

3: THE ETHICAL AND SOCIAL RESPONSIBILITIES OF ENTREPRENEURS



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CHAPTER OVERVIEW

3: The Ethical and Social Responsibilities of Entrepreneurs

- 3.0: Prelude to the Ethical and Social Responsibilities of Entrepreneurs
- 3.1: Ethical and Legal Issues in Entrepreneurship
- 3.2: Corporate Social Responsibility and Social Entrepreneurship
- 3.3: Developing a Workplace Culture of Ethical Excellence and Accountability
- 3.4: Key Terms
- 3.5: Summary
- 3.6: Review Questions
- 3.7: Discussion Questions
- 3.8: Case Questions
- 3.9: Suggested Resources

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3.0: Prelude to the Ethical and Social Responsibilities of Entrepreneurs

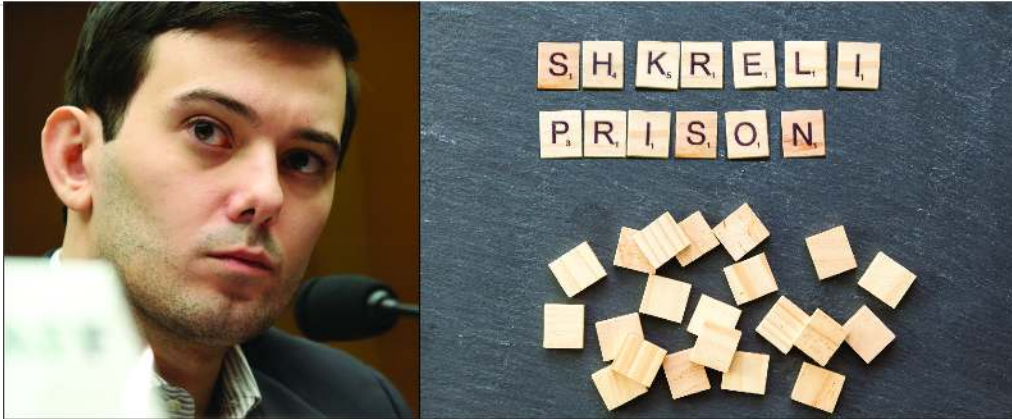


Figure 3.0.1: Photo of Martin Shkreli (left). Scrabble tiles spelling SHKRELI PRISON (right). (credit (left): modification of “Martin Shkreli 2016” by House Committee on Oversight and Government Reform/Wikimedia Commons, Public Domain; credit (right): modification of “Martin Shkreli sentenced to seven years in prison for defrauding investors” by Marco Verch/Flickr, CC BY 2.0)

Martin Shkreli, an aspiring pharmaceutical entrepreneur and former hedge fund manager, made headlines in 2015 when he capitalized on a profitable and controversial business opportunity. As the founder and CEO of Turing Pharmaceuticals, Shkreli obtained the expired patent for a lifesaving drug used to combat HIV. He raised the US market price overnight from \$13.50 to \$750 per pill—a 5,000 percent increase. When criticism by the medical community, the public, and politicians led to demands for a return to the original pricing, Shkreli defended his decision as a smart business practice that contributed to his firm’s bottom line. Eventually, he agreed to reverse the price but later reneged on his promise, offering instead to provide discounted pricing to hospitals.

The damage to Shkreli’s reputation, however, was already complete. The BBC described him as the “most-hated” CEO in America due to his business decisions, obnoxious behavior, and negative social media rants.¹ Infectious disease specialists and patient advocates rejected Shkreli’s argument that his “price adjustment strategy” was helpful for patients since those being treated would need the drug long after being released from the hospital. Although the pricing strategy was not illegal, Shkreli was eventually investigated and found guilty of securities fraud that involved falsely raising money from hedge fund investors and stealing money from his drug company to repay investors.²

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3.1: Ethical and Legal Issues in Entrepreneurship

Learning Objectives

By the end of this section, you will be able to:

- Develop the ability to identify ethical and legal issues
- Develop an approach to resolve ethical/legal dilemmas once identified

What does it mean to be both ethical and socially responsible as an entrepreneur? When Martin Shkreli decided to increase the price overnight of a lifesaving HIV drug from \$13.50 to \$750 per pill, the public immediately characterized his actions as unethical. However, he viewed his position as responsible behavior that served the best interests of his company and his shareholders. Although Shkreli's decision to raise prices was within legal limits, his actions were critically judged in the court of public opinion.

As an entrepreneur, should Shkreli's concerns be with ensuring the sustainability of his business or with providing patients with a more affordable (less profitable) lifesaving drug? This fundamental question raises a number of related questions about the ethics of the situation. Was the decision to raise the price of the HIV drug by 5,000 percent in the best interest of the business? Was Shkreli aware of all aspects (ethical, legal, financial, reputational, and political) of the decision he made? To critically examine the decisions of an individual such as Shkreli, one needs an enhanced awareness of the multitude of stakeholders to be considered, as opposed to only shareholders.

Stakeholders

A comprehensive view of business and entrepreneurial ethics requires an understanding of the difference between shareholders, a small group who are the owners (or stockholders), and stakeholders, a large group that includes all those people and organizations with a vested interest in the business. Serving the needs of the shareholders, as perhaps Shkreli thought he was doing, is based on a limited view of organizational purpose. This view, known as the "shareholder primacy" doctrine, stems from a famous Michigan Supreme Court case involving the Ford Motor Company and two shareholders named the Dodge brothers (who would go on to form the Dodge Motor Company).³ This case established a precedent that lasted for decades, built on the premise that the only thing that should matter to a CEO and their company is shareholder profits. However, this concept has gradually been replaced by a more progressive viewpoint, mandating the consideration of all stakeholders when making key business decisions that have potentially far-reaching consequences. As an example of this new awareness, the Business Roundtable, a group of CEOs from the biggest and most successful companies in the US, recently released a new statement addressing business ethics. The CEOs prefaced this statement saying, "Together with partners in the public, private and non-profit sectors, Business Roundtable CEOs are committed to driving solutions that make a meaningful difference for workers, families, communities and businesses of all sizes."⁴

WORK IT OUT

Business Roundtable Official Statement on the Purpose of a Corporation⁵

Read the following statement on the purpose of a corporation from *Business Roundtable*: "“Americans deserve an economy that allows each person to succeed through hard work and creativity and to lead a life of meaning and dignity. We believe the free-market system is the best means of generating good jobs, a strong and sustainable economy, innovation, a healthy environment and economic opportunity for all.” “Businesses play a vital role in the economy by creating jobs, fostering innovation and providing essential goods and services. Businesses make and sell consumer products; manufacture equipment and vehicles; support the national defense; grow and produce food; provide healthcare; generate and deliver energy; and offer financial, communications and other services that underpin economic growth.” “While each of our individual companies serves its own corporate purpose, we share a fundamental commitment to all of our stakeholders. We commit to:”

- Delivering value to our customers. We will further the tradition of American companies leading the way in meeting or exceeding customer expectations.
- Investing in our employees. This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect.

- Dealing fairly and ethically with our suppliers. We are dedicated to serving as good partners to the other companies, large and small, that help us meet our missions.
- Supporting the communities in which we work. We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses.
- Generating long-term value for shareholders, who provide the capital that allows companies to invest, grow and innovate. We are committed to transparency and effective engagement with shareholders.

“Each of our stakeholders is essential. We commit to deliver value to all of them, for the future success of our companies, our communities and our country.”

- Question: Does it appear that Shkreli, in the preceding pharmaceutical example, considered all the stakeholders as the Business Roundtable Statement recommends, or did he follow the older shareholder primacy doctrine approach?

The aim of this chapter is twofold: first, to assist entrepreneurs in understanding the significance of ethics and the role that entrepreneurs play in developing an ethical and responsible organization. This includes the ability to recognize and identify both ethical dilemmas and legal issues that might arise. Second, we want to enable entrepreneurs to develop a moral compass that allows them to lead their business organization in a manner consistent with ethical and legal principles. An example of an ethical business organization is one that follows the Statement of Purpose by the *Business Roundtable*. This means creating a business environment in which each member of the organization is encouraged, enabled, and supported to develop the ethical capabilities to habitually and systematically differentiate between right or wrong. This also means that the organization, as a total system, provides consistent, meaningful, and timely consequences for unethical behavior and irresponsible actions.

LINK TO LEARNING

Read this article from *Forbes* to see [a list of companies recently deemed the most ethical](#) in the world.

Being an Ethical Entrepreneur

Whenever you think about the behavior you expect of yourself, in both your professional and personal life, you are engaging in a philosophical dialogue with yourself to establish the standards of behavior you choose to uphold—that is, your **ethics**. You may decide you should always tell the truth to family, friends, customers, clients, and stakeholders, and if that is not possible, you should have very good reasons why you cannot. You may also choose never to defraud or mislead your business partners. You may decide, as well, that while you are pursuing profit in your business, you will not require that all the money earned comes your way. Instead, there might be sufficient profits to distribute a portion of them to other stakeholders in addition to yourself—for example, those who are important because they have helped you or are affected one way or another by your business. This group of stakeholders might include employees (profit sharing), shareholders (dividends), the local community (time), and social causes or charities (donations).

Being successful as an entrepreneur may therefore consist of much more than simply making money and growing a venture. Success may also mean treating employees, customers, and the community at large with honesty and respect. Success may come from the sense of pride felt when engaging in honest transactions—not just because the law demands it, but because we demand it of ourselves. Success may lie in knowing the profit we make does not come from shortchanging others. Thus, **business ethics** guides the conduct by which entrepreneurs and their companies abide by the law and respect the rights of their stakeholders, particularly their customers, clients, employees, and the surrounding community and environment.

LINK TO LEARNING

Read the [Ten Principles of the United Nations Global Compact](#) that urges corporations to develop a “principled approach to doing business.” The principles cover human rights, labor, the environment, and corruption.

Nearly all systems of moral, ethical, spiritual, and/or religious beliefs stress the building blocks of engaging others with respect, empathy, and honesty. These foundational beliefs, in turn, prepare us for the codes of ethical behavior that serve as ideal guides for business. Still, we need not subscribe to any particular faith to hold that ethical behavior in business is necessary. Just by virtue of being human, we all share obligations to one another, and principal among these is the requirement that we treat others with fairness and dignity, including in our commercial transactions.

For this reason, we use the words *ethics* and *morals* interchangeably in our discussion. We hold that “an ethical person” conveys the same sense as “a moral person.” Ethical conduct by entrepreneurs/business owners is not only the right way to behave, but it also burnishes our own professional reputation as business leaders of integrity.

Integrity—that is, unity between what we say and what we do—is a highly valued trait. But it is more than just consistency of character. Acting with **integrity** means we adhere strongly to a system of ethical values. Such values often serve as the foundation for the creation of ethical codes, or codes of conduct. A code of ethics acts to guide conduct and may be derived from a variety of sources. It could be a personal, internal code of conduct, or an official code adopted by a business organization. Or it could be an external code based on one’s profession (e.g., CPAs, attorneys, CFPs, and others have professional codes of ethics), or a more broadly applicable external code such as that of the Business Roundtable or Business for Social Responsibility. Being a professional of integrity means consistently striving to be the best person and professional that you can be in all your interactions with others. Integrity in business brings many advantages, not the least of which is that it is a critical factor in allowing businesses and society to function properly. It is also a fundamental basis for developing and maintaining trust, which is vital to all contractual and informal commitments between businesses and all their key stakeholders.

Successful entrepreneurs and the companies they represent will take pride in their enterprise if they engage in business with transparency, intentionality, and integrity. To treat customers, clients, employees, and all those affected by a venture with dignity and respect is ethical. In addition, ethical business practices serve the long-term interests of businesses because customers, clients, employees, and society at large will be much more willing to patronize a business and work hard on the business’s behalf if that business is perceived as caring about the community it serves. And what type of firm has long-term customers and employees? One whose track record gives evidence of honest business practices.

Research on the performance of the World’s Most Ethical Companies (WMEC) indicates a positive association between ethical conduct and successful long-term financial performance. These businesses often outperform their market expectations, both in periods of market growth and decline. The WMEC list of companies shows an average annual excess return of more than 8 percent higher than expected profitability. This may be due to a variety of reasons, including what researchers term a positive effect on business culture, stakeholders, and reputation.⁶ In other words, being ethical beneficially influences employees, investors, and customers.

ARE YOU READY?

Which Corporate Culture Do You Value?

Imagine that upon graduation, you have the good fortune to face two entrepreneurial opportunities. The first is with a startup known to value a hard-nosed, no-nonsense business culture in which keeping long hours and working intensely are highly valued. At the end of each year, the company plans to donate to numerous social and environmental causes. The second entrepreneurial opportunity is with a nonprofit recognized for a very different culture based on its compassionate approach to employee work-life balance. It also offers the chance to pursue your own professional interests or volunteerism during a portion of every workday. The earnings plan with the first opportunity pays 20 percent more per year.

- Which of these opportunities would you pursue and why?
- In what ways might company contributions to a cause carry more power to impact the cause? In what ways might individual contributions be more powerful? Think of examples for each scenario.
- How important an attribute is income, and at what point would a higher income override for you the nonmonetary benefits of the lower-compensated opportunity?

Many people confuse ethical and legal compliance. However, these concepts are not interchangeable and call for different standards of behavior. The law is needed to establish and maintain a functioning society. Without it, our society would be in chaos. Compliance with legal standards is mandatory. If we violate these standards, we are subject to punishment as established by the law. Therefore, compliance generally refers to the extent to which a company conducts its business operations in accordance with applicable regulations, statutes, and laws. Yet this represents only a baseline minimum. Ethical observance builds on this baseline and reveals the principles of an individual business leader or a specific organization. Ethical acts are generally considered voluntary and personal—often based on our individual perception of what is right and wrong.

Some professions, such as medicine and the law, have traditional and established codes of ethics. The Hippocratic Oath, for example, is embraced by most professionals in healthcare today as an appropriate standard always owed to patients by physicians,

nurses, and others in the field. This obligation traces its lineage to ancient Greece and the physician Hippocrates. Businesses are different in not having a mutually shared standard of ethics. This is changing, however, as evidenced by the array of codes of conduct and mission statements many companies have adopted over the past century. These beliefs have many points in common, and their shared content may eventually produce a code universally claimed by business practitioners. What central point might constitute such a code? Essentially, a commitment to treat with honesty and integrity customers, clients, employees, and others affiliated with a business.

