

Entrepreneurial Management

Chapter 2

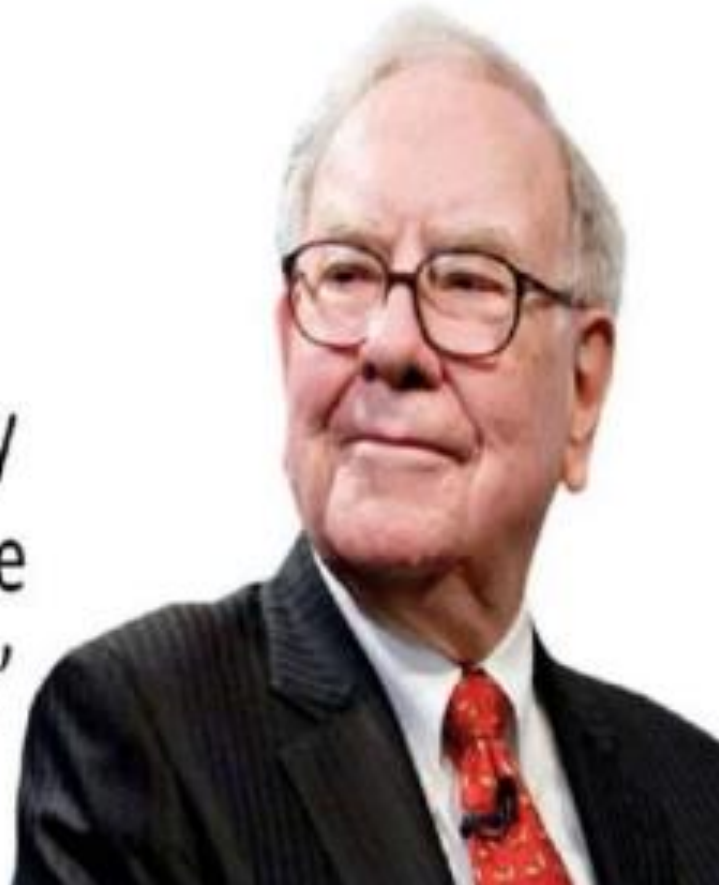
Integrity and Ethics: Foundation for Success in Small Business

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Integrity and Entrepreneurship

- **What Is Integrity?**
 - A general sense of honesty and reliability that is expressed in a strong commitment to doing the right thing, regardless of the circumstances.
 - ❖ Honesty, reliability, and fairness in business practices
 - ❖ An essential element of successful business relationships
 - ❖ Is as much about what to do as it is who to be.

“In looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if they don't have the first, the other two will kill you.”
- *Warren Buffett*



Source: <https://www.slideshare.net/bodhih2008/integrity-in-business>

Doing the Right Thing

- Ethical issues—questions of right and wrong
 - ❖ Legal and ethical considerations
 - ❖ Conflicts of self-interest

Why is integrity important in ethics?

