Monitor in moderation.

Consider using You Be the Consultant: "Think Before You Tweet" at this point.

Business's Responsibility to Customers LO 8

The Consumer Bill of Rights gives consumers the following rights:

Right to Safety. The greatest breach of trust occurs when businesses produce product that, when properly used, injure customers.

Right to Know. Consumers have the right to honest communication about the products and services they buy and the companies that sell them.

Right to be Heard. The right to be heard suggests that the channels of communication between companies and their customers run in both directions. Socially responsible businesses provide customers with a mechanism for resolving complaints about products and service.

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Right to Education. This refers to educational material about their products and services and how to use them properly.

Right to Choice. This refers to socially responsible companies that do not restrict competition, and willingness to abide by U.S. antitrust policy.

Business's Responsibility to Investors LO 9

Although earning a profit is a company's first responsibility, it must also meet its ethical and social responsibility goals. A firm's reputation is important to investors as they invest more on the basis of the entrepreneur's track record than on the entrepreneur's idea. Companies also have the responsibility to report their financial performance in an accurate and timely fashion to their investors.

Business's Responsibility to the Community LO 10

In addition to providing jobs and creating wealth, companies contribute to the local community in many different ways. Small companies can commit their employees' talent, not just dollars, to carefully chosen social causes and then tell the world. Examples include:

- Volunteer for community groups.
- Participate in projects that aid others.
- Adopt a highway.
- Volunteer in school programs, such as Junior Achievement.

Consider using You Be the Consultant: Funding Social Ventures Through Franchise Businesses and/or You Be the Consultant: But Is It Safe? at this point.

Conclusion

Businesses must do more than merely earn profits; they must act ethically and in a socially responsible manner. Business owners and managers must recognize the key role they play in influencing their employees' ethical and socially responsible behavior.

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Part 3: Chapter Exercises

You Be the Consultant: "Funding Social Ventures Through Franchise Businesses"

1. **What challenges does owning and operating a franchise business create for these nonprofits? Explain. (LO 4) (AACSB: Reflective thinking)**

Legal: A nonprofit organization is not allowed to own a franchise, but it can set up an investment corporation as a parent entity, and under it form a limited liability corporation that owns the franchise.

Staffing: Staff must have the mindset and business skills to operate a for-profit business.

Financial: The nonprofit needs the support of investors or a partnership with a for-profit business to be able to afford the initial franchise fees and funding to operate the franchise until it becomes profitable.

2. **What advantages do franchise businesses offer nonprofits that seek side businesses to generate revenues to support their causes? (LO 5) (AACSB: Analytical thinking)**

Franchises will increase their reputation as socially responsible businesses. Customers are more likely to support a franchise when they know it is involved in the community in a positive way. In some cases, the nonprofit may provide training to potential employees of the franchise, thus reducing employment costs.

3. **Select a local nonprofit and work with a team of your classmates to brainstorm ideas for a franchise business that could help create a sustainable cash flow to support the mission of the social venture. What advice can you offer social entrepreneurs on how to develop alternative revenues to replace declining grants and donations? (LO 10) (AACSB: Application of knowledge)**

Students should review the nonprofit's current services and identify businesses that can profit from these services. For example, the nonprofit could provide job training services to a for-profit business in exchange for continuing financial support, as evidenced in the Dale Rogers Training Center.

Students can also review critical needs within the community that are currently underserved by nonprofits such as homelessness. Since these kinds of problems plague for-profit businesses perhaps the nonprofit could add a new service to improve the ability of homeless people to obtain jobs. For example, the nonprofit may help homeless people

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to find shelter, appropriate work attire, and interviewing and other workplace skills. As a result a for-profit employer may partner with and provide funding for the nonprofit in an effort to then provide jobs for the formerly homeless people.

You Be the Consultant: "Think Before You Tweet"

1. **If you were the judge reviewing the O'Connor case, how would you rule? Explain your reasoning. (LO 7) (AACSB: Ethical understanding and reasoning)**

The judge's ruling is likely based on whether the Milk Truck had or didn't have a clear policy about monitoring employees' communications. O'Connor's post directly targeted Class, Lewis & Co. as well as Milk Trust in his post in a way that was abusive. The judge would likely rule in O'Connor's favor, if we assume the small business has no policy.

2. **If you were the judge in the Riley case, how would you rule? Explain your reasoning. (LO 7) (AACSB: Ethical understanding and reasoning)**

Connor Riley should have known better than to send such a tweet about a company that obviously would learn about her opinion of the job offered to her. Since it is not mentioned in the case, students do not know if prospective employees are informed about Cisco Systems policies related to use of social media. Further, it is obvious that Riley has not yet accepted the job, so technically she is not an employee and not subject to company policy. The judge would likely rule in Riley's favor, but she still would not be offered the job.

3. **What policies would you put in place as a business owner about employee comments on social media sites like Facebook and Twitter? Explain your policies based on the cases discussed here. (LO 7) (AACSB: Ethical understanding and reasoning)**

Employees should know that the company is monitoring their forms of communication, including Twitter. Having employees sign a consent form acknowledging that they have read and understand the company's monitoring policy might have lead Brendan O'Connor and Sunith Baheerathan to be more circumspect.

Cisco's vice president of human resources should communicate with the corporate attorney to review the incident and determine how to prevent this situation from happening in the future. For example, a statement about social media privacy could be included in the job offer letter provided to future employees.

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You Be the Consultant: "But Is It Safe?"

1. **How could the owners of Willow Springs have ensured the safety of their customers and prevented the infections from occurring? Explain. (LO 10) (AACSB: Ethical understanding and reasoning)**

It is possible that the owners of Willow Spring relied on the advice about risk management from their insurance company before the problem developed. Instead, they could have also been proactive and researched lake-related illnesses, and had the lake water tested on a regular basis.

2. **Would it have been ethical for Willow Springs to remain open after Kali's case came to light, even though there could never be definitive evidence linking the infection to its lake? Explain. (LO 10) (AACSB: Ethical understanding and reasoning)**

Students could argue this question from two perspectives. There had never been a documented problem since the park opened in 1928, and the previous case from 2010 had not been positively linked to Willows Springs. In addition, Willow Springs contributed to the community by providing jobs and economic development to the city where it is located. The cost to build a solid bottom is not a cost-effective solution to the problem. However, other students could argue that one person's life is not a fair trade-off for doing nothing.