The law is typically indebted to tradition and precedent, and compelling reasons are needed to support any change. Ethical reasoning often is more topical and reflects the changes in consciousness that individuals and society undergo. Often, ethical thought precedes and sets the stage for changes in the law.

Behaving ethically requires that we meet the mandatory standards of the law, but that is not enough. For example, an action may be legal that we personally consider unacceptable (consider how many viewed Shkreli's legal price hike). Entrepreneurs today need to focus not only on complying with the letter of the law but also on going above and beyond that basic mandatory requirement to consider their stakeholders and do what is right.

WORK IT OUT

The Equifax Data Breach

In 2017, from mid-May to July, hackers gained unauthorized access to servers used by Equifax, a major credit reporting agency, and accessed the personal information of nearly one-half of the US population.⁷ Equifax executives sold off nearly \$2 million of company stock they owned after finding out about the hack in late July, weeks before it was publicly announced on September 7, 2017, in potential violation of insider trading rules. The company's shares fell nearly 14 percent after the announcement, but few expect Equifax managers to be held liable for their mistakes, face any regulatory discipline, or pay any penalties for profiting from their actions. To make amends to customers and clients in the aftermath of the hack, the company offered free credit monitoring and identity-theft protection. On September 15, 2017, the company's chief information officer and chief of security retired. On September 26, 2017, the CEO resigned, days before he was to testify before Congress about the breach. Numerous government investigations and hundreds of private lawsuits have been filed as a result of the hack. Equifax will pay at least \$650 million, with the possibility of more, to resolve most claims stemming from the data breach. The settlement covers 147 million consumers, just under one-half of the population of the United States.⁸

- Which elements of this case might involve issues of legal compliance? Which elements illustrate acting legally but not ethically? What would acting ethically and with personal integrity in this situation look like?

To return to the case of Martin Shkreli, let's examine it through some foundational theoretical lenses, based on ethical theories. Normative theories of ethics are primarily concerned with establishing standards or criteria that delineate what is considered ethical behavior. Common examples of normative ethical theories are utilitarianism, duty-based ethics (also known as Kantian ethics and/or deontology), and virtue ethics. These ethical theories, discussed in the following paragraph, provide a systematic means of examining and evaluating business conduct.

From an ethical theory perspective, Kantian or duty-based ethics emphasizes the underlying intent or reason behind a decision and whether that decision is good or bad. For example, if the decision to raise the price of a lifesaving drug by 5,000 percent is moral and if it is intended to add value, then an individual is obligated to raise the price. *Utilitarian ethics* focuses on the usefulness or utility of the decision. If the decision to raise the price adds value and usefulness for shareholders, then that decision should be made. The *Protestant work ethic* looks at the decision from the viewpoint of capitalism, free markets, and a sense of duty to ensure maximum return on investment. If the decision deals with a change that is financially sound and beneficial, if there are an adequate number of customers that need and value the HIV product and are willing to pay that price, then that decision should be made. Proponents of *virtue ethics* claim that ethics consists of a series of innate but latent virtues that an individual needs to develop over time. These virtues consist of trust and derivatives of trust such as truthfulness. In this perspective, if the price hike is fair and equitable, if it is responsible to behave in this way, and if it does not cause harm to the society, then the price should be raised.

While it remains with the courts to determine the underlying intent, legal implications, and consequences of Shkreli's decision, evidence from this and other case studies shows that some corporate leaders have not developed ethical capabilities, or they have not internalized a moral compass that enables them to differentiate between right and wrong.

Developing a Moral Compass

A moral compass is a state of mind where an individual has developed the needed capabilities to differentiate between right and wrong, or between just and unjust in challenging circumstances. When individuals are able to act in an ethical manner systematically, habitually, and without struggling to decide how to act or what to do in difficult situations, they have internalized that moral compass. It can be said that these individuals possess a good character, are able to earn trust, and have qualities that are deemed necessary for leadership.

To develop and internalize a moral compass, an entrepreneur and the members of the organization need to continually exercise and develop their ethical “muscles.” These ethics-based muscles include qualities such as trust, truthfulness, respect, responsibility, commitment, care, love, and justice. However, as you will learn, an entrepreneur needs to first provide the organizational framework and foundation in which individuals and business units regularly exercise these qualities. This framework and foundation include that everyone receive the right training, be given the opportunity to identify and close gaps in their behavior, receive recognition and incentives that reinforce good ethical behavior, and receive consistent, timely, and substantial consequences when they fail to act responsibly. These and other actions begin to help individuals develop and internalize an ethical compass.

LINK TO LEARNING

A white-collar criminal convicted of fraud, this interview with Mark Faris shows his admission that greed, arrogance, and ambition were motivating factors in his actions. He also discusses the human ability to rationalize our behavior to justify it to ourselves. Note his proposed solutions: practicing ethical leadership and developing awareness at an individual level via corporate training.

Legal Issues in Entrepreneurship

Unlike working in a large corporate environment with an established structure, entrepreneurs often create and operate a new business venture by their own rules. The pressure to create a new venture, within constraints and limitations, inspires entrepreneurs to find innovative ways to meet potential market demands. At the same time, the challenge to meet these expectations can create temptations and ethical pressures as entrepreneurs make a variety of decisions. Common areas rife with potential legal issues include contracts, torts, employment, intellectual property, conflicts of interest, full disclosure/truthfulness in product or service claims and performance, and antitrust/competition law (Figure 3.2).



Figure
3.1.1

: There are many legal issues facing entrepreneurs, including intellectual property, contracts, antitrust laws, fraud, employment, and torts. (CC BY 4.0; Rice University & OpenStax)

Intellectual Property: Patents, Copyrights, and Trademarks

There are multiple reasons why an entrepreneur should be aware of intellectual property rights under the law. For example, if a new startup business comes up with a unique invention, it is important to protect that intellectual property. Without such protection, any competitor can legally, even if not ethically, copy the invention, put their own name or company brand on it, and sell it as if it were

their own. That would severely curtail the entrepreneur’s ability to make money off a product that s/he invented. Intellectual property (IP) rights are created by federal law and protect small businesses from problems such as this. IP law also helps establish brand awareness and secure secondary revenue streams.

Intellectual property (IP) is the output or result of the creative work of one or more individuals to turn a unique idea into a practical and value-added product/service; this manifestation of original ideas is legally protected. IP applies to anything that is the exclusive right of a firm, will help differentiate that organization, and will contribute to a sustained competitive advantage. This creative work can result in a product idea, a new invention, an innovative pivot, or an improvement in an existing product or service. IP can take the form of a patent, a copyright, a trademark, or a variation thereof called a trademark secret.

To develop a sustained competitive advantage, an entrepreneur is responsible to protect, provide the needed safeguards, and continually grow a firm’s IP. These responsibilities include understanding, differentiating between, and dealing with the different types and technical aspects of a firm’s IP. It also means that the entrepreneur should be concerned with the nontechnical aspect of IP, which is to develop a culture of creativity that enables the organization to deliver a continuous stream of new IP.

From a technical aspect, there are two different types of patents: utility and design patents (Figure 3.3). A **utility patent** protects a brand-new product idea or invention under US law for a period of twenty years (see the discussion on patents in [Entrepreneurial Journey and Pathways](#)). A few examples of utility patents would be Nikola Tesla’s electric magnetic motor, dynamo-electric machine, electrical transmission of power, and his system of electrical distribution patents. A **design patent** protects the ornamental aspects of a product idea. Examples include the design of a new font, a soft drink bottle, or the design features of Apple’s iPhone. In the US, design patents are typically protected for a period of fourteen years.

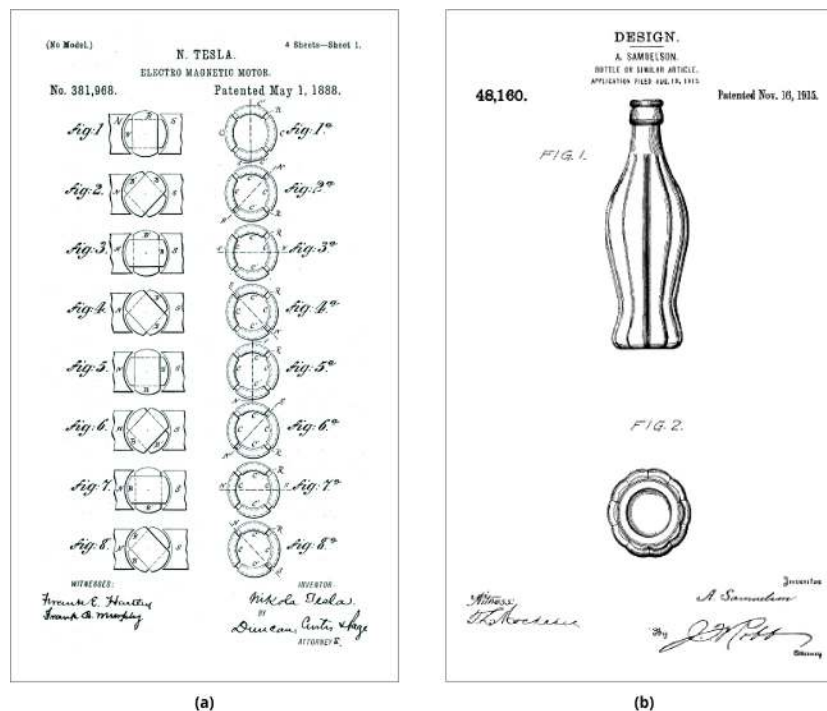


Figure 3.1.2

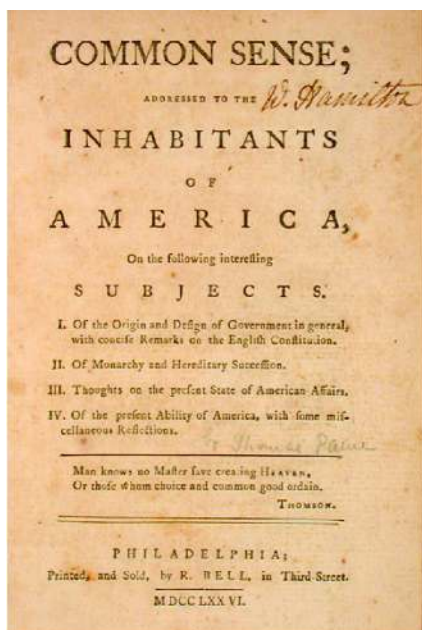
: (a) This drawing of Nikola Tesla’s alternating-current motor was granted U.S. Patent 381968 and represents a utility patent. (b) The design of the Coca-Cola soft drink bottle was granted a design patent. (credit (a): modification of modification of "US Patent US381968A" by Nikola Tesla/Google Patents, Public Domain; credit (b): modification of “Coke bottle patent” by Unknown/Wikimedia Commons, Public Domain)

Copyrights and trademarks are also protected IP (Figure 3.4). A **copyright** grants the creator of a work the exclusive right to reproduction of the work for a specified period of time (usually the life of the author plus seventy years). A **trademark** is a registration that provides the owner the ability to use a name, symbol, jingle, or character in conjunction with a specific product or service, and prevents others from using those same symbols to sell their products. A trademark can be protected for an unlimited number of ten-year renewable terms as long as it is still in use. Finally, there is a special category of IP known as a **trade secret**. This concept refers to proprietary information, processes, or other internal knowledge that contribute to an organization’s

competitive advantage in a market. However, unlike patents, copyrights, and trademarks, a trade secret is not included as a protected category under federal IP law. A trade secret is dependent on being kept a secret by the business that owns it and is enforced through contract law.

Entrepreneurs should pay especially close attention to the legal implications of how patent law can affect a business. Patent laws are strictly enforced and are intended to protect inventions. This protection is afforded because a continuous stream of innovations can be a major source of revenue for a firm as well as a vehicle for developing a sustained competitive advantage. A legal patent gives an exclusive right to its patent holder or proprietor to use the invention in any shape or form they deem necessary. It also gives the patent holder the exclusive right to block or withhold access to others, or to sell the right to use the patent. This period of protection ranges from fourteen to twenty years, and is essentially a government-granted monopoly, after which, protection usually expires and competition is opened up to anyone (e.g., generic drugs).

Regardless of its type, a firm has the exclusive rights to the ownership of its IP. To protect those rights, it is important that a firm meticulously and immediately document each IP, the process and timeline by which each IP was developed, the resources used to develop the IP, the details of who owns and has access to the IP, and how others can obtain and use the IP.



(a)



(b)

Figure 3.1.3

: (a) Published texts and artwork are granted a copyright, which will expire over time (usually a long period), as is the case with Thomas Paine’s seminal work

Common Sense

. (b) McDonald’s iconic golden arches are a trademarked symbol, which usually do not expire unless abandoned. (credit (a): modification of “Commonsense” by Niki K/Wikimedia Commons, Public Domain; credit (b): modification of work by “JeepersMedia”/Flickr, CC BY 2.0)

An entrepreneur should consider these questions when growing and protecting a firm’s IP.

- Is IP law relevant to my business, and if so, how can it help me?
- How do we identify what IP to protect?
- What are the steps we need to take to get protection?

Less formally, the development of a culture of creativity and innovation is one of the most important responsibilities of an entrepreneur. This responsibility will enable the entrepreneur to develop a sustained competitive advantage. This means you should not be satisfied with an occasional spark of creativity from a designated individual, department, or functional area within your organization (such as research and development). You need to nurture an environment in which every member of your organization is able to be creative, add value, and be engaged in the continuous improvement of the firm. One example of this dynamic is the

culture of continuous improvement at Toyota (Kaizen) (see [Launch for Growth to Success](#)). In this culture, every member of the organization is expected to be creative and continually improve the processes they are engaged with on a daily basis.

The story of Nikola Tesla—a Serbian-American inventor, engineer, and physicist—offers a cautionary tale for why entrepreneurs need to be attuned to both the technical aspects of a venture’s IP and its culture of creativity. Having filed 300 patents, Tesla is considered by many to be one of the fathers of modern electricity. After immigrating to the United States, Tesla was employed by the Continental Edison Company and began to develop AC technology. However, Edison preferred DC technology and was not supportive of Tesla’s ideas. Tesla had to quit, teaming up with Westinghouse to open the Tesla Electric Light company, bringing his valuable creativity and ideas with him to his new venture.⁹ Eventually, Tesla’s AC became the American standard, not Edison’s DC.