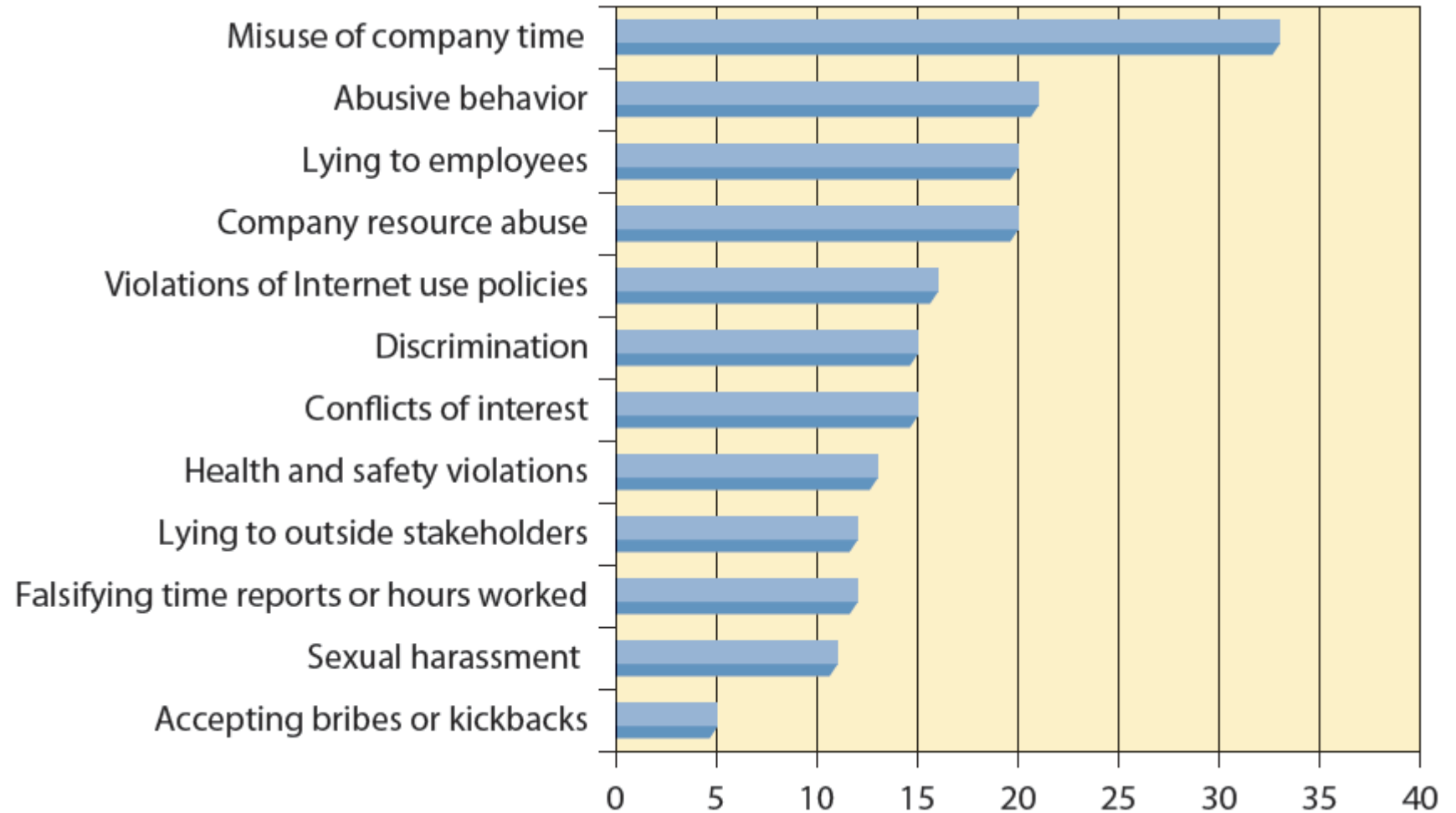
A person of integrity will consistently demonstrate good character by being free of corruption and hypocrisy. Integrity is revealed when people act virtuously regardless of circumstance or consequences. This often requires moral courage. Indeed, **integrity is the critical connection between ethics and moral action.**

- **Define social entrepreneurship and describe the influence the trend is having on small companies and startup opportunities.**