3. **What do you think the owners of Willow Springs should do with their property? Should they reopen the water park if they can ensure that the water is safe for swimming? Explain. (LO 10) (AACSB: Ethical understanding and reasoning)**

Students could argue this question from two perspectives. Some may argue that the risk is too high unless the hard bottom is constructed in the lake. Others may argue that water testing should be conducted on a regular basis during the swimming season, and to close the park when the water temperature approaches 115 degrees.

4. **Create a detailed diagram of all the stakeholders of Willow Springs. How is each of the stakeholders affected by the water park's actions? What conclusions can you draw from this analysis? Explain. (LO 10) (AACSB: Ethical understanding and reasoning)**

Refer to Figure 2.1 for an example of a diagram to use in this exercise. Stakeholders include the owners, employees, vendors/suppliers, competitors, customers, other businesses that benefit from out of town visitors to the water park, government, unions, special interest groups, external investors, creditors, and the community as a whole. Each

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of these stakeholders will be affected to varying degrees, so allow students some latitude in their assertions. In fact some debate about the degree of impact on each type of stakeholder could lead to a healthy discussion. Steer the conversation to the ***triple bottom line*** (3BL), which involves measuring business performance using profitability, its commitment to ethics and social responsibility, and its impact on the environment (profit, people, planet).

Part 4: Chapter Discussion Questions

2-1. What is ethics? (LO 1) (AACSB: Ethical understanding and reasoning)

Ethics is a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation, and virtue.

2-2. Discuss the three levels of ethical standards. (LO 1) (AACSB: Ethical understanding and reasoning)

The three Levels of Ethical Standards (Refer to Figure 2.2)

- The law – defines what is permissible and what is not permissible.
- Organizational policies and procedures – specific guidelines for people as they make daily decisions.
- The moral stance – use when employees encounter a situation that is not governed by the law or organizational policies and procedures.

2-3. List the core personal values you intend to bring to your business (e.g., treating people fairly, giving something back to the community, and so on). (LO 1) (AACSB: Application of knowledge)

Students' responses may vary. Ideally, they will include all of the issues discussed in this chapter.

2-4. Where does each of your core values come from (e.g, religious faith, family, personal philosophy)? (LO 1) (AACSB: Reflective thinking)

Students' responses will vary. However this is a good question to stimulate them to think about where their values originated.

2-5. Why is each of your core values important to you? (LO 1) (AACSB: Reflective thinking)

Students' responses will vary. However this is a good question to stimulate them to think about where their values originated.

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2-6. In any organization, who determines ethical behavior? (LO 3) (AACSB: Ethical understanding and reasoning)

Ethics starts at the top of the organization by the leader.

2-7. Briefly describe the three ethical styles of management. (LO 1) (AACSB: Ethical understanding and reasoning)

Immoral Management – managers are motivated by selfish reasons, primarily greed.

Amoral Management – managers are motivated to earn a profit, and neglect to consider the impact their decisions have on others.

Moral Management –managers strive for success but only within the boundaries of legal and ethical standards.

2-8. What are the benefits of moral management? (LO 1) (AACSB: Ethical understanding and reasoning)

Avoid damage from unethical behavior on their reputation.

Dealing with stakeholders is easier when the firm has a solid ethical foundation.

It is easier to attract and retain quality employees.

Ethical behavior has a positive impact on a firm's bottom line.

Customers prefer to buy from an ethical company.

2-9. Describe the various methods for establishing ethical standards. (LO 3) (AACSB: Ethical understanding and reasoning)

Establishing Ethical Standards (Refer to Table 2.5)

- Utilitarian principle: choose the option that offers the greatest good for the greatest number of people.
- Kant's categorical imperative: act in such a way that the action taken under the circumstances could be a universal law or rule of behavior.
- Professional ethic: take only those actions that a disinterested panel of professional colleagues would view as proper.
- Golden rule: treat other people the way you would like them to treat you.
- Television test: would you feel comfortable explaining your actions to a national television audience?
- Family test: would you be comfortable explaining to your children, your spouse, and your parents why you took this action?

2-10. Which method for establishing ethical standards is most meaningful to you?

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(LO 3) (AACSB: Application of knowledge)

Students' responses will vary. However, this is a good question to stimulate them to think about what is most important to them.

2-11. Why is it the most meaningful method for establishing ethical standards? (LO 3) (AACSB: Reflective thinking)

Students' responses will vary. However, this is a good question to stimulate them to think about what is most important to them.

2-12. What can business owners do to maintain high ethical standards in their companies? (LO 3) (AACSB: Ethical understanding and reasoning)

- Set the tone. Ethics starts at the top of the organization by the leader.
- Create a ***company credo***, which is a statement that defines the values underlying the entire company and its ethical responsibilities to its stakeholders.
- Establish high standards of behavior.
- Involve employees in establishing ethical standards.
- Create a culture that emphasizes two-way communication.
- Develop a ***code of ethics***, which is a written statement of the standards of behavior and ethical principles a company expects from its employees.
- Enforce the code of ethics through policies.
- Recruit and promote ethical employees.
- Conduct ethics training.
- Reward ethical conduct.
- Separate related job duties.
- Perform periodic ethical audits

2-13. What is a social entrepreneur? (LO 4) (AACSB: Ethical understanding and reasoning)

Social entrepreneurship can be characterized by the following:

- Social entrepreneurs seek solutions for social problems that are met by neither the market nor the government.
- Creating social benefit rather than commercial success motivates social entrepreneurs.
- Social entrepreneurs tackle social problems by taking full advantage of natural

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market forces.

2-14. How do social entrepreneurs differ from traditional entrepreneurs? (LO 4) (AACSB: Ethical understanding and reasoning)

Traditional entrepreneurs seek opportunities to create market value, while social entrepreneurs start businesses so they can create innovative solutions to society's most vexing problems.

2-15. What are some social problems you think could be tackled by social entrepreneurs? (LO 4) (AACSB: Application of knowledge)

Students' answers will vary. Examples in this chapter include pollution, habitat destruction, human rights, AIDS, hunger, poverty, and others.

2-16. What is social responsibility? (LO 5) (AACSB: Ethical understanding and reasoning)

There is an expectation that business will produce benefits not only for themselves but also for society as a whole. Companies must go beyond "doing well" – simply earning a profit – to "doing good" – living up to their social responsibility.

2-17. Describe business's social responsibility to the environment. (LO 6) (AACSB: Ethical understanding and reasoning)

Companies have discovered that sound environmental practices make for good business. Examples include lowering operating costs, and producing environmentally safe products that attract environmentally conscious customers which give a company a competitive edge in the marketplace.