Contracts and Torts

Every entrepreneur enters into contracts, usually on a regular basis, and thus should have an understanding of basic contract concepts. Likewise, most businesses are likely to have some involvement with tort law: that area of law that protects the rights of people not to be harmed physically, financially, or in any other way, such as a breach of privacy. Some areas of the business world involve a combination of tort law and contract law, such as litigation involving the wrongful termination of an employee.

Contracts can be formal or informal agreements. Ideally, you should use written contracts whenever you enter into a substantial transaction with another party. Oral agreements are enforceable in most situations; however, proving their terms can be difficult. If you are in the midst of a startup, chances are you are moving quickly. Perhaps you don’t have the time, or the money, to hire a lawyer to prepare a formal written contract. In that event, you should at least follow-up with all parties via traditional mail or email to document the key terms of your agreement. That way, if a dispute arises, you’ll have documentation to fall back on.

Torts are a potential area of risk for entrepreneurs. Financial liability often results from the assumption of and exposure to risk; therefore, this is an important issue for entrepreneurs to manage. This is especially true for the concept of vicarious liability, which is the area of the law that imposes responsibility upon one person for the failure of another, with whom the person has a special relationship (e.g., employer and employee) to exercise reasonable care. Most employers understand they run a risk that their employees may commit a tort, and that they are responsible when employees cause harm to others (customers or coworkers) while on duty, working on company property, and using company equipment. However, many employers are not aware that employers can actually be liable for harm caused by an employee if that employee caused harm within the scope of his or her job duties. For example, if an employer asks an employee to drop something off at FedEx or UPS after work hours, and that employee negligently causes an auto accident, even if the employee is driving their personal vehicle and not a company car, the employer could be liable for damages. It is an all-too-common situation that could have serious liability consequences for an entrepreneurial business if adequate insurance is not procured.

Antitrust

Antitrust laws (or competition laws) were developed to ensure that one competitor does not abuse its position and power in the market to exclude or limit competitor access to the market. A few examples of antitrust laws are the Sherman Act, the Clayton Act, the Federal Trade Commission Act, and the Bayh-Dole Act. These acts were created to encourage competition and provide options for consumers. In effect, these laws make it illegal for a competitor to make agreements that would limit competition in the market.

The antitrust concept is important to the entrepreneur’s ability of entrepreneurs to form new startup businesses that are able to compete with larger, more established corporations (which may try to discourage competition). [Table 3.1](#) summarizes the contributions of these acts to supporting antitrust efforts. It is important to note that any deviation from these laws may result in long and costly legal problems.

Table 3.1.1: Antitrust Acts

Antitrust Act	Protection
Sherman Act (1890)	Prohibits attempts to monopolize
Clayton Act (1914)	Prohibits price fixing, related practices
Federal Trade Commission Act (1914)	Prohibits unfair business practices
Bayh-Dole Act (1980)	Encourages development of inventions

An example of illegal competition would be the competition and patent war between Intel Corporation and American Micro Devices (AMD). In 2009, AMD filed a suit against Intel claiming that the company had used “leveraging dominance” to exclude AMD from effectively competing in the marketplace through exclusionary pricing, discounts, and similar practices. This claim was later settled by the two firms and resulted in Intel paying AMD \$1.25 billion in damages.

Conflict of Interest

A **conflict of interest** occurs when an individual (or company) has interests in multiple areas (financial investments, work obligations, personal relationships), and the interests may conflict with each other. Employees, for example, have an interest in producing expected work for their employer. A conscious or deliberate attempt to avoid, ignore, or marginalize that which is rightfully due an employer by addressing other interests would be a conflict of interest. This could be as simple as using company time or resources to work on a personal project that has not been sanctioned and will not add value to the company. It could also mean using the tangible and intellectual resources of a company on something that will benefit your private interests instead of your employer’s. This action is unethical since you are not giving the employer what they are due, which are your time, talents, and services in exchange for agreed-upon compensation. Consider the example of Mike Arrington, a Silicon Valley lawyer and entrepreneur who created a blog called TechCrunch. Arrington became the go-to source for tech enthusiasts and investors. His coverage of Silicon Valley-based startup companies could help ensure the successful launch of a new business or product. However, he was criticized for routinely covering stories about the companies he invested in and consulted for. Although he provided full disclosures of his interests, rival critics challenged his conflicts of interest. How could he simultaneously be both an investor and an independent journalist blogging about the very companies in which he had a financial interest? He was in a classic conflict of interest position.¹⁰ Similar cases involving business reporters and potential conflicts of interest include *The Wall Street Journal*, *Business Week*, *Time* magazine, and the *L.A. Herald Examiner*.

Another situation in which potential conflicts arise is in the area of professional services, which attracts many young potential business owners. Perhaps you want to start your own CPA accounting firm, or CFP financial advisory firm, or IT consulting firm. A professional must be very cautious about conflicts of interest, especially in areas in which you owe a fiduciary duty to your clients. This requires a very high duty of conduct and full disclosure, one that prohibits being involved in both sides of a transaction. For example, as an IT consultant, do you recommend to a client that they buy a software product, when unknown to them, you own stock in that company? Or as a financial advisor, are you getting commissions on both ends of a transaction?

Fraud: Truthfulness and Full Disclosure

Ethical entrepreneurs consistently strive to apply ethics-based concepts in practice, including truthfulness and full disclosure. These two concepts are not only part of an ethical approach to doing business but are also underlying requirements of several areas of law including fraud. A business that makes/sells a product or service has responsibility for fully disclosing the truth about its products/services.

The underlying facts, reality, and evidence behind something are the **truthfulness** of a matter. An individual who is being truthful is exercising the capability of being factual about a subject matter, dealing with reality, and aware of evidence. Truthful individuals earn a level of credibility and reliability over time because what they say and what they do are in alignment. A corollary of truthfulness is fairness, which means to be impartial, unbiased, and in compliance with rules and standards of right and wrong behavior. **Fairness** deals with doing what is right, just, and equitable. From the standpoint of application, the quality of being truthful forms the foundation for fairness.

Disclosure describes sharing the needed facts and details about a subject in a transparent and truthful way. This information should be adequate, timely, and relevant to allow the recipient to understand the purpose and intent behind a product/service and to make a good decision about the value of that product/service. Any deliberate attempt to hide, change, or bend the truth is an unethical and irresponsible action subject to criminal investigation.

One example of a firm that has repeatedly run into several serious, embarrassing, and costly legal issues is Eli Lilly. In one instance, this company admitted in court that they had illegally marketed Zyprexa, which was primarily intended and approved by the US Food and Drug Administration office (FDA) to treat depression, to be used for off-label (not cleared by FDA to market and advertise) ailments such as sleep disorders, Alzheimer’s disease, and dementia. As a result, in 2009, Eli Lilly was fined \$1.4 billion by the office of criminal investigation of the US Department of Justice.¹¹

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3.2: Corporate Social Responsibility and Social Entrepreneurship

Learning Objectives

By the end of this section, you will be able to:

- Define and describe corporate social responsibility (CSR) and social entrepreneurship
- Identify types of social entrepreneurship ventures, and the key values accompanying them

To understand the role of a socially responsible entrepreneur, it is important to first look at the major tenets of corporate social responsibility (CSR) and the underlying reason why this concept was conceived. Few directives in business can override the core mission of maximizing shareholder wealth, and today, that particularly means increasing quarterly profits. Such an intense focus on one variable over a short time (i.e., a short-term perspective) leads to a short-sighted view of what constitutes business success.

Measuring true profitability, however, requires taking a long-term perspective. We cannot accurately measure success within a quarter of a year; a longer time is often required for a product or service to find its market and gain traction against competitors, or for the effects of a new business policy to be felt. Satisfying consumers' demands, going green, being socially responsible, and acting above and beyond the basic requirements all take time and money. However, the extra cost and effort will result in profits in the long run. If we measure success from this longer perspective, we are more likely to understand the positive effect ethical behavior has on all who are associated with a business.

Corporate Social Responsibility (CSR)

If you truly appreciate the positions of your various stakeholders, you will be well on your way to understanding the concept of **corporate social responsibility** (CSR). CSR is the practice by which a business views itself within a broader context: as a member of society with certain implicit social obligations and environmental considerations and issues. As previously stated, there is a distinct difference between legal compliance and ethical responsibility, and the law does not fully address all ethical dilemmas that businesses face. CSR ensures that a company is engaging in sound ethical practices and policies in accordance with the company's culture and mission, above and beyond any mandatory legal standards. A business that practices CSR cannot have maximizing shareholder wealth as its sole purpose, because this goal would necessarily infringe on the rights of other stakeholders in the broader society. For instance, a mining company that disregards its CSR may infringe on the right of its local community to clean air and water if it pursues only profit. In contrast, CSR places all stakeholders within a broader contextual framework.

An additional perspective of CSR is that ethical business leaders opt to do *good* at the same time that they do *well*. This is a simplistic summation, but it speaks to how CSR plays out within any corporate setting. The idea is that a corporation is entitled to make money, but it should not only make money. It should also be a good civic neighbor and commit itself to the general prospering of society as a whole. It ought to make the communities of which it is part better at the same time that it pursues legitimate profit goals. These ends are not mutually exclusive, and it is possible—indeed, praiseworthy—to strive for both. When a company approaches business in this fashion, it is engaging in a commitment to CSR.

An interesting example of an entrepreneurial company that is committed to CSR is the New Belgium Brewing Company (NBBC), maker of Fat Tire Beer, among other brands. The NBBC is 100 percent employee owned, which makes this company different from the more traditional corporation in which investors own the company rather than the employees. This type of company with employee ownership means that the workers benefit directly from the profits generated by their efforts for the company, a sort of democratized capitalism. The NBBC is focused on sustainability. It has a brewery in Fort Collins, CO, where the brewery produces almost 20 percent of its own electricity—a large percentage for a commercial factory—through solar panels and wastewater. It makes a corporate commitment to contribute to causes related to sustainability, for example, to bicycle-related organizations supplying people with green personal transportation options. According to the company's director of CSR, the NBBC considers social and environmental well-being to be a high priority of the company.¹²

From a historical perspective, the development of CSR has been somewhat like a rollercoaster ride, characterized by low points with extreme ethical failures (see [Table 3.2](#)) followed by high points in which corporate conduct improved, largely as a result of statutory laws and/or agency regulations enacted in response to failures. After such scandals, we also saw a number of voluntary ethics-based ideas begin to find their way into the corporate world, such as CSR and corporate citizenship. While these concepts have provided strategies and tools to strengthen the ethical foundations of businesses, scandals do continue, and new approaches to address them emerge. Ethical failures such as the Michael Milken/Drexel Burnham Lambert scandal, the Enron collapse, and many

others, including the recent 2008/2009 mortgage industry/derivatives scandal, led Congress to enact new laws. Examples of statutes enacted by the federal government in response to ethical failures include laws such as the Sarbanes-Oxley Act, the Insider Trading and Securities Fraud Enforcement Act, and the Dodd-Frank Act.

In addition to the enactment of statutory reforms, various government agencies have also promulgated new regulations in an attempt to prevent companies from engaging in unethical, illegal, and otherwise damaging activities. Examples of agencies that have created new regulations in response to ethical failures in the business sector include the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board (PCAOB), the Consumer Financial Protection Bureau (CFPB), and the Financial Industry Regulatory Authority (FINRA).

The concept of doing what’s right ethically, following the law, and giving back to society are closely related concepts (see [Table 3.2](#)).

Table 3.2.1: Corporate Social Responsibility, Ethics, and Law.

Area of Responsibility	Desired Outcome	Compliance
Legal	Comply with laws/regulations	Required by government
Financial	Profits	Required by shareholders
Ethical	Act fairly/avoid doing harm	Expected by stakeholders
Social/philanthropic	Be a good “corporate citizen”	Desired by society

Notice which duties, or responsibilities, are mandatory versus discretionary.

Examples of organizations that have experienced ethical lapses causing serious and costly multi-billion-dollar problems can be seen in [Table 3.3](#). Each has had a profound and far-reaching impact on the lives of individuals, on the communities and society in which they operate, and/or on the global environment. These problems—which have resulted in loss of lives, loss of jobs, property damage, depletion of life savings, and environmental devastation—resulted from issues of quality and ethics.

Table 3.2.2: Examples of Multi-Billion Dollar Corporate Responsibility Problems

Organization	Area of Failure
Chevron Corporation	Amazonian toxic waste disposal disaster
Volkswagen Group	Diesel emissions scandal
Takata Corporation	Defective airbag problems
General Motors	Defective ignition switch problem
Wells Fargo Financial Services	Unethical banking practices
BP P.L.C. (British Petroleum)	Gulf of Mexico oil spill disaster
ENRON Corporation	Illegal accounting practices
Union Carbide India	Bhopal chemical disaster
Pfizer, Elli Lilly	Fraudulent marketing practices
US Corps of Engineers	Hurricane surge protection disaster
Toyota Motor Corporation	Uncontrollable vehicle acceleration
Nike Corporation	Breach of code-of-conduct/labor laws
Intel Corporation	European union antitrust case
Flint Michigan	Flint, Michigan, water disaster
Phar-Mor, Inc.	Largest accounting fraud
Bernard L. Madoff Investment Securities, LLC	Madoff Ponzi scheme

One vulnerability in the corrective measures discussed to address the scandals listed in [Table 3.3](#) is that they do not necessarily prevent the repeat of ethical deviations because they are primarily compliance and fear based. In some instances, instead of preventing unethical activity, the system has enabled unethical leadership to take minimum actions and merely pay fines rather than correct their actions or change their approach.

WORK IT OUT

General Motors' Failure to Consider Stakeholders

General Motors (GM) has struggled with its brands and its image. Over the years, it has jettisoned some of its once-popular brands, including Oldsmobile and Pontiac, sold many others, and climbed back from a 2009 bankruptcy and reorganization. The automaker was hiding an even bigger problem, however: The ignition switch in many of its cars was prone to malfunction, causing injury and even death. The faulty switches caused 124 deaths and 273 injuries, and GM was finally brought to federal court. In 2014, the company reached a settlement for \$900 million and recalled 2.6 million cars.