2.1

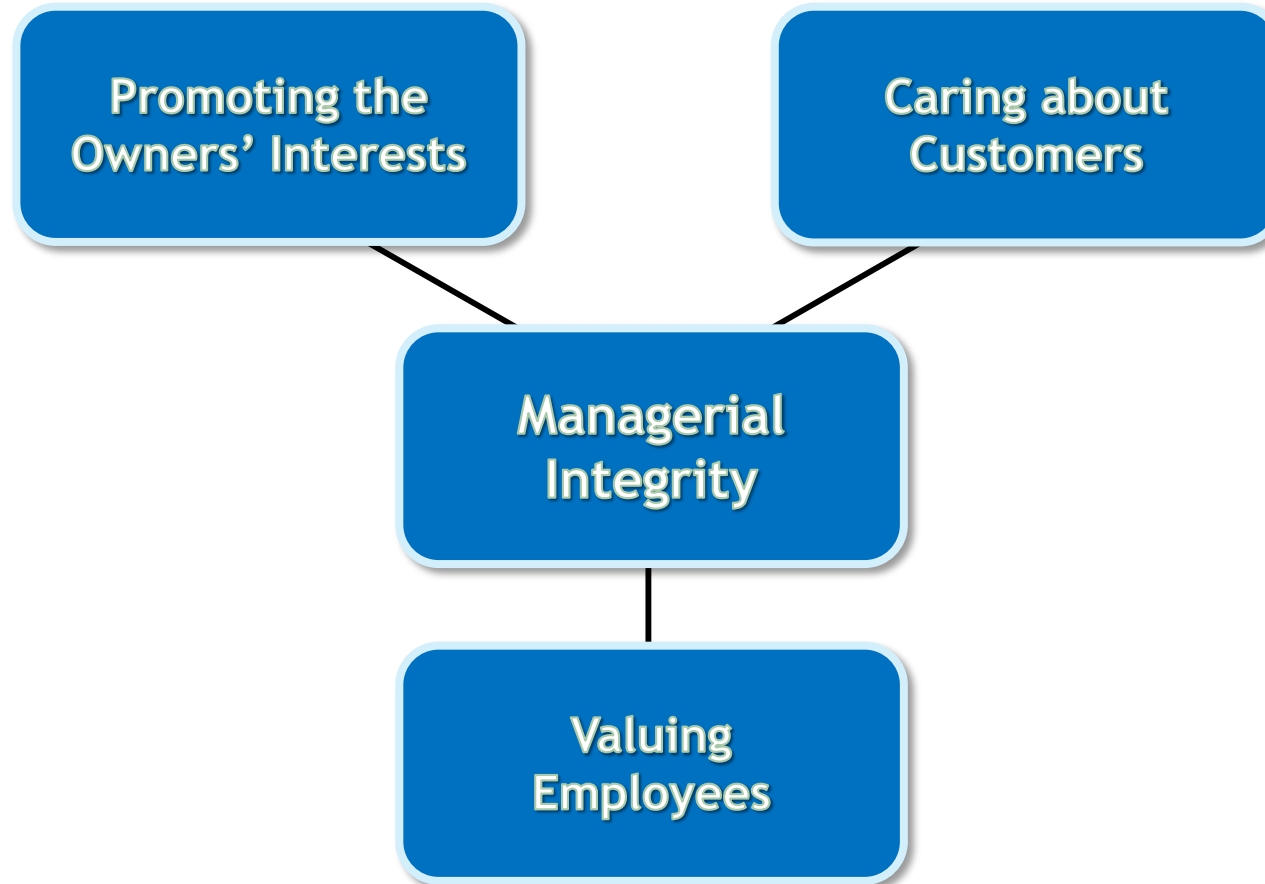
Frequently Observed Forms of Workplace Misconduct



2.2 Four Types of Responsibilities for Small Businesses

Type of Responsibility	Societal Expectation	General Focus
Economic	Required	Be profitable.
Legal	Required	Obey all laws, adhere to all regulations.
Ethical	Expected	Avoid questionable practices.
Discretionary	Desired/Expected	Be a good corporate citizen, and give back.

“Big Three” Primary Stakeholders— Owners, Customers, and Employees



Kinds of Ethical Issues

- **Ethical Issues in Business Operations**
 - Income and expense reporting (tax fraud)
 - “Truth in advertising”—persuasion and deception
 - Bribing customers and rigging bids
 - Direct selling—pyramid schemes, bait-and-switch selling
 - Effects of owners’ ethics on their employees
 - Accurately reporting financial information

Kinds of Ethical Issues (cont'd)

- Ethical Issues and Employees

- “To do an honest day’s work”
- Fraudulent workers’ compensation claims
- Theft of company property and embezzlement of funds
- Violation of personal ethics to make a sale

Social Responsibility and Small Business

- **Social Responsibility**
 - The firm's ethical obligations as a good citizen to its community.
 - ❖ Regarded as the price of freedom to operate in a free economic system.
 - ❖ Frequently takes the form of personal contributions, volunteerism and the contribution of services by the firm and its employees.