2-18. Describe business's social responsibility to employees. (LO 7) (AACSB: Ethical understanding and reasoning)

Entrepreneurs who understand the value of their employees follow a few simple procedures by doing the following:

- Listening to employees and respecting their opinions
- Asking for their input and involving them in the decision-making process
- Providing regular feedback – positive and negative – to employees
- Telling the truth — always
- Letting them know exactly what's expected of them
- Rewarding employees for performing their jobs well
- Trusting them; creating an environment of respect and teamwork

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2-19. Describe business's social responsibility to its customers. (LO 8) (AACSB: Ethical understanding and reasoning)

Right to Safety, Right to Know, and Right to Be Heard

2-20. Describe business's social responsibility to investors. (LO9) (AACSB: Ethical understanding and reasoning)

Although earning a profit is a company's first responsibility, it must also meet its ethical and social responsibility goals. A firm's reputation is important to investors as they invest more on the basis of the entrepreneur's track record than on the entrepreneur's idea. Companies also have the responsibility to report their financial performance in an accurate and timely fashion to their investors.

2-21. Describe business's social responsibility to the community. (LO 10) (AACSB: Ethical understanding and reasoning)

In addition to providing jobs and creating wealth, companies contribute to the local community in many different ways. Small companies can commit their employees' talent, not just dollars, to carefully chosen social causes and then tell the world. Examples include:

- Volunteer for community groups.
- Participate in projects that aid others
- Adopt a highway
- Volunteer in school programs

2-22. What can businesses do to improve the quality of our environment? (LO 6) (AACSB: Ethical understanding and reasoning)

Socially responsible business owners focus on the three Rs:

- Reduce the amount of energy and materials used.
- Reuse whatever you can.
- Recycle the materials that you must dispose of.

Progressive small firms are designed for "clean" manufacturing systems to avoid waste and pollution, and using resources efficiently.

2-23. Explain your stance on whether companies should be allowed to test employees for drugs. (LO 7) (AACSB: Application of knowledge)

Students' answers will vary. One point of view is that drug and alcohol abuse by employees results in reduced productivity, increased medical costs, higher accident rates, and higher levels of absenteeism. Another point of view is that this is a violation of personal privacy.

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2-24. How should a socially responsible drug-testing program operate? (LO 7) (AACSB: Ethical understanding and reasoning)

An effective, proactive drug program should include the following five elements:

1. Written substance abuse policy.
2. Training for supervisors to detect substance-abusing workers.
3. An employee education program.
4. A drug testing program.
5. An ***employee assistance program (EAP)***, which is a company-provided benefit designed to help reduce workplace problems such as alcoholism, drug addiction, a gambling habit, and other conflicts and to deal with them when they arise.

2-25. Many owners of trucking companies use electronic communications equipment to monitor their drivers on the road. They say the devices allow them to remain competitive and to serve their customers better by delivering shipments of vital materials exactly when their customers need them. They also point out that the equipment can improve road safety by ensuring that drivers get the hours of rest the law requires. Opponents argue that the surveillance devices work against safety. "The drivers know they're being watched," says one trucker. "There's an obvious temptation to push." What do you think about this practice? (LO 7) (AACSB: Application of knowledge)

Students' answers will vary. Some may agree with the view of the managers, while others will defend the statement of the driver.

2-26. What ethical issues do trucking companies create when they use electronic communications equipment to monitor their drivers on the road? (LO 7) (AACSB: Ethical understanding and reasoning)

Students' answers will vary.

2-27. How should a small trucking company considering the use of electronics communications equipment to monitor its drivers handle the ethical issues created by this practice? (LO 7) (AACSB: Ethical understanding and reasoning)

Students' answers will vary. This is a good question to use to get students thinking about a very practical issue.

2-28. What rights do customers have under the Consumer Bill of Rights? (LO 8) (AACSB: Ethical understanding and reasoning)

The Consumer Bill of Rights gives consumers the following rights:

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- Right to Safety
- Right to Know

2-29. How can businesses ensure consumers rights? (LO 8) (AACSB: Ethical understanding and reasoning)

In addition to the right to safety and right to know, the right to be heard suggests that the channels of communication between companies and their customers run in both directions. Socially responsible businesses provide customers with a mechanism for resolving complaints about products and service.

- Right to Education refers to educational material about their products and services and how to use them properly.
- Right to Choice refers to socially responsible companies that do not restrict competition, and willingness to abide by U.S. antitrust policy.

Part 5: Case Studies

The following text case may be used for lecture and assignments for topics presented in this chapter.

- Case 4: ThinkImpact

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Part 6: Online Videos and Podcasts

These online videos may enhance class discussion and provide additional insight for the chapter topics.

- Why Are Ethics Important (Stanford Entrepreneurship Lecture) 2:37 minutes
  http://www.youtube.com/watch?v=6mdcWVlHz7Q
- Ethical and Responsible Business 1:52 minutes
  http://www.youtube.com/watch?v=MDhpNBtnrKI
- Ethics in a Small Business 2:33 minutes
  http://www.youtube.com/watch?v=XLmXwPBuXVo
- The Power of Social Entrepreneurship 17:36 minutes
  http://www.youtube.com/watch?v=VZQvhsa6LN0
- How to Be a Social Entrepreneur 18:34 minutes
  http://www.youtube.com/watch?v=N8LVa9pb-n8
- Responsibility of Business to Conservation of Environment 8:51 minutes
  http://www.youtube.com/watch?v=yU1eQhopFnI
- Social Responsibility… Ben Greenfield, Ben & Jerry's 25:24 minutes
  http://www.youtube.com/watch?v=63Ooq4c3gCc
- How Innocent Used Ethics and Trust… Customer Engagement 28:25 minutes
  http://www.youtube.com/watch?v=hRLljQYTfL4

Links to additional online resources are available on the companion Web site at www.pearsonhighered.com/scarborough.