The case exemplifies the tension between the concept that “the only goal of business is to profit, so the only obligation that the business person has is to maximize profit for the owner or the stockholders” on one hand, and the ethical obligations a company owes to its other stakeholders on the other.¹³ GM’s failure to consider its stakeholders and consumers when choosing not to report the potential for malfunction of the ignition switches led to an ethical breakdown in its operations and cost the company and its customers dearly. In addition, by treating customers as only a means toward an end, the company turned its back on a generation of loyal buyers.

- What virtues and values shared by its long-time customers did GM betray by failing to disclose an inherent danger built into its cars?
- How do you think that betrayal affected the company’s brand and the way car buyers felt about the firm? How might it have affected its shareholders’ views of GM?

In recent years, many organizations have embraced CSR, in which the company’s expected actions include not only producing a reliable product, charging a fair price with fair profit margins, and paying a fair wage to employees, but also caring for the environment and acting on other social concerns. Many corporations work on prosocial endeavors and share that information with their customers and the communities in which they do business. CSR, when conducted in good faith, is beneficial to corporations and their stakeholders. This is especially true for stakeholders that have typically been given low priority and little voice, such as the natural environment and community members who live near corporate sites and manufacturing facilities. CSR in its ideal form focuses managers on demonstrating the social good of their new products and endeavors. It can be framed as a response to the backlash that corporations face for a long track record of harming the environment and communities in their efforts to be more efficient and profitable.

The trend to adopt CSR may represent an opportunity for greater engagement and involvement by groups mostly ignored until now by the wave of corporate economic growth reshaping the industrialized world.

Social Entrepreneurship

Social entrepreneurship describes ventures launched by entrepreneurs who are first and foremost advocates or champions for a social cause. However, they are able to leverage that cause as a platform to develop and maintain an economically viable organization. These individuals are primarily driven and motivated by a higher vision or grander purpose. This new breed of entrepreneur leverages the power of their position, their standing in the community, and the potential synergy and wealth-creation power of an enterprise as a vehicle or platform to advance their social goals and personal agenda. These social causes often include a solution for a costly and chronic social problem or pain, a social wrong or injustice that must be corrected, or a global issue that has been either overlooked or marginalized by society or organizations.

While the primary goal and end-state for a socially responsible entrepreneur is to generate wealth, the dominant goal for a social entrepreneur is to serve a specific cause as they generate wealth to support that cause. This means a social entrepreneur works to advance society instead of accumulating greater wealth for the shareholder. Social entrepreneurs often share qualities such as a selfless attitude, a sense of obligation and responsibility towards someone or something, a strong commitment to make a change, and a resilience to withstand failure.

There are numerous examples of companies that have embraced the concept of CSR. In fact, some entrepreneurs have created startups based primarily on the idea of giving back, many of whose ventures have become well-known. The list includes, to name a few, TOMS Shoes (discussed in a feature box in this chapter), Bombas Socks, and Warby Parker Eyewear. Each of these companies follows a CSR approach and donates one product for each one purchased, (shoes, socks, glasses). Some companies go the extra mile and become officially certified as B-corporations, which is a CSR-type of designation. (See [Business Structure Options: Legal, Tax, and Risk Issues](#) for more discussion of B-corps).

Environmental Entrepreneurship

Similar to social entrepreneurship, **environmental entrepreneurship** advocates for a meaningful and beneficial social cause that is also economically viable. This environmental focus deals with such initiatives that preserve our ecosystem such as clean and renewable energy, waste management, programs to counteract climate change, improved water supplies, protection of biodiversity, and reduction of environmental degradation and deforestation.¹⁴ These initiatives are financially sound from a business standpoint and, at the same time, don't pollute, waste, destroy, and leave a negative environmental footprint.

There are multiple ways in which an entrepreneur can demonstrate a commitment to environmental awareness. One way is to own a company that directly helps clean up the environment, such as Ocean Cleanup, the nonprofit started by a twenty-five-year-old entrepreneur to clean up the Great Pacific Garbage Patch. Another option is to own a traditional private sector company that pledges to operate in an environmentally responsible way, such as Patagonia, committed to responsible sourcing and other initiatives. A third option is to become part of an advocacy organization, an example of which is E2. E2 is “a national, nonpartisan group of business leaders, investors and others who advocate for smart policies that are good for the economy and good for the environment.”¹⁵ This group strives to influence policies at the state, regional, and federal levels dealing with energy, climate, oceans, water, transportation, and smart growth. These policies are primarily intended to improve air, water, public health, as well as job creation in these areas. One example of an initiative that has resulted from this group deals with passing the nation's first automobile emissions standards.

In recent decades, corporations have responded to stakeholder concerns about the environment and sustainability. In 1999, Dow Jones began publishing an annual list of companies for which sustainability was important. Sustainability, in this context, is the practice of preserving resources and operating in a way that is ecologically responsible in the long term.¹⁶ The Dow Jones Sustainability Indices “serve as benchmarks for investors who integrate sustainability considerations into their portfolios.”^{17,18} There is a growing awareness that human actions can, and do, harm the environment. Destruction of the environment can ultimately lead to reduction of resources, declining business opportunities, and lowered quality of life.

Enlightened entrepreneurs realize that profit is only one positive effect of business operations. Operating a successful business creates opportunities for entrepreneurs to give back to society in responsible ways. In addition to safeguarding the environment, other ethical contributions that entrepreneurs can consider include establishing schools and health clinics in impoverished neighborhoods and endowing worthwhile philanthropies in the communities in which companies have a presence.

During the last few decades, there has been an explosion of studies on how business activities affect our planet. In one study, Tony Juniper points out that population growth, with its accompanying demand for natural resources and the impact of environmental disasters, has had a profound and lasting impact on the planet. Juniper states that we have increased our consumption of natural resources tenfold, increased grain production fourfold, increased freshwater usage fivefold, increased fish capture fourfold, doubled our consumption of earth's renewable production, and increased the concentrations of greenhouse gases in the atmosphere.¹⁹

In prior sections, we briefly discussed the devastating environmental impact of oil companies such as Texaco and Chevron. When you drill for oil in one of the most biodiverse corners of the world, the Ecuadorian rainforest of the Amazon, and dump 18.5 billion gallons of oil byproducts and waste into the Amazon's rainforest and streams, you are definitely leaving a negative footprint on our planet. If you meticulously study the local wildlife, vegetation, and other natural characteristic of a region before clearing a region to conduct your business (e.g., harvest the trees for lumber, plants for medication, or drill for oil) and then restore the region to its original natural form when done, you are neutralizing your footprint on the planet. However, if you enhance and strengthen the region, open up schools, provide jobs, educate the local population to preserve and strengthen their natural resources, and take other actions to improve the region, you are in fact leaving a positive footprint on the planet. Entrepreneurs should learn the impact made by all aspects of their company, weigh the choices, and consider adopting a policy that does no harm and possibly leaves a positive footprint on the planet.

LINK TO LEARNING

Elon Musk, founder of the electric car manufacturer Tesla and other companies, recently spoke at a global conference held at the Panthéon-Sorbonne University in Paris. Watch this video of Musk explaining the effects of carbon dioxide emissions on climate change in clear and simple terms.

Sustainability

Sustainability deals with actions and a way of life that considers the continuity of future generations. It is deeply rooted in doing what is moral/ethical. For example, it is unjust to take actions that benefit the current generation at the detriment of future generations. What this means is that a sustainable entrepreneur is also driven by and is an advocate for a socially responsible approach to owning and running a business, leveraging the economic potential of renewable and readily available resources to add value to the world in which it operates. However, sustainability means more than just environmental awareness. A simple definition of **sustainability** is the ability to be maintained at a certain rate or level. This means not only the environment, but also natural resources, human resources, product supply chains, and multiple related concepts. Thus, as an entrepreneur aware of issues related to sustainability, one would want to consider a wide range of issues. Examples might include the responsible use of electricity or water, or participating in supplier diversity/responsible sourcing programs, or funding worker wellness initiatives. The idea of sustainability, at its root, is to think long term as opposed to short term.

Given the prominence of the sustainable environment movement worldwide, no well-managed business today should be conducted without an awareness of the tenuous balance between the health of the environment and corporate profits. It is quite simply good business practice for executives to be aware that their enterprise's long-term sustainability, and indeed its profitability, depend greatly on their safeguarding the natural environment. Ignoring this interrelationship between business and the environment not only elicits public condemnation and the attention of lawmakers who listen to their constituents, but it also risks destroying the viability of the companies themselves. Virtually all businesses depend on natural resources in one way or another.

Responsible Entrepreneurs and Social Entrepreneurship Opportunities

The ability to establish a new venture is an exciting opportunity and privilege. To intentionally plan and establish a new venture in a responsible manner promotes the continuation of a better world. Development of a new venture that supports an awareness and sensitivity to immediate and long-term impacts reflects upon the entrepreneur's personal and organizational values and goals.

Some entrepreneurs start businesses with a community project in mind. A community project venture leverages the available power, synergy, talents, capabilities, and resources of the community to add value and change the world in a positive way. This approach uses the creativity, viewpoints, and feelings of community members to innovate and add value to the local area. An example is that of an entrepreneur who started a company with the idea of giving back to the community.

ENTREPRENEUR IN ACTION

The Story of the TOMS Shoes Entrepreneur in His Own Words by Blake Mycoskie

Read Blake Mycoskie's own telling of how he founded TOMS Shoes: "In 2006 I took some time off from work to travel to Argentina. I was twenty-nine years old and running my fourth entrepreneurial startup: an online driver's education program for teens. Argentina was one of the countries my sister, Paige, and I had sprinted through in 2002 while we were competing on the CBS reality program *The Amazing Race*." "I met a woman volunteering on a shoe drive who explained that many kids lacked shoes, even in relatively well-developed countries like Argentina, an absence that didn't just complicate every aspect of their lives—including essentials like attending school and getting water from the local well—but also exposed them to a wide range of diseases. Her organization collected shoes from donors and gave them to kids in need. Their complete dependence on donations meant that they had little control over their supply of shoes." "My first thought was to start my own shoe-based charity, but instead of soliciting shoe donations, I would ask friends and family to donate money to buy the right type of shoes for these children on a regular basis. I have a large family and lots of friends, but it wasn't hard to see that my personal contacts could dry up sooner or later. And then what? These kids needed more than occasional shoe donations from strangers." "Then I began to look for solutions in the world I already knew: business and entrepreneurship. An idea hit me: Why not create a for-profit business to help provide shoes for these children? Why not come up with a solution that guaranteed a constant flow of shoes, not just whenever kind people were able to make a donation?" "And for every pair I sell, I'm going to give a pair of new shoes to a child in need. There will be no percentages and no formulas. It was a simple concept: Sell a pair of shoes today, give

a pair of shoes tomorrow.” “Something about the idea felt so right, even though I had no experience, or even connections, in the shoe business. I did have one thing that came to me almost immediately: a name for my new company. I called it TOMS. I’d been playing around with the phrase “Shoes for a Better Tomorrow,” which eventually became “Tomorrow’s Shoes,” then TOMS. (Now you know why my name is Blake but my shoes are TOMS. It’s not about a person. It’s about a promise—a better tomorrow.)” “I got a break with an article about my new startup, TOMS, in the *LA Times*, it was a headline story. By the end of that day, we’d received 2,200 orders. That was the good news. The bad news was that we had only about 160 pairs of shoes left sitting in my apartment. On the website we had promised everyone four-day delivery. What could we do?” “Craigslist to the rescue. I quickly posted an ad for interns and soon I had selected three excellent candidates, who began working with me immediately. We ended up selling 10,000 pairs of shoes that first summer—all out of my Venice apartment.””

Blake Mycoskie. “How I Did It: The TOMS Story.” *Entrepreneur*. 2011. <https://www.entrepreneur.com/article/220350>

(This excerpt from *Entrepreneur* magazine was written by Blake Mycoskie in his own words.)

There are multiple types of business entities that function with a social purpose in mind. *Nonprofit* organization entrepreneurs (as well as those starting for-profit companies such as the TOMS story) have the potential to look beyond their own financial gains. These organizations typically partner with federal, state, or local government organizations, public and private institutions, foundations, or individuals with financial means and community standing to serve the greater public. One example of a nonprofit initiative is the National Kidney Foundation of Arizona.²⁰ This organization seeks solutions for kidney and urinary diseases through education, prevention, and treatment.

A *cooperative venture* leverages the talents, finances, and intellectual resources of the members of an organization to operate and deliver value to the members of the organization. One difference between a cooperative and a nonprofit corporation is how money flows back into the community. In a nonprofit organization, the managers cannot distribute profits to members or investors; the remaining money stays in the nonprofit. In contrast, a cooperative generally can distribute profits to members based on member participation/temporary ownership. One example of a cooperative would be the Unity One Credit Union, which is a member-owned, not-for-profit cooperative, working for its members’ benefit.

Two other types of entities that are essentially the same are known as *social enterprises* or *social purpose businesses*. These entities are primarily driven by a meaningful social cause. Social entrepreneurs are able to meet their strategic organizational goals and objectives by delivering a value-added product/service that closes a gap, addresses a problem or pain, or corrects a social injustice. A social enterprise is typically designed to be financially self-sufficient. One example of a social entrepreneur and a social enterprise is the Grameen Bank founded by Muhammed Yunus, a Nobel Peace Prize laureate who defined the term micro-lending and micro-finance. Grameen Bank thrives on giving small loans to those individuals who have very little to no collateral and wish to start a business to support their family.²¹

A social purpose business is often referred to as a B- or benefit Corporation (also discussed in [Business Structure Options: Legal, Tax, and Risk Issues](#)). The process of becoming a certified B-corporation is a formal process that involves compliance with various standards and an audit of this compliance (managed by the B-Corp organization).²² The essence of these new B-corporations is that “they recognize the imperative to do no harm and create positive impact throughout the value chain.”²³ According to the B-Corp organization, these certified businesses are legally required to consider the impact of their decisions on their workers, customers, suppliers, community, and the environment. As of 2019, there are approximately 3,000 certified B-corps in 65 countries, covering 150 different industries.²⁴

One example of a certified B- (or benefit) corporation is Kickstarter, the crowdfunding website. Kickstarter is one of the world’s largest funding communities for creative projects—everything from films, games, restaurants, and music to art, design, and technology—and offers entrepreneurs a way to raise funds when they cannot borrow from a bank.

