Exercise 2

Ethical Decisions—What Would You Do?

The following statements are often made even by practicing, experienced entrepreneurs: "How can we think about ethics when we haven't enough time even to think about running our venture?" "Entrepreneurs are doers, not thinkers—and ethics is too abstract a concept to have any bearing on business realities." "When you're struggling to survive, you're not worried about the means you use—you're fighting for one thing: survival." But when you do not have enough time, ethics is the one thing you need to make time for.

By considering some likely ethical scenarios, an individual can become more aware of his or her own value system and how making ethical decisions can be affected by the climate in which these decisions are made. We urge you to fully engage in the Ethical Decisions exercise that follows. These three vignettes pose practical and not infrequently encountered sorts of ethical dilemmas based on actual occurrences. One excellent way to complete this exercise is to take two or three friends to lunch—particularly those you imagine might make excellent venture partners. Over lunch, discuss in detail each of the vignettes—what you would and should do. Try to apply the ideas from the chapter. At the end, see if you can reach conclusions about what you have learned and what you plan to do differently.

Here are three interesting real-life ethical decision situations for your consideration.

Rim Job

Jeremy, a successful entrepreneur in the automotive industry, is a certified car fanatic who is passionate about having the latest, hottest look for his street rod. A line of new wheel rims is all the rage, and after checking the prices ($1,500 each), he decides to contact the manufacturer directly and see if he can make a better deal. He is told that they are sold only through speed shops and custom shops, and that his area does not have a sales representative. If he would agree to become a representative and get $10,000 worth of wholesale orders, the manufacturer would sell him a set of the rims at cost, in addition to paying him his commission. Jeremy agrees. Now he knows how he will get his new rims.

First Jeremy goes to the biggest and best speed shop nearby and asks for the rims by name. The owner says he has never heard of them. Jeremy, after telling the owner that they are really a popular product and that he is the sales rep, leaves some literature and says he will call again. Meanwhile he hires four male students from a local college to each go into the shop once in the next 2 weeks and to ask for the rims by name. They are to indicate that they would buy them if they were available. For this he pays each student $100. He then returns after 3 weeks, and the owner reports that the rims must be as hot as Jeremy says—kids have been asking for them. He orders $15,000 worth of rims to be delivered over 6 months. Jeremy is able to buy a set of rims from the manufacturer for $335 each and receives a $380 sales commission on the total sale. The speed shop owner sells $30,000 worth of the rims and reorders after 4 months. Jeremy remains the sales representative collecting commissions, but he does not actively promote the rims.

Were Jeremy's actions ethical? Why or why not? What should he have done?

Empty Suits

Fred was excited to make his pitch to some angel investors; but he felt a bit uneasy because although he had used the terms *team* and *we* throughout his business plan, he was the only one involved in his venture. He had not yet been able to attract any members to his team, but he had had several conversations with prospects. His personal contact in the angel group told him that his venture was likely to be funded, but there would be considerable focus on his team; a lot was riding on the meeting. For the presentation to the group he had four of his best friends, not at all connected to the business, dress in their best business suits, accompany him to the presentation, take seats in the back of the room, and say nothing. He hoped to make the impression that he had a team. He did a great job in the meeting, and his "team" filed out after him.

Was Fred being ethical? Why or why not? How should he have handled the situation?

A Moving Disclosure

Susan has been wrestling with moving her patio furniture manufacturing plant to Georgia from upstate Michigan, where her mother and father founded the company 58 years ago. Everything about her business will be easier there: closer to her markets, lower labor costs, lower raw materials costs, lower shipping costs, no problems with weather, and access to a labor pool that better fits her business. She finally makes the decision to move, but the site she has chosen will not be available for 6 months. Even though her company is a public company (she owns 35 percent) and her board is pushing her to maintain high production levels in Michigan as long as possible, she decides that in deference to her parents and their legacy in the community, she must tell her employees. Four days after signing the lease for the new site in Georgia, she holds a meeting on the shop floor and tells her employees. That afternoon she holds a press conference.

Was Susan ethical? Why or why not?

What are the implications and lessons from your discussion of the three cases? What role do ethical issues play in forming a team, selecting advisors and investors, and other entrepreneurial activities?