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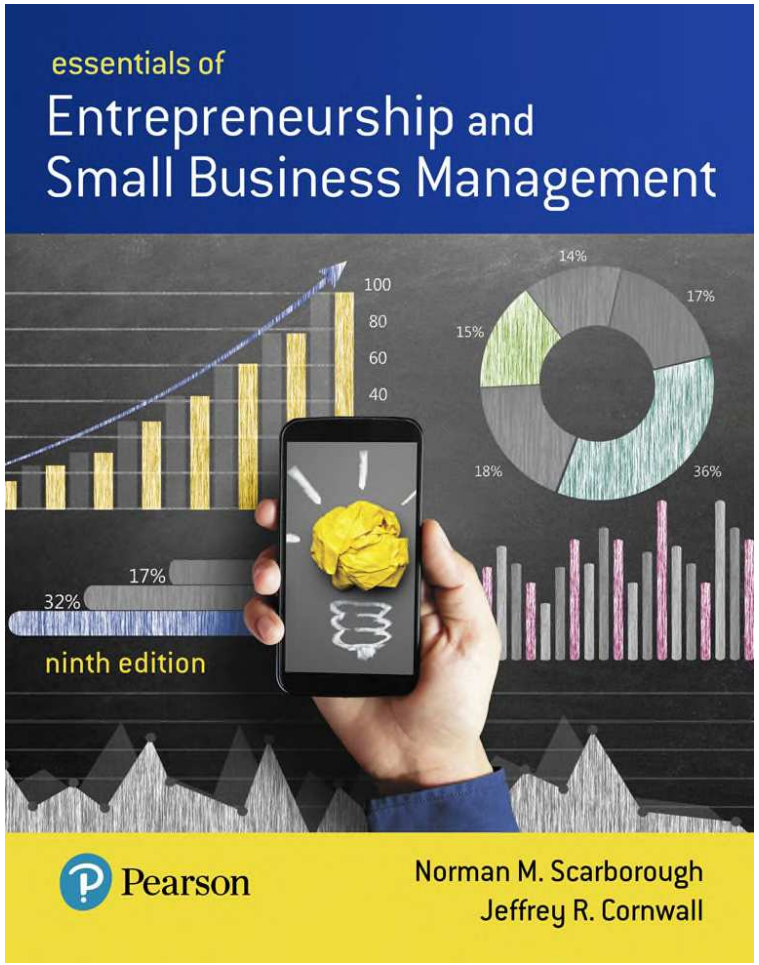
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Section 1:
The Challenge of Entrepreneurship

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Chapter 2

Ethics and Social Responsibility: Doing the Right Thing

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Learning Objectives (1 of 2)

1. Define business ethics and describe the three levels of ethical standards.
2. Determine who is responsible for ethical behavior and why ethical lapses occur.
3. Explain how to establish and maintain high ethical standards.



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Learning Objectives (2 of 2)

4. Explain the difference between social entrepreneurs and traditional entrepreneurs.
5. Define social responsibility.
6. Understand the nature of business's responsibility to the environment.
7. Describe business's responsibility to employees.
8. Discuss business's responsibility to customers.
9. Describe business's responsibility to investors.
10. Describe business's responsibility to the community.

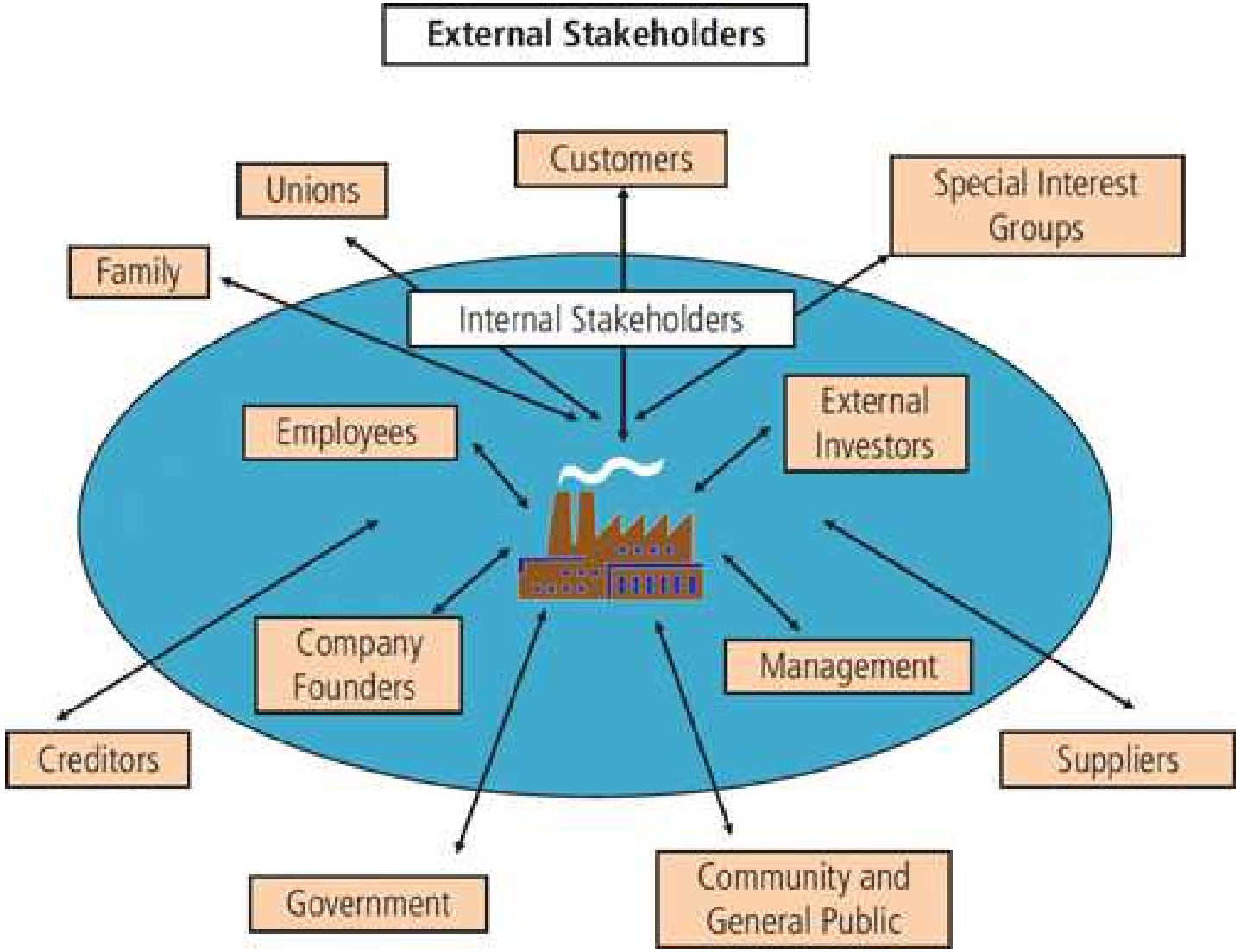
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Ethical Behavior

- Ethical behavior: doing what is “right” as opposed to what is “wrong.”
  - Reflects entrepreneur’s personal values and beliefs
- It is important to consider the perspectives of different **stakeholders**: the various groups and individuals who affect and are affected by a business.