A *hybrid venture* uses a combined business strategy to enable the organization to deliver profitable and socially valued products and services. The hybrid business model attracts different investors and capitalizes on a variety of investment opportunities, while supporting a mission centered on a socially meaningful cause and grander purpose. One example is Embrace Innovations, a manufacturer of incubators for infants born prematurely, originally established as a nonprofit entity. Embrace, an example of a relationship between academic and business, was started as part of a special course at Stanford University. The Stanford Design for Extreme Affordability Program consists of a course for student teams seeking further support (the Social Entrepreneurship Lab and the Design Lab). This project was launched in 2007, the company was formed in 2008, and the first version of the product launched in 2011. The product is currently being distributed to clinics in India, where dozens of babies have already benefited. Partnerships have been formed with several multinational organizations to distribute the product.²⁵

LINK TO LEARNING

Female entrepreneur Stacey Edgar started [Global Girlfriend](#) on a very small budget and a larger social cause. Through hard work by a team of people, she built a business organization founded on the premise of wanting to have a social impact. The company eventually supported up to 100 different women-led organizations in over thirty countries. Her goal was for the company not only to touch the lives of end customers, but also change the supply chain of retail apparel distribution. It is an example of a successful entrepreneurial startup spreading the message of women’s empowerment.

When launching a social enterprise, you need to consider both the technical aspects of launching an enterprise as well as the underlying cause or purpose that has driven you to launch a social enterprise. As you develop your business model, marketing strategy, and other elements to support your venture, it is crucial to ensure your grander purpose remains the foundation of your business planning and decisions.

Identifying Your Values and Mission

The values we choose to honor are the essence of ourselves, and we carry them with us wherever we live, work, and play. As we noted, the entrepreneurial path you choose should reflect your values, whether you create a for-profit or nonprofit organization. It also is possible that you might establish a for-profit company and volunteer extensively on your own or on behalf of your firm in the nonprofit sector. Whatever your entrepreneurial path, it remains important not to let your well-considered values be diminished by others who do not prize loyalty or industriousness, for instance. Entrepreneurship is not a contest in which the person who finishes with the biggest portfolio or fastest jet skis wins anything other than an empty prize. It is far better to treat others with integrity and respect, and be surrounded by the true emblems of a successful career—family, friends, and colleagues who will attest to the dignity with which you have worked. In the final analysis, if you achieve a life of honor, then you have succeeded.

How do you keep personal values like integrity, fairness, and respect close at hand? The best way is by writing them down, prioritizing them, and fashioning them into a personal mission statement. Most companies have mission statements, and people can have them, too. Yours will guide you on your path, clear away distractions on the road, and help you correct any missteps. It should be flexible, too, to account for changes in yourself and your goals. Your mission statement is not a global positioning system so much as a compass that guides you toward discovering who you are and what drives you ([Figure 3.5](#)).



Figure
3.2.1

: Entrepreneurs should develop a personal mission statement to avoid straying from the path they have set for themselves. A personal mission statement can serve as an ethical/moral compass, guiding an individual through his or her professional and personal life. (credit: modification of “Adventure Compass Hand Macro” by “Pexels”/Pixabay, CC0)

Let us write your mission statement. Because it will reflect your values, start by identifying a handful of values that matter most to you. You can do this by answering the questions in [Table 3.4](#); you may also find it beneficial to keep a journal and update your answers to these questions regularly. Additionally, the US Department of Labor has a free online self-assessment called the Interest Profiler. The Interest Profiler can help you find out what your interests are and how they relate to the world of work. The Interest Profiler can help you focus on avenues of interest that you might want to explore as an entrepreneur.

 LINK TO LEARNING

Click on the [O*Net Profiler link](#) and take the self-assessment. It's quick, fun, and easy.

Table 3.2.3: Identifying Your Values

1. Of all the values that matter to you (e.g., honesty, integrity, loyalty, fairness, honor, hope), list the five most important.
2. Next, write down where you believe you learned each value (e.g., family, school, sports team, belief community, work).
3. Write a real or potential challenge you may face in living each value. Be as specific as possible.
4. Commit to an action in support of each value. Again, be specific.

Now you can incorporate these values into your business mission statement, which can take the form of a narrative or action. There are many formats you can follow, but the basic idea is to unite your values with the goals you have set for your life and career. You can, for instance, link the benefit you want to create, the market or audience for which you want to create it, and the outcome you hope to achieve.²⁶ Keep your statement brief. Richard Branson, founder of the Virgin Group, wants “to have fun in [my] journey through life and learn from [my] mistakes.” Denise Morrison, CEO of Campbell Soup, aims “to serve as a leader, live a balanced life, and apply ethical principles to make a significant difference.”²⁷ Your own statement can be as simple as, for instance, “to listen to and inspire others,” or “to have a positive influence on everyone I meet.”

 Learning Objectives

LINK TO LEARNING

Read this [blog](#), “[The Ultimate Guide to Writing Your Own Mission Statement](#),” by [Andy Andrews](#) for more information about creating a personal mission statement.

Watch the TEDx talk “[How to Know Your Life Purpose in Five Minutes](#)” about the self and identifying values to learn more.

Putting Your Values and Mission Statement to the Test

There may be no better place to put your personal values and mission to the test than in an entrepreneurial role. Startups cannot be run on concepts alone. More than almost any other kind of venture, they demand practical solutions and efficient methods. Entrepreneurs usually begin by identifying a product or service that is hard to come by in a particular market or that might be abundantly available but is overpriced or unreliable. The overall guiding force that inspires the startup then is the execution of the company's mission, which dictates much of the primary direction for the firm, including the identification of underserved customers, the geographic site for operations, and the partners, suppliers, employees, and financing that help the company get off the ground and then expand. In a brand-new organization, though, where does that mission come from?

The founder or founders of a firm develop the company's mission directly from their own personal beliefs, values, and experience; this is particularly true for nonprofits. Sometimes the inspiration is as simple as the recognition of an unmet need, such as the rising global demand for food. Bertha Jimenez, an immigrant from Ecuador who was studying engineering at New York University, could not help but be concerned that while craft breweries were riding a wave of popularity in her adopted city, they were also throwing away a lot of barley grain that still had nutritional value but that no one could figure out how to reuse it. After a few attempts, Jimenez and two friends, also immigrants, finally hit on the idea of making flour out of this barley grain, and thus was born the Queens, New York–based startup Rise Products, whose website proclaims that “Upcycling is the future of food.”

Rise Products supplies local bakers and pasta makers with its protein- and fiber-packed “super” barley flour for use in products from pizza dough to brownies. It has also sent product samples on request to Kellogg, Whole Foods, and Nestlé, as well as to a top chef in Italy. Jimenez and her fellow cofounders say, “In the long term, we can bring this to countries like ours. We want to look at technologies that won't be prohibitive for other people to have.”²⁸

If we were to diagram the relationship between founders' values and the entrepreneurial mission, it would look something like this:

personal values → personal mission statement → entrepreneurial mission statement

Just as a personal mission statement can change over time, so can the company mission be adapted to fit changing circumstances, industry developments, and client needs. TOMS Shoes, profiled earlier, is an example of a business that has expanded its mission to

also offer eyeglasses and improved access to clean water to people in developing countries, in addition to its original mission of shoes for the needy. It calls itself the “One for One” company, promoting founder Blake Mycoskie’s promise that “With every product you purchase, TOMS will help a person in need.”²⁹

The point is, if you have clarified your personal values and mission statement, there is almost no limit to the number of ways you can apply them to your business goals and decisions to “do good and do well” in your entrepreneurial career. The purpose of business is relationships, and the quality of relationships depends on our acceptance of self and concern for others. These are developed through the virtues of humility on one hand and courage on the other. The demanding but essential task of life is to practice both. In that way—perhaps *only* in that way—can we be truly human and successful business professionals.

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3.3: Developing a Workplace Culture of Ethical Excellence and Accountability

Learning Objectives

By the end of this section, you will be able to:

- Describe workplace challenges in an entrepreneurial culture
- Distinguish between reactive and proactive approaches to managing ethics
- Describe the foundations and framework of an organizational culture of ethical excellence
- Define the components of an ethical workplace

Successful entrepreneurs understand that the workplace of 2020 is quite different from that of 2000, just twenty years ago. As the heading to this section suggests, progressive entrepreneurs want to create a workplace culture of ethical excellence. However, doing that means understanding a changing workforce, both in terms of demographics and values. Millennials, born between 1983 and 1995, now outnumber baby boomers in the workforce, and by 2025, will compose three-quarters of all workers on a global basis.³¹ Entrepreneurs and managers who are in a position to hire and supervise millennial workers must adjust to the differing expectations and demands of a mid-twenty-first century workplace. This is especially true with regard to CSR/ethics. What matters most to millennials, according to a recent *New York Times* article, is that work aligns with their values.³²

Approximately 60 percent of millennial workers would agree to work for 15 percent less money just for the chance to work for a company whose business values parallel their personal values.³³ It turns out that millennials don't just want a job, they want a job that matters—one in which they can do rewarding work that achieves a worthwhile outcome. In other words, they want the work they do to mean something. Furthermore, according to an article in the *Texas Bar Journal* by career coach and consultant Martha Newman, millennial workers place a high value on workplace policies that promote open communication, collaboration, and participation in short- and long-term decision making with their employer.³⁴ Newman also says that millennials expect a degree of work-life balance; career isn't all that matters in their life.

What this means for entrepreneurs who manage employees is that they must adjust. For example, an owner can create a workplace in which there is a culture ensuring that people matter as much as money, where there is work-life balance with things like flexible scheduling, and where good work is recognized and rewarded. There's an adage that says, "People don't quit their job, they quit their bosses." If you don't want a very high turnover rate among your workforce, be the kind of boss that millennials want to work for and with.

Entrepreneurial Culture

A fairly common characteristic of successful startups is charismatic, driven founders with competitive mentalities. After all, it takes a thick skin and powerful ego to get through the inevitable disappointments that confront a startup leader. Often, however, companies discover that a different leadership ethos is necessary as they grow. Could entrepreneurs still succeed if they also embraced a humanistic leadership style at the outset, or would this invariably undermine the already low initial odds of success? It is a difficult problem with which many firms wrestle. Dedicated employees may be put off by demanding leaders who are harsh, giving little back to loyal workers even after achieving success. New employees may decide the working climate is less congenial than they anticipated and simply leave.

One question an ethical entrepreneur should ask is this: Do my employees feel like they can speak freely? In reality, at many companies, according to SHRM (Society for Human Resource Management), human resources departments often find it difficult to get employees to complete employee workplace climate (satisfaction) surveys.³⁵ Workers often believe that if management really wants to find out who said what, they easily could, although the surveys are supposed to be anonymous. The difference between ethical and unethical entrepreneurial management is whether they want to find out. Whether it involves small, mid-size, or large companies, management should encourage employees to speak out, whether as an anonymous whistleblower or in person to their supervisor. Absence of this type of encouragement often allows unethical business practices to flourish, such as was seen in the Wells Fargo case example.

LINK TO LEARNING

Although no single set of traits identifies the ideal startup leader, a demanding, driven nature is a fairly common characteristic. Consider these brief profiles of entrepreneurs: first, a profile on Walt Disney and then video showing a contrasting view from Kerrie Laird at Vodafone.

After watching the videos, consider this thought experiment: Suppose the cult of the charismatic—but dogmatic—entrepreneurial leader such as Walt Disney or Steve Jobs were replaced by one steeped in a commitment to employee empowerment that Kerrie Laird claims for Vodafone? Could this change the culture at startups? If it could, do you believe that change would be for the better or worse?

These observations identify what may be unique to entrepreneurial culture. This is a combination of personality and management style often identified with those business leaders who strike out on their own, bring a startup to life, and shape its initial business practices and culture on the job. If the enterprise is successful, the principles and philosophy of the founder become enshrined in the lore of the company, so that long after his or her departure, succeeding leaders find themselves beholden to the management philosophy exemplified from the early days of the firm.³⁶ As you seek the right leadership style to implement in your entrepreneurial plans, begin by asking precisely what kind of leader you would prefer to work for if you were not the boss. The answer you provide may very well be the best model to follow as you develop your own leadership personality.

The first employees of a startup realize what is at stake as the company tiptoes into new entrepreneurial waters. The founder may be the boss, but those associated with him or her sense a collaborative spirit that directly joins them to the founder as well as to each other. There can be a genuine fraternity among those who have been with the firm since day one or shortly thereafter. Founding members of an entrepreneurial business are also often willing to undergo the strains and rigors attached to a startup in return for an ownership stake in the company that allows them to profit handsomely from its later growth and success.

Newer staff, however, may not share this mindset. They may simply be seeking a secure position with a growing business rather than a chance to get in on the ground floor of a risky startup. They will not necessarily have the tolerance for the demanding hours, chaos, and abrasive personalities that can characterize the early days of an enterprise. Can entrepreneurial founders shape a company's culture so that it can accommodate talented employees who are looking for a corporate culture that supports some work-life balance?

Consider also the ethical practices of an entrepreneur and the ethical expectations of employees. Suppose that one of the distinguishing features woven into the fabric of the startup is the respect extended to customers or clients. An entrepreneur typically promises always to hold customers in the highest regard, never lie to them, and serve them well. Furthermore, suppose this entrepreneur successfully instills this same ethos among all employees from the outset. Respect for customers is intended to become a distinguishing feature of the business; even if it causes monetary loss to the company, this entrepreneur will neither cheat a client nor misrepresent the company's services. Finally, presume that this ethos is embedded into the culture of the company while it is still in startup mode.

Now suppose the company becomes successful. This may signal the hardest time of all for the entrepreneur. Growth often accompanies success, and growth means, among other things, more employees. Not all these new hires will be as committed to the same degree of responsibility for customers. They will not necessarily set out to cheat clients, but they might lack the founder's enthusiasm for the most honorable treatment of customers. How can an entrepreneur ensure that the initial commitment carries over to the second generation of leadership? He or she cannot simply order it to happen—human nature usually does not respond so easily. So entrepreneurs must do their best to ensure that their version of customer service, one that prioritizes respect for clients, is passed along to new employees. It may be ingrained in the longest-serving employees, but it must be nurtured to the point where it has the same significance for the newest hires.

As a leader, you need to plan and follow-up to ensure your organization follows the values and ethical principles you uphold. This planning process goes beyond taking a few simple actions such as hiring the right people, providing consequences, or setting expectations. It goes beyond communicating a few niceties and encouraging sound bites such as establishing trust and working with uncompromising integrity. It needs more than the application of a few popular concepts and slogans such as CSR, conscious capitalism, or servant leadership. It also needs more than the effective communication of a few success criteria and expectations.

