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Small Business Ethics:
A Key to Long-Term Success

Source: Entrepreneurial Small Business, Katz & Green, 2e
McGraw-Hill/Irwin

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- Big business are **national**, but small businesses are **local**.
- Small business owner is **public face** of company
 - It is important that small business owners see their **decisions, personal reputation, and their business** as one thing.

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- **Ethics:** a system of values that people consider in determining whether actions are right or wrong
- **Ethical Dilemma:** a situation that occurs when a person's values are in conflict, making it unclear whether a decision is the right thing to do
- **Unethical** behavior in a small business leads to lower sales or even bankruptcy.

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Example

Ethics: It Isn't Just the Big Guys

- When Enron imploded, the subsequent wave of corporate scandals confirmed the cynical suspicion of unethical behavior
- Small Businesses, often overlooked, are not angels
 - Simple theft, one or two bad managers, hiring unqualified relatives can all lead to disaster

http://www.businessweek.com/jrnlsm/2003/03/20030325_3531.htm?chan=sb

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- **Trust:** a feeling of fairness in all business transactions in which the firm engages, such as financial matters regulatory compliance and complaint resolution
- **Personal Accountability:** a process in which people take responsibility for the decisions they make and the consequences of those decisions

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- **Organizational Culture:** a set of shared beliefs, basic assumptions, or common, accepted ways of dealing with problems and challenges within a company that demonstrates how things get done
- **Business start-up** is the best time for owners to communicate an ethical culture

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- When key people behave in a consistently ethical way, employees do, too.
 - Small business owners are **role models**.
- 4 Key Elements to an Ethical Culture
 - Modeling
 - Consistency
 - Visibility
 - Personal Values

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4 Key Elements to an Ethical Culture

1. **Modeling**: when small business owners act in ways they want their employees to act
2. **Consistency**: maintaining of the same behavior, attitude, or values over long periods of time

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4 Key Elements to an Ethical Culture

3. **Visibility**: demonstration of a behavior, attitude, or values in ways that are evident to others
4. **Personal Values**: attitudes regarding what a person believes is important in life and best way to live one's life
 - **Personal Ethics**: beliefs about what is right and wrong which guide decisions in everyday life

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- **Flexibility:** the freedom of not having lots of rules, policies, and procedures
 - “First time” situations: small business owners have to deal with these very frequently on start-up
- Small businesses need to be flexible as it grows and runs into **new situations**.
- Small businesses generally have **fewer resources** than larger corporations.

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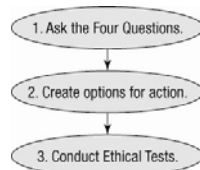
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- **Innovation:** the creation of something new or trying something for the first time
- Since small business often find a **niche of customers** that big business has forgotten, it's easy for that small business to become a target if it becomes successful.

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- **Ethics planning:** a process better used to consider issues of right and wrong



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- **Step One: The Four Questions**
 1. Who will be hurt, and how badly?
 2. Who will benefit, and how much?
 3. What do you owe others, if anything?
 4. What do others owe you, if anything?
- **Obligations:** social force which impels people to act ethically because their actions could affect many other people

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- **Step Two: Creating Options for Action**
 - **Distributive view:** an ethical overview which involves thinking of problem solving as a win-lose issue
 - Best interest for your business
 - Short-term view

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- **Step Two: Creating Options for Action**
 - **Integrative view:** an ethical overview which involves considering what is best for everyone involved in a situation
 - Best interests of everyone
 - Long-term view

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- **Process of Integrative View**
 1. Check for obvious solutions
 2. Check for creative solutions
 - Use <http://eweb.slu.edu> as a resource
 3. Fill in details
 4. Check for mismatches
 5. Apply the integrative view
 6. Make a new list, rank the options, and choose

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- **Step Three: The Ethical Tests**
 - Utilitarianism
 - Universalism
 - Golden Rule
 - Billboard Principle

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The Creation of Social Capital

- **Social capital:** characteristics of a business, like trust, consistency, and networks, that represent potential social obligations which are an asset of the firm or entrepreneur

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Two Ways to Build Social Capital

- Legitimacy: the belief that a firm is worthy of consideration or doing business with because of the impressions or opinions of customers, suppliers, investors, or competitors
 - 3 Forms of Legitimacy:
 1. Based on Your People
 2. Based on Your Product
 3. Based on Your Organization

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- Legitimacy Based on Your People:
 - Goodwill
 - Public recognition
 - Product/Service name recognition
 - Business Network Membership
 - Organizational Size
 - Attire

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- Legitimacy Based on Your Product:
 - Customer service
 - Quality standards
 - Certifications
 - Testimonials
 - Industry leadership
 - Media product/service visibility

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- **Legitimacy Based on Your Organization:**
 - History
 - Hours of operation
 - Days of operation
 - Legal form
 - Physical setting
 - Internet identity

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Two Ways to Build Social Capital (cont.):

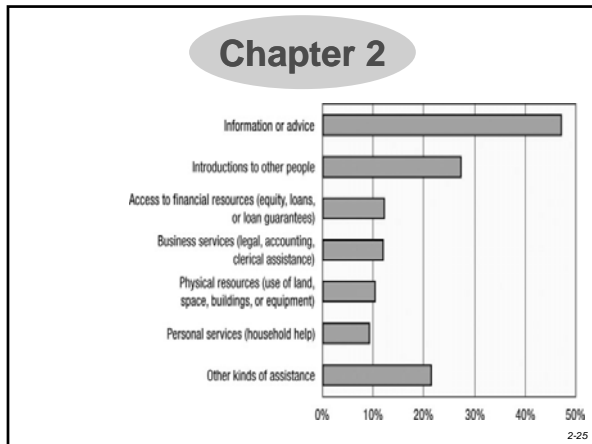
- **Social network:** the entrepreneur's set of relationships and contacts with individuals and institutions
 - The key is **building a network** of people who trust you and are willing to help you.

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- **Sources for network connections:**
 - Family
 - Bank
 - Customer contacts
 - Hobbies
 - Business associations
 - Other organizations
 - Small business support organizations

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- Handling a Crisis:**
1. Admit you're in trouble – quickly
 2. Get to the scene as soon as possible
 3. Communicate facts you know
 4. Have one person serve as the firm's spokesperson
 5. Separate crisis management from the everyday management of the firm
 6. Deal with the crisis quickly
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Summary

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