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Figure 2.1 Key Stakeholders



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Ethics and Social Responsibility

- **Ethics:** a branch of philosophy that studies and creates theories about the basic nature of right and wrong, duty, obligation, and virtue.
- **Social responsibility:** how an organization responds to the needs of the many elements in society.

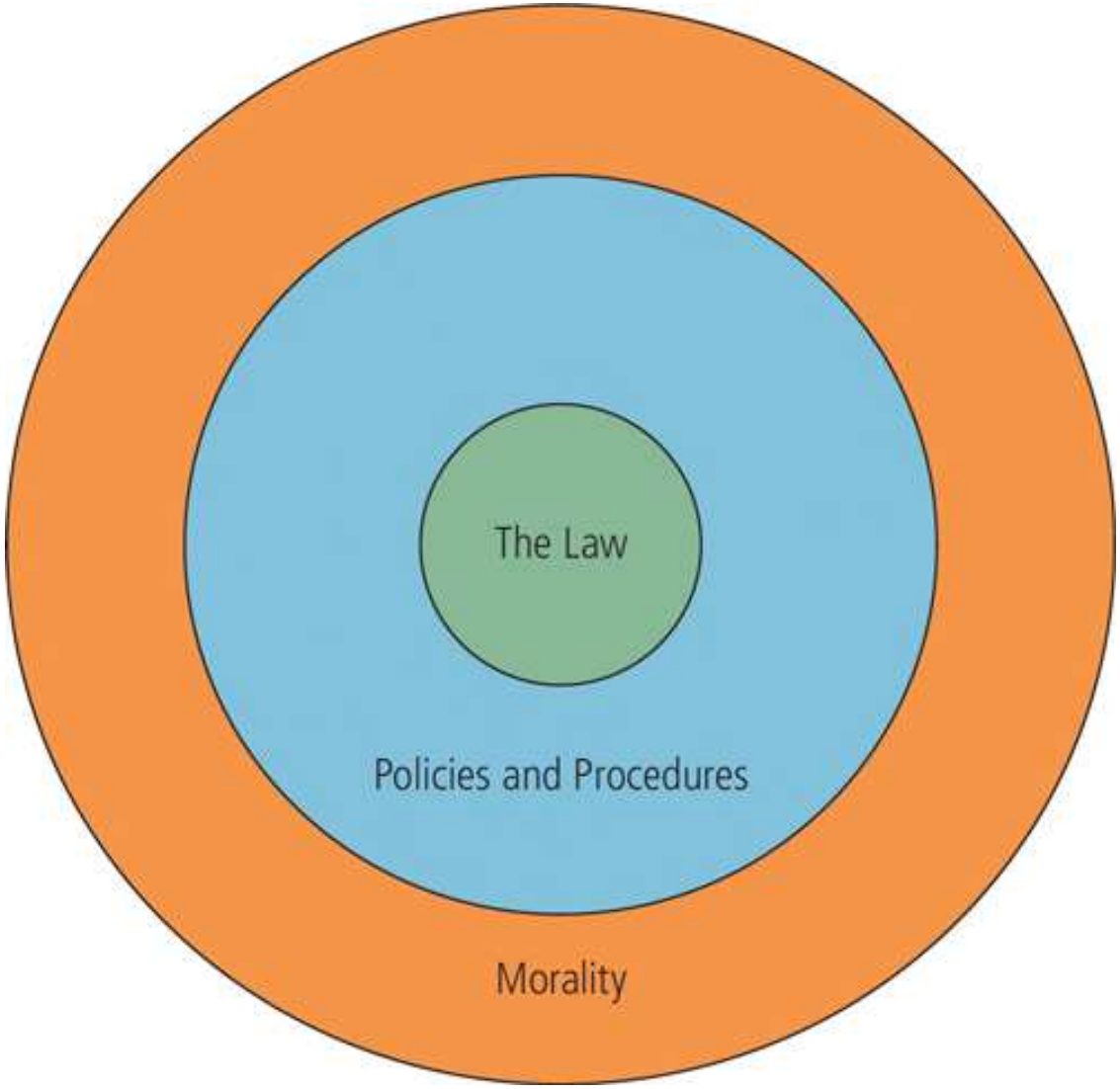
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Business Ethics

- **Business ethics:** the fundamental moral values and behavioral standards that form the foundation for the people of an organization as they make decisions and interact with stakeholders.

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Figure 2.2 Three Levels of Ethical Standards



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Moral Management (1 of 2)

Table 2.1 Approaches to Business Ethics

Organizational Characteristics	Immoral Management	Amoral Management	Moral Management
Ethical norms	Management decisions, actions, and behavior imply a positive and active opposition to what is moral (ethical). Decisions are discordant with accepted ethical principles. An active negation of what is moral is implicit.	Management is neither moral nor immoral; decisions are not based on moral judgments. Management activity is not related to any moral code. A lack of ethical perception and moral awareness may be implicit.	Management activity conforms to a standard of ethical, or right, behavior. Management activity conforms to accepted professional standards of conduct. Ethical leadership is commonplace.
Motives	Selfish. Management cares only about its or its company's gains.	Well-intentioned but selfish in the sense that impact on others is not considered.	Good. Management wants to succeed but only within the confines of sound ethical precepts such as fairness, justice, and due process.

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Moral Management (2 of 2)

[**Table 2.1** Continued]

Organizational Characteristics	Immoral Management	Amoral Management	Moral Management
Goals	Profitability and organizational success at any price.	Profitability. Other goals are not considered.	Profitability within the confines of legal obedience and ethical standards.
Orientation toward law	Legal standards are barriers that management must overcome to accomplish what it wants.	Law is the ethical guide, preferably the letter of the law. The central question is "What we can do legally?"	Obedience toward the letter and spirit of the law. Law is a minimal ethical behavior. Prefer to operate well above what law mandates.
Strategy	Exploit opportunities for corporate gain. Cut corners when it appears useful.	Give managers free rein. Personal ethics may apply but only if managers choose. Respond to legal mandates if caught and required to do so.	Live by sound ethical standards. Assume leadership position when ethical dilemmas arise. Enlightened self-interest.

Source: Archie B. Carroll, "In Search of the Moral Manager," reprinted from *Business Horizons*, March/April, Copyright 1987 by the Foundation for the School of Business at Indiana University. Used with permission.

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Benefits of Moral Management

1. Companies avoid the damaging fallout from unethical behavior on their reputation.
2. Dealing with stakeholders is much easier if a company has a solid ethical foundation on which to build.
3. It is easier to attract and retain quality workers.
4. It has a positive impact on a company's bottom line.
5. It has an impact on a company's ability to provide value for its customers.