There are effective techniques that can support the infusion of ethical principle into the daily work life of employees. Sometimes known as **anchoring strategies**, ethical values can become part of the business culture through the implementation of employee

training, and reward/recognition programs. The Society for Human Resource Management (SHRM) website has a toolkit for entrepreneurs and managers that provides useful ideas on infusion and anchoring strategies.

LINK TO LEARNING

View the [toolkit for understanding and developing organizational culture](#) to learn more.

While the use of popular management approaches can be successful, they can be inadequate to stop unethical behavior. Instead, you need a plan to nurture and develop a culture where ethical qualities and capabilities such as truthfulness, justice, responsibility, and compassion are developed and internalized as a moral compass. It also demands that these qualities and capabilities are infused into the fabric of organization, adhered to habitually, and are integrated into the organization's daily operations.

Proactive versus Reactive Approaches

Creation of an ethical workplace environment has both reactive and proactive components. The reactive side enables an entrepreneur to identify and address reckless behavior, irresponsible actions, and ethical deviations as they occur. However, there may be times that a reactive approach, which can be heavy-handed, may not be the best approach for addressing ethical deviations.

In contrast, a proactive approach to developing an ethical workplace strives to prevent reckless behavior, irresponsible actions, and ethical deviations by establishing and nurturing a culture of ethics, responsibility, and compliance. It also demands that you establish a workplace environment of ethics where every member of the organization is able to proactively develop, internalize, and apply a moral compass. This approach serves to operationalize popular—but often silent or nebulous—concepts such as truthfulness, fairness, trust, integrity, commitment, innovation, and excellence, leading to a sustained competitive advantage.

Developing the Foundation and Framework of an Ethically Responsible Organization

An entrepreneur must build a foundation for developing an organization grounded in ethics and responsibility. Foundational building blocks enable an entrepreneur to systematically add the greatest value to society, and to do so responsibly. Additionally, for entrepreneurs modifying their businesses or taking over new ventures, building a foundation of ethical conduct should neither disrupt normal business operations nor add significant overhead, since the main concepts are infused into the fabric of the organization.

To develop an organization's foundation for ethics and a framework for management, an entrepreneur needs to incorporate three essential ethical qualities—trust, fairness, and excellence—into the organization's core values (see Table 3.3.1). Additional ethical qualities, dependent on the enterprise's specific goals, might include responsibility, commitment, compassion, and so on. The entrepreneur should infuse these qualities into all aspects of organizational governance and daily operations, and track these values to ensure they are being integrated into planning, and are met and enforced by all business units.^{37,38,39} The application and implementation of these three core qualities will begin to shape the framework and establish a foundation of ethics and responsibility.

Table 3.3.1 illustrates an approach to building a foundation for ethics-based behaviors, principles, and effective collaboration

Excellence	<ul style="list-style-type: none"> • Have a grander purpose • Create a culture that eliminates internal competition • Focus on excellence
Fairness	<ul style="list-style-type: none"> • Foster openness • Demonstrate impartiality • Protect the welfare of all stakeholders • Maintain a system of accountability
Trust	<ul style="list-style-type: none"> • Provide and expect feedback • Base decisions on truth and consensus • Clash different ideas, not different individuals • Listen with patience and respect • Separate yourself from your thoughts and views

Table
3.3.1

: Ethical entrepreneurs/managers have these foundational qualities. (attribution: Copyright Rice University, OpenStax)

Second, the organization should consider what ethical principles it wants to prioritize. Examples of ethical principles might include:

- Service and advancement of society
- Collaborative excellence
- Gender equity
- Elimination of prejudices

Once the framework and foundation for an ethical and high-performing organization has been established, other qualities and principles can easily be integrated as needed to further strengthen this framework, differentiate the organization, and develop a sustained competitive advantage. It also enables leadership to align other aspects of organizational governance with ethics and responsibility. For example, if leadership wants to leverage the power of diversity to develop a sustained competitive advantage, they would adopt the principles of equality of sexes, the elimination of prejudices, and the principle of oneness of humanity. If leadership wants to develop and use teamwork and collaboration as a strategic competitive advantage, they would integrate the behaviors and principles for collaborative excellence and working cohesively as one.

The framework and foundation of ethics and responsibility will enable the entrepreneur to consistently manage the needed qualities and principles for success in all aspects of daily operations. These aspects include research and development, engineering, manufacturing, sales, marketing, planning, decision-making, problem solving, conflict management, and other aspects of organizational governance. To demonstrate what this means in practice, the leadership of each of functional area could serve as role models, raise awareness, and encourage individuals to internalize a line of ethical reasoning, asking questions such as, “Is my decision right or wrong (good or bad)?” “Am I dealing with factual information or is conjecture?” “What is the consequence of my action?” “Is my decision fair and equitable?” “Did I give the individual what they are due?” “Would I want to be treated this way?” “Will this action help me achieve the best results for the collective?” This mindset, line of reasoning, and congruence between individual and organizational ethics is often lacking, which leads to ethical deviations.^{40,41,42,43,44,45} Establishing the foundation outlined here enables each member of the organization to exercise sound moral judgment, develop ethical capabilities, and internalize a moral compass. It also allows employees to be aligned with the company’s grander purpose, vision, mission, and values that then translates into actions.

Develop a Grander Purpose

Once the entrepreneur has designed and configured the organization to develop a sustained competitive advantage in a responsible manner, he/she needs to develop a higher vision or a grander purpose for the organization. This grander purpose is not the same as a mission or vision (although they may overlap). It is not financially motivated, it is not product/service centric, and it is not shareholder driven. Instead, the grander purpose defines and highlights the reasoning for a firm’s long-term existence and success; it provides guidance and direction during decision-making, problem solving, and conflict resolution; it provides the motivation for individuals to achieve excellence and the sense of urgency for social change; and it enables individuals to be part of a larger cause. For example, the integration of the right grander purpose into the operations of an organization could have prevented the manufacturing of toys made with lead-based paint or the poisoning of the Flint, Michigan, water supply. The grander purpose provides a mechanism to help individuals calibrate their day-to-day activities against a more meaningful and stable target.⁴⁶

Develop a Culture of Collaborative Excellence

The establishment of a framework and foundation for ethical behavior opens up the organization for effective and meaningful teamwork and collaboration. Many existing approaches to collaboration, while demonstrating successes and benefits, also are sometimes inadequate in addressing complex group interactions dealing with mistrust, competition, politics, and ideological differences. A successful culture of collaboration should convince individuals to find the best ideas, leverage diversity, grow new solutions, gain wholehearted support, develop champions of change, nurture a safe environment, and encourage people to express all ideas.

An effective process for encouraging collaboration takes time to build; however, it’s worth it because it will provide the inspiration and motivation needed to accomplish tasks and exceed expectations. The organization should also have consequences in place for ineffective collaboration, which may be evidenced in gossip, backstabbing, self-centered behavior, and biases or prejudices. Such

consequences could include probation plans and one-on-one meetings that work to determine the root cause and identify steps forward.

Creativity is also key for a team to think differently. There must be freedom in the workplace for creativity to blossom. When developing a culture of creativity, entrepreneurs should consider these issue and challenges:

- How can we create a culture of creativity and innovation?
- How can we encourage the members of the organization to collaborate and leverage each other's creativity?
- How can we reward and recognize people for their creativity?

Human Resources Development

A human resources development plan enables a company to continually grow its intellectual resources, enables individuals to develop ethical capabilities, strengthens individual creativity and organizational innovation, provides a steady stream of capable human resources for its leadership pipelines, and enables the firm to leverage and harvest those human resources to advance society in a responsible manner. This is achieved by providing a new employee assessment process where every member of the organization is given the needed opportunities and is expected to collaborate with their superior(s) to own and manage their lifelong development plan (LDP). At a minimum, an LDP should:

- Include short-term and long-term career goals and objectives
- Help identify, continually develop, and leverage individual strengths
- Enable individuals to identify and measurably close gaps in deliverables, behavior, and professional improvement
- Clarify major deliverables and success indicators

In sum, an LDP becomes the primary instrument to assist individuals to achieve excellence by raising performance, closing gaps in assessment, and aligning the individual with the grander purpose, vision, mission, goals, needs, and objectives.

WORK IT OUT

Growing Collaboration and Creativity

Entrepreneurs are entrusted with the growth and development of their people. This growth and development should not be stopped, delayed, or marginalized in any shape or form. Instead, an entrepreneur needs to learn how to use the available resources to systematically train, develop, and deliver a steady stream of responsible individuals who are able to grow within the company as well as grow the company. List three strategies an entrepreneur could use to achieve the following major objectives:

1. Develop the best, the brightest, and most creative and motivated people who have a strong sense of right and wrong
2. Develop individuals who have a strong sense of ownership, responsibility, and commitment to achieve and sustain a competitive edge
3. Leverage these intellectual forces and the synergy within the organization to generate the greatest value and wealth for all stakeholders.

Develop Ethical and Responsible Leadership/Management

Significant research shows that the culture of the organization is mostly shaped by its leadership values—by how leaders develop the bonds of trust, by how they motivate their people, by their responsible decisions and actions, and by how they empower, delegate, and monitor tasks. A recent *Harvard Business Review* article, by a group of professors and entrepreneurs, synthesized the research of experts including Edgar Schein, Shalom Schwartz, Geert Hofstede, and other leading scholars on this topic.⁴⁷ The article indicates that the attributes of a business's leaders define that organization's culture. A business's culture is essentially defined as the social order within an organization that helps shape attitudes and behaviors—delineating what type of behavior is encouraged and/or discouraged.

While it is possible for a company to hire individuals who possess these attributes, the organization should have a plan in place to systematically train and develop responsible leaders. At minimum, this should include the development and management of a leadership pipeline, the nurturing of ethical and intellectual capabilities, and rewards and consequences that enable a leader to develop and internalize a moral compass.

WHAT CAN YOU DO?

Entrepreneurs Must Not Just Talk the Talk but Walk the Walk

As both a leader and an entrepreneur, you need to have a good understanding of ethics and responsibility, and be able to apply the major tenets of concepts such as CSR. To build and maintain trust, it is important that these concepts not start and end with mere empty words and gestures. Rather, entrepreneurs need to exemplify and model these concepts, and apply them through meaningful, consistent, and timely actions. In sum, an entrepreneur needs to live the values they wish to see in others. They need to become the embodiments of trust, respect, responsibility, commitment, and other key qualities. These core values need to be infused into the fabric of the organization.

Entrepreneurs have been placed in a position of power and responsibility. They need to use their position, power, social standing, and the synergy of the vast financial and intellectual resources at their disposal to move and shake the world in a meaningful way. For example, imagine for a moment using the resources of companies such as Apple, Google, Microsoft, Amazon, and Facebook, whose combined worth is estimated to be close to \$2.2 trillion, to address complex and difficult global issues dealing with education, poverty, hunger, and other chronic problems.

Develop Internal/External Organizational Alignment and Cohesion

Key to ethical organizational success is the alignment and cohesion between individuals, groups, and the enterprise as a whole. This alignment starts with the development of a grander purpose that enables the entrepreneur and the organization to serve, add value, and advance the society in which it operates. It ensures individuals and units within the company understand the grander purpose, mission, vision, and the goals and objectives of the company, and it provides each member or the organization the opportunity to serve and fit into that grander purpose, mission, and vision. It is further strengthened by asking individuals to achieve excellence in their own right instead of competing with each other. It sets clear expectations about how people are to treat and deal with each other to deliver results. It deals with the alignment of corporate values with the espoused values, and the alignment between what leadership says and does. When combined, these and other alignments can enable individuals and groups to stay on track and reach the company's goals efficiently.

ENTREPRENEUR IN ACTION

Unilever “Enhancing Livelihoods” through Project Shakti

According to management guru Peter Drucker, whose ideas significantly contributed to the foundations of thought about the workings of the modern business corporation, workers “need to know the organization’s mission and to believe in it.” How do organizations ensure this commitment? By satisfying workers’ values.⁴⁸ A program undertaken by Unilever, the Dutch-British multinational company co-headquartered in Rotterdam and London, illustrates the kind of values-oriented corporate endeavor Drucker describes. Project Shakti is a Unilever CSR initiative in India that links CSR with financial opportunities for local women.⁴⁹ It is considered a leading example of micro-entrepreneurship, and it expands the concept of sustainability to include not only environmental issues but also economic opportunities and financial networking in underdeveloped areas.

The goal, according to Unilever, is to give rural Shakti women the ability to earn money for themselves and their families as micro-entrepreneurs. Unilever’s subsidiary in India, Hindustan Lever, has started training programs for thousands of women in small towns and villages across India to help them understand how to run their own small sole proprietorships as distributors of the company’s products. With support from a team of rural sales managers, women who had been unable to support themselves are now becoming empowered by learning how a supply chain works, what products Hindustan Lever produces, and how to distribute them. The sales managers also act in a consulting capacity to help with business basics, money management, negotiations, and related skills that help the women run their businesses effectively.

Project Shakti has enlisted more than 100,000 rural participants, which includes about 75,000 women. The project has changed their lives in ways that are profound, and not only because of the income earned. The women now have increased self-esteem based on a sense of empowerment, and they finally feel they have a place in Indian society. According to the Unilever Sustainable Living Plan, Project Shakti is one of the best and most sustainable ways the company can address women’s social concerns. It allows Unilever to conduct business in a socially responsible manner, helping women help themselves while extending the reach of its products.

- Do you believe Unilever sponsors the Shakti program to help women, boost its own profits, or both? Explain your answer.

- How is this program an example of both corporate and personal sustainability?

Develop a Culture of Creativity and Innovation

The next building block is developing a culture of creativity and innovation. This means going beyond a spark of creativity from select individuals or business units, and instead nurturing a culture where every member of the organization is continually creative and the organization is innovative. This also means providing the means and opportunities for individuals to be engaged, creative, and contributing members on a full-time basis. What makes this possible results from the prior building blocks. Innovation requires good leadership and management; a meaningful and effective process for teamwork and collaboration; a culture of learning and improvement; a consistent and measurable process to encourage, recognize, compensate, and track innovation; and company-wide focus on the training and development of the sense of creativity.⁵⁰

Develop a Culture of Delivering Responsible Results

Measurable results compose the final building block of a framework for ethics and responsibility. This involves developing systems and indicators that will demonstrate how your business is achieving ethical standards and progressively improving as it adds value to society. While the details of which indicators to select is left up to the discretion of the entrepreneur, this building block defines success in terms of ten dimensions of business excellence, shown in Figure 3.7.