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Social Responsibility and Small Business



The Challenges and Benefits of Acting with Integrity

- **Small Companies and the Legitimacy Lie**
 - Limited resources tempt small firms to misrepresent facts and cut ethical corners if an issue affects profits.
 - PRO Levers: products, representatives, organization
- **The Integrity Edge**
 - Exhibiting integrity in business may actually boost a firm's performance.
 - Greatest benefit of integrity is the trust it generates.

Integrity and the Internet

- Integrity and the Online World
 - Risks of buying and selling on the Internet
 - Maintenance of personal privacy
 - ❖ “Cookies” to profile customers’ usage of the Web
 - ❖ Monitoring employees’ e-mail and Internet access.
 - Protection of intellectual property rights
 - ❖ Misappropriation of content providers’ original intellectual creations, including inventions, literary creations, and works of art, that are protected by patents or copyrights

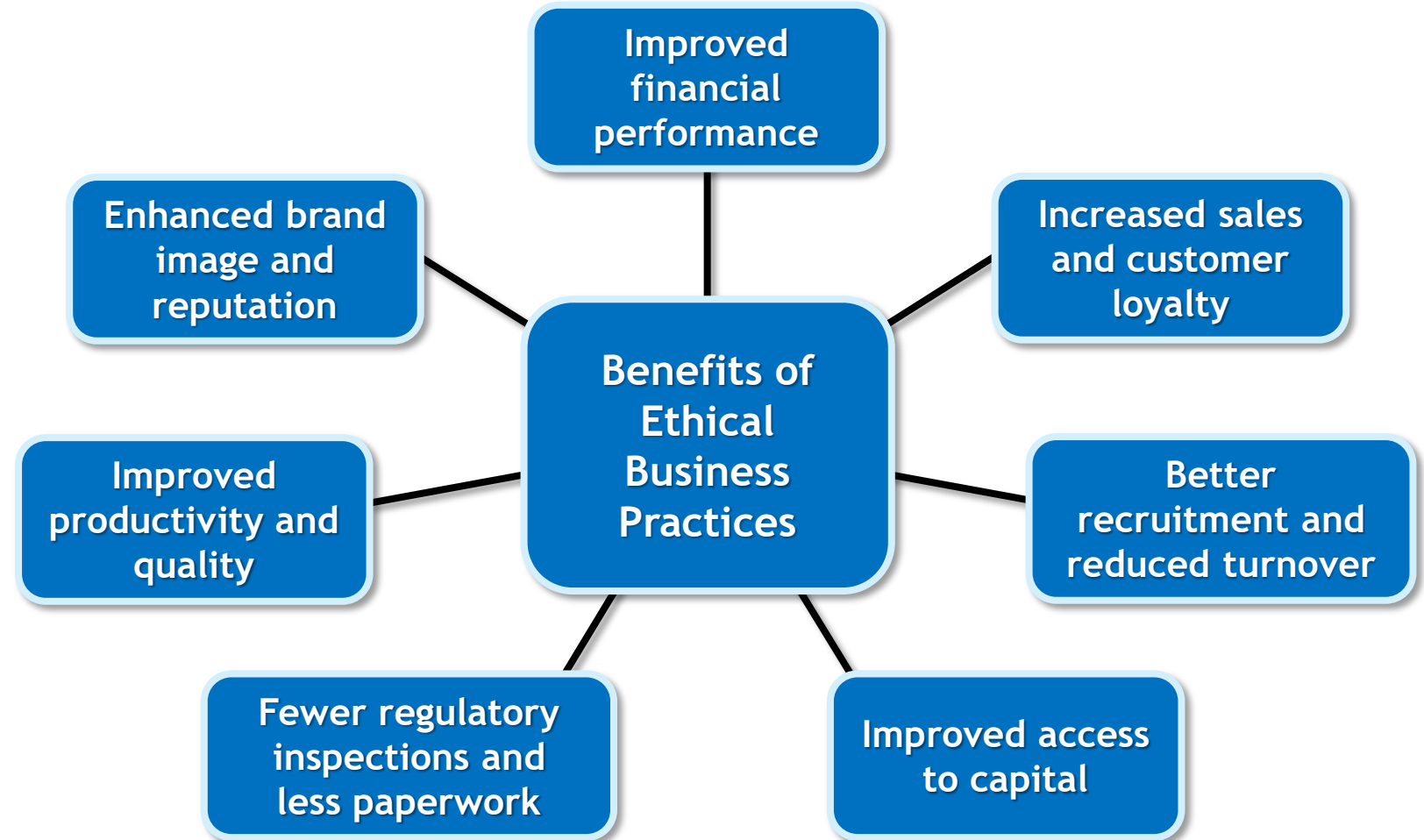
Integrity and Doing Business Abroad

- **Human Rights and the Abuse of Workers**
 - **Illegal immigrants and forced labor**
 - **Outsourcing into “cheap” labor markets**
 - **Bribery versus customary local business practices**
 - ❖ **Application of the U.S. Foreign Corrupt Practices Act**

Integrity and Doing Business Abroad

- **Ethical Imperialism**
 - The belief that the ethical standards of one's own country are superior and can be applied universally.
- **Ethical Relativism**
 - The belief that ethical standards are subject to local interpretation and application.

Trust and the Integrity Edge



Building a Business with Integrity

- The Foundations of Integrity

- Underlying values: unarticulated ethical beliefs that provide a foundation for ethical behavior in a firm.
 - ❖ Are based on personal views of the universe and mankind.
 - ❖ Strongly held views can lead to tough choices.
 - ❖ Ethics of the firm affect how outsiders view of the firm and their decisions about the firm.

Building a Business with Integrity (cont'd)

- **Leading with Integrity**
 - Owner/leaders and their ethics have more direct and pronounced effects in small firms.
 - Owner/leaders can insist that ethical principles be followed by employees.

Building a Business with Integrity (cont'd)