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Why be Ethical? (1 of 2)

Top Five Reasons to Run a Business Ethically:

1. Protect brand and company reputation
2. It is the right thing to do
3. Maintain customers' trust and loyalty
4. Maintain investors' confidence
5. Earn public acceptance and recognition

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Why be Ethical? (2 of 2)

Top Five Factors That Drive Business Ethics:

1. Corporate scandals
2. Marketplace competition
3. Demands by investors
4. Pressure from customers
5. Globalization

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Establishing an Ethical Framework (1 of 2)

Step 1: Identify the personal moral and ethical principles that shape all business decisions.

Step 2: Recognize the ethical dimensions involved in the dilemma or decision.

Step 3: Identify the key stakeholders involved and determine how the decision will affect them.

- **Triple bottom line (3BL)**: measuring business performance using profitability, commitment to ethics and social responsibility, and its impact on the environment ("profit, people, and planet").

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Establishing an Ethical Framework (2 of 2)

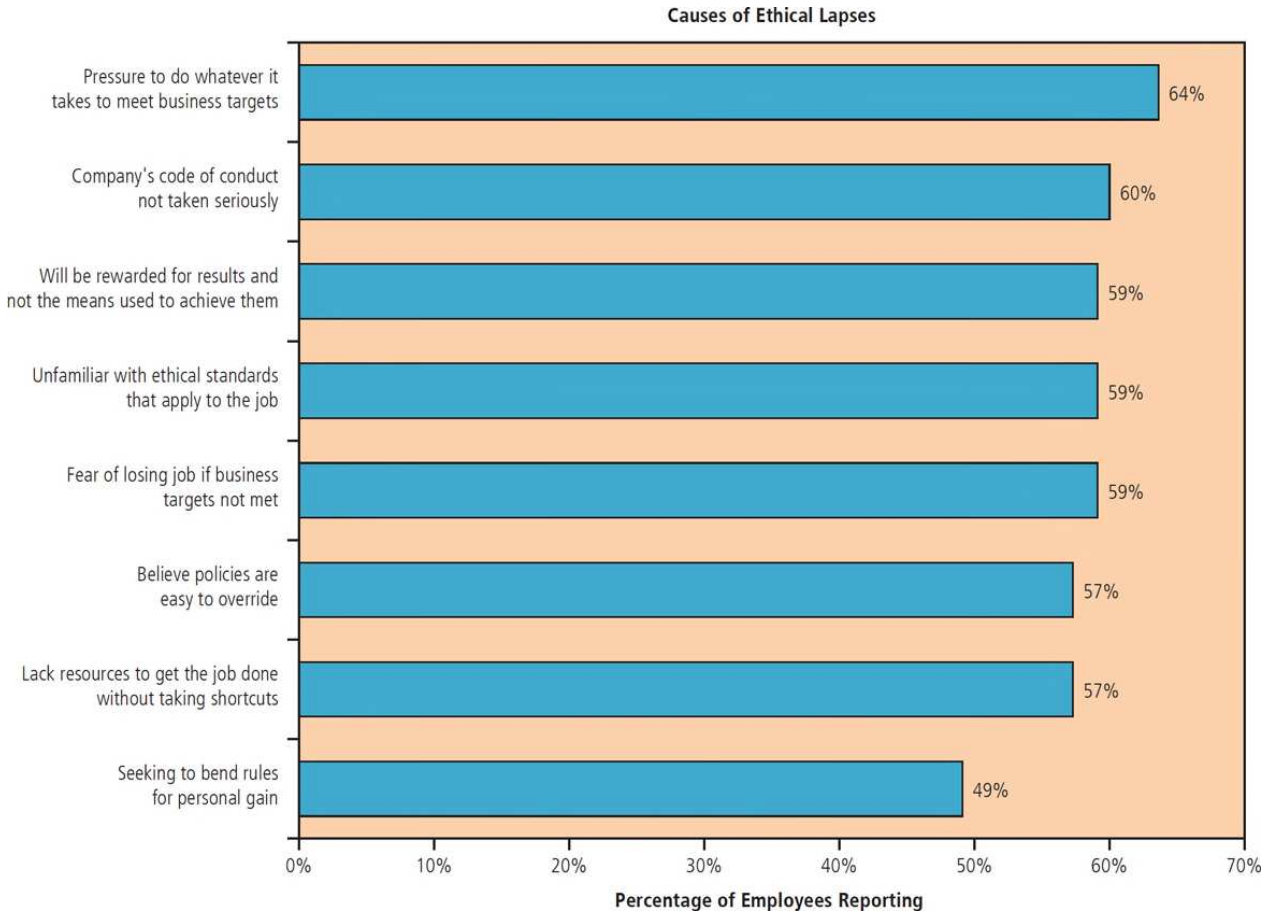
Step 4: Generate alternative choices and distinguish between ethical and unethical responses.

Step 5: Choose the "best" ethical response and implement it.

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Why Ethical Lapses Occur

Figure 2.3 Causes of Ethical Lapses



Source: Based on KPMG Integrity Survey 2013, p. 12.

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Causes of Ethical Lapses

- An unethical employee
- An unethical organizational culture
- Moral blindness
- Competitive pressures
- Opportunity pressures
- Globalization of business

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Features of Ethical Cultures (1 of 2)

1. Leaders support and model ethical behavior.
2. Consistent communications come from all company leaders.
3. Ethics is integrated into the organization's goals, business processes, and strategies.
4. Ethics is part of the performance management system.
5. Ethics is part of the company's selection criteria and selection process.

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Features of Ethical Cultures (2 of 2)

6. The needs of the various stakeholder are balanced when making decisions.
7. A strong set of core values supports the vision and mission of the company.
8. The company maintains a long-term perspective on all decisions.

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Establishing and Maintaining Ethical Standards

- Ethical tests for judging behavior:
  - The utilitarian principle
  - Kant's categorical imperative
  - The professional ethic
  - The Golden Rule
  - The television test
  - The family test

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Principles to Guide Ethical Behavior

- Honesty
- Integrity
- Promise-keeping
- Fidelity
- Fairness
- Caring for others
- Respect for others
- Responsible citizenship
- Pursuit of excellence
- Accountability

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Maintaining Ethical Standards (1 of 3)

- Set the tone.
- Create a **company credo**:
  - A statement that defines the values underlying the entire company and its ethical responsibilities to its stakeholders.
- Establish high standards of behavior.
- Involve employees in establishing ethical standards.
- Create a culture that emphasizes two-way communication.