Figure 3.3.1: Delivering responsible results involves multiple considerations. (attribution: Copyright Rice University, OpenStax)

Figure 3.3.1: serves as an easy-to-understand guide for entrepreneurs seeking to create a culture of excellence. Focusing on these ten dimensions can help a business achieve excellence, from which a company may derive multiple benefits. Examples of reasons why a company strives to achieve excellence include strengthening alignment between company values and those of stakeholders, balancing goals versus measures of success, clarifying strategic focus versus operational concerns, selecting areas within the company wherein improvement is needed, and shifting from a preoccupation with daily activities and processes to focus on outcomes. Companies seek excellence with regard to internal and external outcomes, both of which are important. Thus, whether examining internal aspects such as finance and operations, or external aspects such as product quality and customer service, each of these ten areas is an ingredient of company excellence.

Creating an Ethical and Responsible Workplace Environment

A safe, healthy, and productive workplace is an environment in which an individual has a high level of trust and confidence that if they give their best, they will see a number of results and be afforded a number of things in exchange for their hard work. This concept resembles an employer-employee contract. This contract includes the following employee expectations:

1. They are treated with the respect, dignity, and courtesy they deserve as a human being.

2. They are given the needed support, equal opportunities, and resources to excel.
3. They are given what they deserve and what they are due in a fair and equitable way.
4. They are provided a safe, secure, and prejudice-free work environment.
5. They are not pushed, pressured, or expected to behave irresponsibly.

This type of workplace environment enables individuals to continually grow and develop to their full potential and then leverage that potential to add value to their own lives, careers, and society. This type of environment is one in which individuals are not afraid to speak their mind; they feel safe to discuss problems and concerns, and feel free to question and reject that which is wrong.

Prejudice

Prejudice is often thought of as a negative attitude and/or feeling toward an individual based solely on one's membership in a particular group. Prejudice is common against people who are members of unfamiliar cultural groups. In employment, it can be the root cause of unfair discrimination.⁵¹ One factor essential to the development of a safe and healthy work environment is that it strives to be a place free of prejudice. This is an environment where everyone is treated with the respect and dignity they deserve and are afforded equal opportunities for growth, development, and advancement both within and outside of the organization. For example, it is important to look at the merit or value of the work done by an individual and the manner by which those results have been delivered. It is unethical to treat people differently based on their race, gender, age, nationality, and other differentiating factors. To develop trust and respect, everyone needs to be afforded the same opportunities.

Competition and Collaboration

Effectively managing a workforce includes a systematic approach to appraisal of employee performance. A manager/entrepreneur must decide how to do this within their company. A forced ranking system is one in which scoring employee performance is competitive and can pit employees against each other instead of fostering a collaborative work environment. Some employers have switched to a system that does not require forced rankings and attempts to downplay the competitive nature of assessment, focusing instead on individual continuous improvement. There is a legitimate difference of opinion on this issue. According to a *Wall Street Journal* article by the accounting and consulting firm Deloitte,⁵² executives are split on whether it is an effective practice. Jack Welch, former CEO at General Electric, was a proponent of it, whereas others see it as counterproductive. Companies that have discontinued the process include Microsoft and GE.

In an environment of collaborative excellence, individuals are encouraged to express their ideas and viewpoints in an unfettered and respectful way, where the merit of each idea is weighed against the merit of other ideas. In this environment, individuals are not reprimanded for being creative, taking calculated and reasonable risks, or challenging management or leadership.

WORK IT OUT

Anonymous Whistleblower Hotlines

Most large companies now have anonymous hotlines that employees may call to report ethical violations. What are some other concrete and actionable ways you can develop a safe environment where every member of your organization is able to question authority, point out a wrong, and stop an unethical decision/action?

One example of a problem that can arise in an overly competitive environment or culture created by an organization would be the faulty ignition switch scandal at GM. According to Valdes-Depena, and Yellin,⁵³ GM knew about this problem in 2001. However, it took the company over twelve years, more than 100 deaths, and 30 million vehicles being recalled to finally admit that there was a problem. In 2014, GM admitted that a faulty ignition switch may result in the engine of a vehicle being shut down while in drive, resulting in accidents, severe injuries, or death.⁵⁴ If GM had developed an effective environment of collaboration, individuals from leadership, management, sales, marketing, engineering, manufacturing, and human resources, as well as major stakeholders, might have collaborated and prevented the ignition switch problem.

Diversity

Entrepreneurs need to appreciate, respect, and learn to effectively leverage the unique and diverse qualities that each individual brings to the table. These qualities can be used to innovate, make better decisions, solve complex problems/conflicts, move an organization cohesively in a single direction, or rapidly change direction when needed. If used correctly, these differences enable an entrepreneur to develop a sustained competitive advantage by looking at the different thoughts, ideas, and viewpoints to make better and more informed decisions.

Diversity, in terms of a legal concept, deals with innate characteristics such as an individual's sex, color, race, national origin, religion, and age. It might also include educational background, cultural background, socioeconomic background, and potentially even political affiliations. However, diversity in terms of an ethical concept rather than purely a legal one also deals with a number of not-so-obvious characteristics such as the diversity of behavior, thought-process, comprehension, attitudes, temperaments, and learning styles. Combined, these differences can be beneficial to a business organization and result in high-level performance by the workforce as a whole.

Diversity may be an actual legal requirement depending upon what type of business an entrepreneur enters. For example, if you plan on doing any government contracting work, whether local, state, or federal, the chances are that your business will have to meet a diversity standard. Many private companies also have diversity clauses in the supply chain contracts related to supplier diversity initiatives.

WORK IT OUT

Building Diversity

For each of the following, identify two examples of a concrete action or activity an entrepreneur could implement to achieve the stated goal.

1. Introduce the concept of diversity and highlight the significance, the value, and the benefits of a diverse work environment.
2. Set clear expectations for individuals to value diversity, the concept of unity in diversity, and show how others can leverage the power of diversity to innovate.
3. Exemplify, role model, and live good ethical behavior that strengthens diversity such as the elimination of prejudice of all kinds and expect others to do the same around you.
4. Ensure that you design the hiring process, including job descriptions, recruiting, interview questions, and other related steps, with diversity in mind.
5. Provide training to educate people on the concept of prejudice, the different forms of prejudices, and the negative aspects of prejudices.
6. Provide opportunities for building ethical capacities such as becoming truthful, trustworthiness, and a just individual.
7. Provide consistent, meaningful, substantial, and timely consequences for prejudicial behavior in organizations.

Gender Equality

As an entrepreneur, you need to recognize the significance, value, and impact of the principle of equality of men and women on developing a sustained competitive advantage. Then you need to incorporate this principle into the fabric of your organization. Aside from being the right thing to do, one reason why this principle is so important is that close to one-half of the planet is female (and has traditionally been marginalized in the business world).^{55,56} If you overlook this fact, you will also be potentially overlooking one-half of the talent that can help you excel and develop a sustained competitive advantage. In turn, this will result in a loss of trust and confidence. A second and more important reason would be that any deviation from this principle goes against the whole concept of ethics and responsibility. Moreover, this principle will help your organization attract the best and brightest employees.

The principle of gender equality does not deny differences between men and women. This principle primarily asks that we give each member of society fair and equal opportunities for growth, development, and advancement. It also recognizes that women have been historically marginalized or excluded from the business world. This claim holds true today and is applicable to even to the most advanced countries in the world (e.g., the discrepancy of pay between women and men in Western societies). Therefore, women need to be afforded the same opportunities for education, rewards, recognitions, and promotions as men.

Trust and Ethical Accountability

Finally, the development of safe environments also deals with an environment where individuals are able to develop unbreakable bonds of trust, where they don't feel they have to constantly watch their backs, where individuals are free to point out misconduct without being reprimanded, and where individuals feel they will be given what they are due or deserve. This dimension of the development of a safe work environment deals with making sure individuals feel they are being treated in a fair and equitable manner and that their need for the development of an ethical and moral work environment is being met.

WORK IT OUT

Sherron Watkins and Enron

Enron is one of the most infamous examples of corporate fraud in US history. The scandal that destroyed the company resulted in approximately \$60 billion in lost shareholder value. Sherron Watkins, an officer of the company, discovered the fraud and first went to her boss and mentor, founder and chairperson Ken Lay, to report the suspected accounting and financial irregularities. She was ignored more than once and eventually went to the press with her story. Because she did not go directly to the SEC, Watkins received no whistleblower protection. (The Sarbanes-Oxley Act was not passed until after the Enron scandal. In fact, it was Watkins's circumstance and Enron's misdeeds that helped convince Congress to pass the law.⁵⁷)

Now a respected national speaker on the topic of ethics and employees' responsibility, Watkins talks about how an employee should handle such situations. "When you're faced with something that really matters, if you're silent, you're starting on the wrong path...go against the crowd if need be," she said in a speech to the National Character and Leadership Symposium (a seminar to instill leadership and moral qualities in young men and women).

Watkins talks openly about the risk of being an honest employee, something employees should consider when evaluating what they owe their company, the public, and themselves. "I will never have a job in corporate America again. The minute you speak truth to power and you're not heard, your career is never the same again."

Enron's corporate leaders dealt with the looming crisis by a combination of blaming others and leaving their employees to fend for themselves. According to Watkins, "Within two weeks of me finding this fraud, [Enron president] Jeff Skilling quit. We did feel like we were on a battleship, and things were not going well, and the captain had just taken a helicopter home. The fall of 2001 was just the bleakest time in my life, because everything I thought was secure was no longer secure."

- Did Watkins owe an ethical duty to Enron, to its shareholders, or to the investing public to go public with her suspicions? Explain your answer.
- How big a price is it fair to ask a whistleblowing employee to pay?

Ideally, it is best that entrepreneurs exemplify good ethical behavior, expect their people to do the same, and help the members of the organization develop a moral compass. However, it is equally as important that business owners take action and put in place the right checks and balances that verify that the organization's people are complying with its policies and principles of ethical behavior.

Organizations should set up systems that monitor compliance. In addition, you should develop a leadership pipeline that ensures that individuals would be placed in the pipelines only if they exhibit good ethical behavior, working with each business unit manager to ensure this is happening. Individual assessments should clearly assess ethical behavior and provide rewards, recognitions, and promotions for good ethical behavior, and consequences and training/solutions for actions that do not meet company standards. You should provide meaningful, substantial, and timely consequences for lack of acceptable behavior, such as removing an executive from a leadership pipeline when it has been established that they will not govern responsibly.

Importantly, members of the organization should not be intimidated to blindly follow or accept the existing monitoring system without question. An entrepreneur needs to cultivate an environment where they expect, support, and encourage every member of their organization to be inquisitive, be creative, question authority, and search for the underlying truth in all matters. It must be noted that questioning authority does not mean anything goes; it simply means that employees are expected to think on their own. Accountability should be encouraged; it is both an ethical and legal issue.

An example of a system of accountability that is appropriate for entrepreneurs is one proposed by an article in the *Harvard Business Review*.⁵⁸ A sound approach to accountability requires a multistep process that includes establishing expectations, ensuring employees have the capability to do it, measurement of results, feedback, and consequences for unethical behavior. In addition to an ethical approach, remember that there are federal laws mandating accountability. The most well-known of these is the Sarbanes-Oxley Act,⁵⁹ discussed elsewhere in this chapter, and other chapters in this text. Also called the Corporate and Auditing Accountability, Responsibility, and Transparency Act, the Sarbanes-Oxley Act requires publicly traded companies to have an internal system of control that emphasizes transparency and accountability.

If You Make a Mistake

If you or your organization makes a mistake or misstep, you must decide how to address it. In general, you are faced with the choice of paying now or paying a hundredfold later. A closer look at the largest, most expensive, and most devastating corporate failures of our times shows that these failures have resulted in the loss of life, property, and/or monumental environmental disasters. For the most part, these corporate failures have been caused by one or more ethical deviations on behalf of leadership. To combat these problems, entrepreneurs need to start by first being responsible, accepting their failures, and admitting when they have made mistakes. This admittance needs to be genuine, transparent, prompt, truthful, and authentic if they wish stakeholders to accept and believe their remorse. Once that first step is taken, they need to take immediate steps to proactively address the problems they have caused. Many leaders or entrepreneurs have learned the hard way that they need to be open and transparent with their stakeholders at the outset. Failure to rapidly admit mistakes can and has resulted in paying a very steep price when exposed. The actions that an entrepreneur needs to take include:

1. Admitting their mistakes, failures, and shortcomings to all stakeholders
2. Effectively communicating the nature of the problem to major stakeholders
3. Informing the stakeholders of the impact, side effect, and causes of the problem
4. Taking necessary and immediate steps to address the issue and stop the bleeding
5. Conducting a thorough and unbiased root-cause analysis to identify the underlying cause
6. Addressing any people and systemic gaps that caused the problem in the first place
7. Putting in place measures that will prevent the repeat of the same mistakes

To summarize, the best approach is that you admit your mistakes and shortcomings, pay the price, fix and uproot the problem, and systematically prevent the repeat of the same mistakes. A few examples of corporate mistakes and shortcomings that were quickly addressed before turning into severe problems would be the Tylenol poisoning and the customer accounts stolen at Target. A few examples of a problem that were not handled correctly and resulted in multi-billion-dollar problems are GM's faulty ignition switch problem, Volkswagen's emission control fraud, and Wells Fargo's account fraud.

ENTREPRENEUR IN ACTION

Taking the Ethical High Road

To go beyond a glowing commitment report, a shining website, or a few meaningless words in a code-of-conduct on corporate responsibility, an entrepreneur needs to follow the rule of law, the spirit of the law, and do the right thing at all times and under all circumstances. To achieve this, entrepreneurs need to develop and internalize a moral compass that prevents them from doing the wrong and unethical thing despite the consequences.

One classic example of doing the right thing which has been studied as a case study in business schools is attributed to Johnson & Johnson (J&J). In 1982, J&J found out that someone had tampered with and laced their Tylenol capsules with potassium cyanide.⁶⁰ To address this problem, safeguard their brand name, and prevent negative press, J&J removed all of their Tylenol products from the shelves.