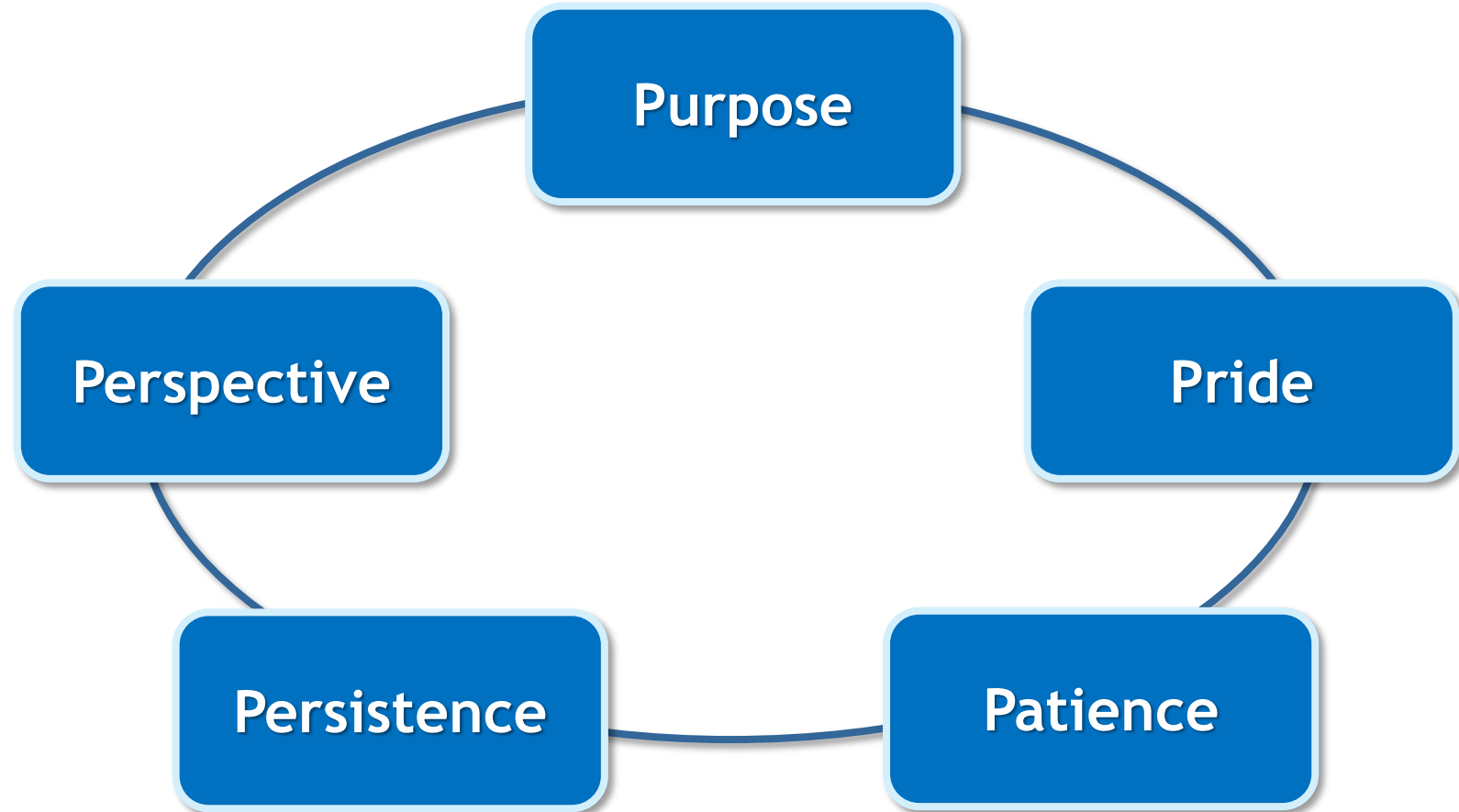
- **An Ethical Organizational Culture**
 - **Building an ethical culture requires:**
 - ❖ **Full commitment to ethical conduct by the firm**
 - ❖ **Strong, ethical managerial leadership**

Building a Business with Integrity (cont'd)

➤ Code of ethics

- ❖ Firm's official standards of employee behavior.
- ❖ The foundation for ethical conduct by employees
- ❖ Clarifies the rules and gives guidance to employees

Fundamental Principles for Ethical Policy Making



Benefits of a Code of Ethics

- A code of ethics affects conduct in an organization by:
 - Defining behavioral expectations
 - Communicating that those expectations apply to employees at all levels in the business
 - Helping employees convey the organization's standards of conduct to suppliers and customers
 - Serving as a tool for handling peer pressure
 - Providing a formal channel for communicating with superiors without fear of reprisal.

Better Business Bureaus (BBB)

- **A BBB encourages ethical practices by:**
 - Providing consumers with free information to help them make informed decisions when dealing with a company
 - Creating an incentive for businesses to adhere to proper business practices and earnestly address customer complaints
 - Resolving questions or disputes concerning purchases through mediation or arbitration.

The Ethical Decision-Making Process

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

Is This Decision Ethical?

- Questions to Ask:
 1. Is it the truth?
 2. Is it fair to all concerned?
 3. Will it build goodwill and better friendships?
 4. Will it be beneficial to all concerned?
- Follow the Golden Rule
 - “Treat others as you would want to be treated.”

Small Business and the Natural Environment

- Sustainable Small Business
 - A profitable company that responds to customers' needs while showing reasonable concern for the environment.
- Environmentalism
 - Is the effort to protect and preserve the environment.
 - Can result in regulations that adversely affect some small firms and create opportunities for others.
 - Promotes win-win eco-friendly business practices that reduce costs and save energy.

Green Opportunities for Small Business



Key Terms

- code of ethics
- environmentalism
- ethical imperialism
- ethical relativism
- integrity
- intellectual property
- social responsibilities
- stakeholders
- sustainable small business
- underlying values