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Maintaining Ethical Standards (2 of 3)

- Eliminate “undiscussables.”
- Develop a **code of ethics**:
  - A written statement of the standards of behavior and ethical principles a company expects from its employees.
- Enforce the code of ethics through policies.
- Recruit and promote ethical employees.
  - Ethical commitment.
  - Ethical consciousness.
  - Ethical competency.

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Maintaining Ethical Standards (3 of 3)

- Conduct ethics training.
- Reward ethical conduct.
- Separate related job duties.
- Perform periodic ethical audits.

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Social Entrepreneurship

- Social entrepreneurs:
  - Seek solutions for social problems that are met by neither the market nor the government.
  - Focus on creating social benefit rather than commercial success.
  - Tackle social problems by taking full advantage of natural market forces.

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Social Responsibility

- Companies must go beyond “doing well” – simply earning a profit – to “doing good” – living up to their social responsibility.
- Surveys show:
  - 55% of small businesses’ mission statements include references to achieving social goals.
  - 52% of small business owners give to charity.

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Why be Socially Responsible?

- Research shows:
  - 75% of consumers say social responsibility is important in their purchasing decisions.
  - There is a positive correlation between ethical, socially responsible behavior and profitability.
- But it can be difficult to define just what socially responsible behavior is!

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Being Socially Responsible

- Encourage recycling.
- Support local fundraisers.
- Join in community service.
- Reduce energy usage.
- Create a grant program.
- Support local causes.
- Partner with local school.

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Business's Responsibility to the Environment

- Socially responsible business owners focus on the **three Rs**:
  1. **Reduce** the amount of energy and materials used in your company.
  2. **Reuse** whatever you can.
  3. **Recycle** the materials you must dispose of.

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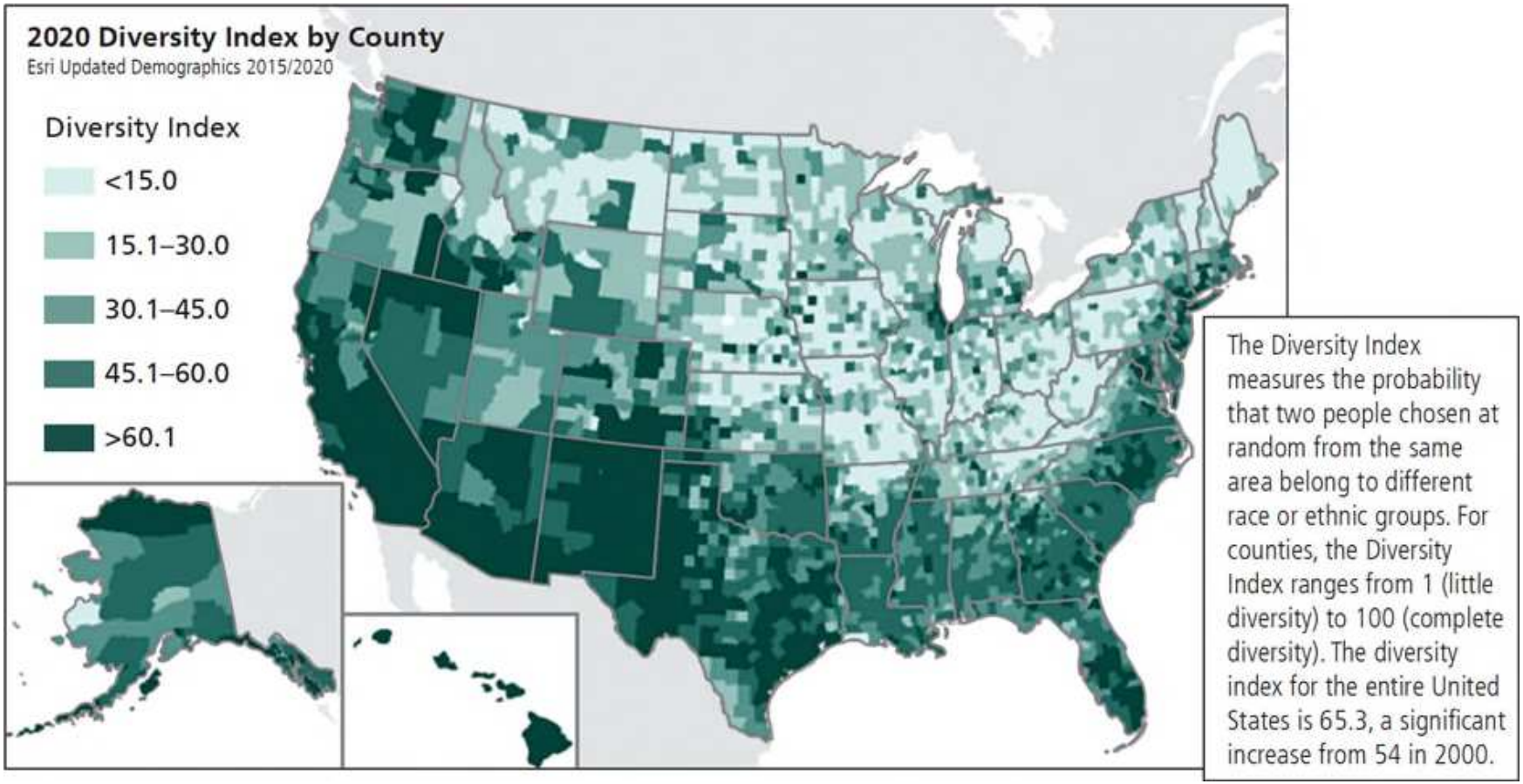
Business's Responsibility to Employees

- Recognize the value of employees:
  - Listen to them and respect their opinions.
  - Ask for their input and involve them in the decision-making process.
  - Provide regular feedback – positive and negative.
  - Tell them the truth – always.
  - Let them know exactly what's expected of them.
  - Reward them for performing their jobs well.
  - Trust them – create an environment of respect and teamwork.