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3.4: Key Terms

anchoring strategies

in the ethical context, the process of making ethics a foundation (anchor) of your business so that decision makers act keeping in mind key ethical considerations

antitrust laws

prevent companies from abusing position or power in the market through exclusion or limitation of competitor access to the market

business ethics

conduct by which companies and their agents abide by the law and respect the rights of their stakeholders, particularly their customers, clients, employees, and the surrounding community and environment

conflict of interest

when an individual or organization has interests in multiple areas that come into conflict with each other

copyright

grants the creator of a work the exclusive right to reproduce the work, typically for a specified period of time

corporate social responsibility (CSR)

practice in which a business views itself within a broader context, as a member of society with certain implicit social obligations and responsibility for its own effects on environmental and social well-being

design patent

protects product design

disclosure

sharing the needed facts and details about a subject in a transparent and truthful way

diversity

inclusion of many types of employees, regardless of differences (race, religion, gender, disability, LGBTQ, socioeconomic, cultural)

environmental entrepreneurship

entrepreneurial ventures focused on identifying an environmental problem and creating a product or process to solve that problem

ethics

standards of behavior to which we hold ourselves in our personal and professional lives

fairness

impartial, unbiased compliance with rules and standards of what is right, just, and equitable

integrity

adherence to a code of moral values implying trustworthiness and incorruptibility because there is unity between what we say and what we do

intellectual property

legally protected result of creative work to turn a unique idea into a product or service

prejudice

way of thinking about or treating employees in a manner that favors or hinders one person or group over another, usually in a way considered to be unfair

social entrepreneurship

entrepreneurial ventures focused on identifying a societal problem and creating a product or process to solve that problem

sustainability

practice of preserving resources and operating in a way that is ecologically responsible in the long term

trade secret

proprietary information, processes, or other internal knowledge that contribute to an organization's competitive edge in a market

trademark

registration that provides the owner the ability to use a name, symbol, jingle, or character in conjunction with a specific product or service, and prevents others from using those same symbols to sell their products

truthfulness

underlying facts, reality, and evidence on a matter

utility patent

protects product ideas

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3.5: Summary

3.1 Ethical and Legal Issues in Entrepreneurship

The first section of this chapter explores the relationship between entrepreneurship, ethics, social responsibility, and the law. At times, ethical conduct and legal conduct may seem intertwined; in other circumstances, they are quite different. This section discusses how ethical considerations can provide a moral compass for entrepreneurs seeking to find a balance between making money and doing the right thing. Keep in mind, however, that unlike legal mandates, following ethical business practices is more often a voluntary matter for business owners and operators. On the other hand, laws are important to follow, or you and your business might well be held legally liable (civilly or criminally). Sometimes, making a mistake is only an ethical lapse; other times, the mistake also constitutes a violation of the law (e.g., the Equifax case discussed).

3.2 Corporate Social Responsibility and Social Entrepreneurship

This section explored examples of entrepreneurship in which social responsibility plays a key role in the organization. Causes such as sustainability/environmental awareness are often important to an entrepreneur and his/her workforce. Most startup businesses want to make money, and in fact, as this section demonstrates, it's quite possible to make money and carry out a social responsibility goal simultaneously. Some social entrepreneurship companies go the extra mile and become certified B-corporations, as opposed to C-corps or S-corps, which are tax distinctions. If an entrepreneur elects to become a B-corporation, it means that it has satisfied an outside organization's audit, proving that he/she truly acts in a socially responsible manner.

3.3 Developing a Workplace Culture of Ethical Excellence and Accountability

This section of the chapter covers the area of employment. We explored how entrepreneurs can make their company one for which people want to work: where being ethical is a highly regarded trait. This type of approach to employment includes both ethical and legal considerations, such as no discrimination, fair pay, encouraging/rewarding ethical behavior, and creating an atmosphere of collegial teamwork. This approach to creating a socially responsible workplace requires a long-term commitment to being an ethical employer, which is not always easy. For example, it may mean, even though you are the boss or owner, admitting you made a mistake, accepting responsibility for it, and correcting it. You do not want to be the type of boss who can never say I got that wrong, and I'll do better next time.

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3.6: Review Questions

1.

Full and truthful disclosure _____.

- a. is often required under tort law
- b. is a matter of ethics, not a legal requirement
- c. is a risky business practice because it helps the competition
- d. is a strictly personal choice

2.

Common IP law-mandated periods of protection are _____.

- a. copyrights are protected for twenty years
- b. patents are protected for fifty years
- c. trademarks are protected for renewable ten-year periods
- d. trade secrets are protected for fifteen years

3.

Acting ethically includes acting with which of the following?

- a. integrity
- b. disclosure
- c. transparency
- d. All of these options are correct.

4.

Antitrust law:

- a. may help small entrepreneurs by ensuring big companies do not have monopolies
- b. may hurt small entrepreneur by requiring them to disclose trade secrets
- c. only applies to businesses with over 500 employees
- d. None of these options are correct.

5.

Patents _____.

- a. are similar to trade secrets under IP law
- b. allow a temporary monopoly for an invention
- c. are protected under IP law for a period of ninety-nine years
- d. None of these options are correct.

6.

An example of a company(s) that have been fined millions of dollars for legal/ethical violations includes _____.

- a. Enron
- b. TOMS
- c. British Petroleum
- d. a and c

7.

The B-corporation moniker _____.

- a. requires government certification
- b. requires no certification
- c. can only be used after an audit and certification by the B-corp organization
- d. is a social media concept used primarily for marketing purposes

8.

What differentiates a social entrepreneurial enterprise from a traditional entrepreneur?

- a. commitment to reduce pollution
- b. pledge to undertake sustainable supply chain sourcing
- c. effort to recycle water, waste, and other byproducts
- d. All of these options are correct.

9.

Core qualities for building a foundation of ethics-based behaviors include _____.

- a. trust
- b. fairness
- c. excellence
- d. All of these options are correct.

10.

Millennial workers _____.

- a. often do not place salary as their first priority
- b. want work-life balance
- c. usually expect their employer to have an ethical value system
- d. All of these options are correct.

11.

A diverse workforce _____.

- a. is always optional
- b. is usually required for government contracting
- c. is always required under Title VII
- d. is never required

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3.7: Discussion Questions

1.

How can ethics-based concepts such as truthfulness and fairness be integrated into the fabric of the organization?

2.

How can we nurture an environment where each member of the organization develops and internalizes a moral compass?

3.

Evaluate how an entrepreneurial business startup might benefit from the enforcement of antitrust laws against a large competitor.

4.

Discuss ways in which intellectual property, such as trademarks, can add value to a small business. How would you protect your ability to monetize intellectual property?

5.

In this section of the chapter, there is an example of a customer data breach via computer hacking. Discuss the biggest risks of storing customer or company information online. What are some of the steps you would take to prevent a data breach?

6.

Can a social enterprise work on a social issue and at the same time be profitable?

7.

How will you ensure that your organization learns to develop and deliver products and services that reduces your carbon footprint?

8.

Referring to [Table 3.3](#) listing cases of corporate fraud, which company example do you think is one of the worst examples of unethical conduct? Is this because it involved the most money stolen, the most people cheated, or the most devious methods?

9.

If an entrepreneur values sustainability and environmental awareness, does that mean the bottom line will suffer? Alternatively, is there a way to protect the environment and still make a profit?

10.

You have learned about B-corporations. If you started a new business, would you commit to the rather stringent audit process necessary to become a B-corporation? Why or why not?

11.

How can an entrepreneur maximize the benefits of a diverse workforce to develop a competitive advantage?

12.

How can you combat the negative impact of biases and prejudices in your organization?

13.

What would you do, as an entrepreneur, to make your employees feel you value their input and that they are free to speak honestly?

14.

Explain why diversity is something that should matter to an owner. What would you do to try to achieve it?

15.

Some small entrepreneurs do not have the budget for a full-fledged human resources department; however, that makes compliance with employment laws challenging. What steps would you take to comply with federal and state employment law if you do not have a full-time attorney or human resources specialist on staff?

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3.8: Case Questions

1.

In 2017, it became apparent that Wells Fargo had created over 2 million falsified customer accounts without the customers' consent, approval, or knowledge. John Stumpf, Wells Fargo CEO, who resigned amid this scandal, denied any leadership involvement and wrongdoing. He blamed his employees and fired over 5,300 employees over this scandal. Research this case and answer the following questions.

- A. What organizational and company-culture factors convinced employees to create false accounts?
- B. Why did the employees not question leadership?

2.

In 2017, the US Environmental Protection Agency found that Volkswagen had installed a “defeat device”—software in the vehicle that detects that an emissions test is in progress, controls the engine, reduces emissions, and enables the vehicle to pass the test for US emissions standards. Martin Winterkorn, CEO of Volkswagen, denied any wrongdoing, was later forced to resign, and admitted they had cheated. Research this case and answer the following questions.

- A. What organizational and cultural factors convinced Volkswagen employees to cheat?
- B. Why did the workforce not question leadership?

3.

If you were to create a top-ten list of the world's greatest corruption scandals, the problems of Petrobras (*Petróleo Brasileiro*) in Brazil surely would make the list. The majority state-owned petroleum conglomerate was a party to a multibillion-dollar scandal in which company executives received bribes and kickbacks from contractors in exchange for lucrative construction and drilling contracts. The contractors paid Petrobras executives upward of 5 percent of the contract amount, which was funneled back into slush funds. The slush funds, in turn, paid for the election campaigns of certain members of the ruling political party, *Partido dos Trabalhadores*, or the Workers Party, as well as for luxury items like race cars, jewelry, Rolex watches, yachts, wine, and art.³⁰ The original investigation into these practices was known as Operation Car Wash (*Lava Jato*) and began in 2014 at a gas station and car wash in Brasília, where money was being laundered. It has since expanded to include scrutiny of senators, government officials, and the former president of the republic, Luiz Inácio Lula da Silva. The probe also contributed to the impeachment and removal of Lula's successor, Dilma Rousseff. Lula and Rousseff are members of the Workers Party. The case is complex, revealing Chinese suppliers, Swiss bank accounts where money was hidden from Brazilian authorities, and wire transfers that went through New York City and caught the eye of the US Department of Justice. In early 2017, the Brazilian Supreme Court justice in charge of the investigation and prosecution was mysteriously killed in a plane crash. It is hard to imagine a more tragic example of systemic breakdown and individual vice. The loss of trust in government and the economy still affects ordinary Brazilians. Meanwhile, the investigation continues.

- A. Is this Brazilian company scandal unique to that culture?

4.

In the fall of 2016, Samsung Electronics experienced a massive public relations disaster when its Galaxy Note 7 smartphones started exploding due to faulty batteries and casings. Initially, the company denied there were any technical problems. Then, when it became obvious the exploding phones posed a safety and health threat (they were banned from airplanes), Samsung accused its suppliers of creating the problem. In reality, the rush to beat Apple's iPhone 7 release date was the most likely reason corners were cut in production. Samsung finally owned up to the problem, recalled more than two million phones worldwide, and replaced them with new, improved Galaxy Note 7s. The company's response and its replacement of the phones went a long way toward defusing the disaster and even boosting the company's share price. Samsung focused on the customer (i.e., customer safety and satisfaction) with the motive of doing the ethically responsible thing.

- A. Although some might argue the company could have done far more and much more quickly, perhaps it still acted reasonably. What do you think?

5.

Sometimes engaged employees go above and beyond in the interest of customer service, even if they have no “customers” to speak of. Kathy Fryman is one such employee. Fryman was a custodian for three decades at a 100-year-old school in the Augusta (KY) Independent School District. She was not just taking care of the school building, she was also taking care of the people inside.⁶¹

Fryman fixed doors that would not close, phones that would not ring, and alarms that did not sound when they should. She kept track of keys and swept up dirty floors before parents' night. That was all part of the job of custodian, but she did much more. Fryman would often ask the nurse how an ill student was doing. She would check with a teacher about a kid who was going through tough times at home. If a teacher mentioned needing something, the next day it would show up on his or her desk. A student who needed something for class would suddenly find it in his or her backpack. Speaking of Fryman, district superintendent Lisa McCrane said, "She just has a unique way of making others feel nurtured, comforted, and cared for." According to Fryman, "...I need to be doing something for somebody." Fryman's customers were not there to buy a product on which she would make a commission. Her customers were students and teachers, parents and taxpayers. Yet she provided the kind of service that all employers would be proud of, the kind that makes a difference to people every day.

- A. Is there a way for a manager to find, develop, and encourage the next Fryman, or is the desire to "do something good for somebody" an inherent trait in some employees that is missing in others?
- B. Employees who display Fryman's zeal often do so for their own internal rewards. Others may simply want to be recognized and appreciated for their effort. If you were the superintendent in her district, how would you recognize Fryman? Could she, for example, be invited to speak to new hires about opportunities to render exceptional service?

6.

Please view the **video ABC Nightline-IDEO Shopping Cart** on YouTube. This video demonstrates how an entrepreneurial mindset combined along with a collaborative process can be used to deliver the most innovative products.

- A. After watching the IDEO YouTube video, list the different factors that has enabled IDEO to become an industry example for corporate innovation.
- B. What top principles and behaviors that has contributed to the development of a culture of collaborative excellence?

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3.9: Suggested Resources

3.1 Ethical and Legal Issues in Entrepreneurship

SBREFA Small Business Resource Center. This is a great site for help with understanding legal requirements and regulatory compliance.

<https://www.dol.gov/agencies/oasam/b...nce-assistance>

US Department of Labor, Office of the Assistant Secretary for Administration & Management.

3.2 Corporate Social Responsibility and Social Entrepreneurship

List of Social Enterprise Business Models or Frameworks: <http://www.thesedge.org/socent-spotl...business-ideas>

TedTalk video: Carol Sanford at TEDxBerkeley 2014. “The Responsible Entrepreneur: Four Game Changing Archetypes”:
www.youtube.com/watch?v=Dqza5Uo1cFE

Global Entrepreneurship Monitor (GEM): www.gemconsortium.org

Social Enterprise and Entrepreneurship (SEE) the Change: <https://seethechange.ca>

3.3 Developing a Workplace Culture of Ethical Excellence and Accountability

Society for Human Resource Management: <https://www.shrm.org>

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