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Cultural Diversity in the Workplace

Figure 2.4 Diversity Index by County

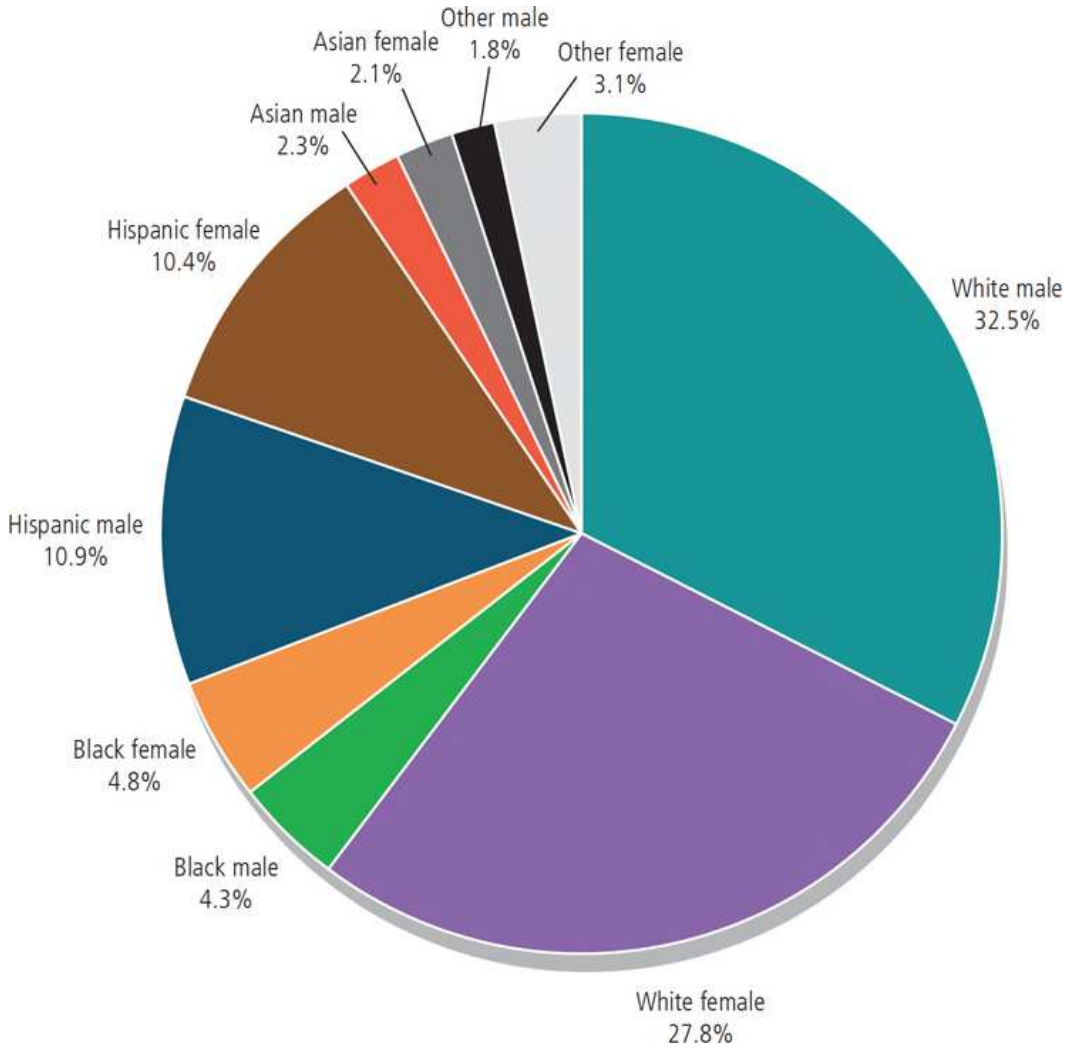


Source: Kyle Reese-Cassal, "2015/2020 Esri Diversity Index," Esri, March 2015, p. 4.

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Composition of the U.S. Workforce in 2020

Figure 2.5 Projected Composition of the U.S. Workforce in 2020



Source: Based on Mitra Toossi, "Labor Force Projections to 2024: A More Slowly Growing Workforce," *Monthly Labor Review*, January 2015, www.bls.gov/opub/mlr/2015/article/labor-force-projectionsto-2024.htm.

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Managing Diversity

- Use a “SPLENDID” approach:
  - Study
  - Plan
  - Lead
  - Encourage
  - Notice
  - Discussion
  - Inclusion
  - Dedication

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Managing a Culturally Diverse Workforce

- Business owners need to:
  - Assess diversity needs.
  - Learn to recognize and correct their own biases and stereotypes.
  - Avoid making invalid assumptions.
  - Push for diversity in their management teams.
  - Concentrate on communication.
  - Make diversity a core value in the organization.
  - Continue to adjust the company to their workers.

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Drug Testing

- An effective, proactive drug program should include:
  - A written substance abuse policy.
  - Training for supervisors to detect substance-abusing workers.
  - An employee education program.
  - A drug-testing program, when necessary.
  - An **employee assistance program (EAP)**:
    - A company-provided benefit designed to help reduce workplace problems such as alcoholism, drug addiction, a gambling habit, and other conflicts and to deal with them when they arise.

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Sexual Harassment

- **Sexual harassment**: any unwelcome sexual advance, request for sexual favors, and other verbal or physical sexual conduct made explicitly or implicitly as a condition of employment.
- Small businesses are especially vulnerable because they lack the policies, procedures, and training to prevent it.

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What is Sexual Harassment?

- Behaviors that can result in sexual harassment charges:
  - Quid pro quo harassment
  - Hostile environment
  - Harassment by nonemployees

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Preventing Sexual Harassment

- Education:
  - Training programs can raise awareness of what constitutes harassment.
- Policy:
  - Implement a meaningful and enforceable policy against harassment.
- Procedure:
  - Provide a channel for employees to express their complaints.

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Privacy

- Business owners should:
  - Establish a clear policy for monitoring employees' communications.
  - Create guidelines for the proper use of the company's communication technology and communicate them to everyone.
  - Monitor in moderation.

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Business's Responsibility to Customers

- Businesses should build long-term relationships with their customers.
- Abide by the Consumer Bill of Rights.
  - Right to safety.
  - Right to know.
  - Right to be heard.
  - Right to education.
  - Right to choice.

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Business's Responsibility to Investors

- Businesses have a responsibility to:
  - Provide investors with an attractive return on their investment.
  - Meet ethical and social goals.
  - Report their financial performance in an accurate and timely fashion to their investors.

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Business's Responsibility to the Community

- Businesses have a responsibility to:
  - Provide jobs and create wealth.
  - Contribute to the community in other ways.
    - Act as volunteers for community groups.
    - Participate in projects to help the elderly or poor.
    - Adopt a highway to promote a clean community.
    - Volunteer in school programs.

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Conclusion

- Businesses must do more than earn profit; they must act ethically and in a socially responsible way.
  - But, there is no universal definition of ethical behavior.
- Business owners need to commit to following the highest ethical standards if they expect their employees to do so.

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