



B A 250: SMALL BUSINESS MANAGEMENT

Lesson 11: Ethics and the Legal Environment

Introduction (1 of 7)

Ethics and the Legal Environment

Ethical businesspeople are highly respected. Management has the responsibility to establish the organization's moral tone. This lesson will look into doing the right thing by making ethical decisions and practicing social responsibility.

Owners need to know the basics of the laws that govern their small business operations and intellectual property. We will also discuss how contracts, laws, and government regulations comprise the legal environment for small businesses.

Learning Objectives

The readings and questions in the lesson should help you to do the following things:

- Define social responsibility, business ethics, and ethical standards.
- State the relationship and social responsibility of the business to the business's stakeholders.
- State the essential elements of a contract.
- Define contract, the elements of a contract, the agency relationship, bankruptcy, copyright, trademarks, and patents.
- State the main parts of the UCC governing sales contracts.
- Define government regulations related to protecting consumers, credit, the environment, and trade practices in relation to small businesses.

Key Terms/Concepts (2 of 7)

Key Terms/Concepts

agency

the legal relationship between a party who wants something done and the party hired to complete the desired action

bankruptcy

when a party's obligations exceed its assets

breach of contract

a violation that occurs when one party fails to comply with the provisions of the contract

business ethics

the values and behavioral standards that guide organizational decisions and interactions

contract

an agreement between two or more parties that is enforced by law

copyright

the exclusive right that guides the usage of original works by those other than the creator

employer identification number (EIN)

a business identification number issued and used by the IRS to facilitate tax processing

ethics

an individual's personal beliefs, values, and standards that are drawn on to determine right and wrong

insurance

a form of risk transference whereby an insurance company agrees, for a fee, to reimburse your business for a portion of a loss

patent

a grant giving the inventor of a product the right to make, use, and sell it

social responsibility

the responsibility businesses have to understand the impact of decisions on their communities and the larger world in which they function

taxes

charges levied by a government on individuals and organizations under its jurisdiction

trademark

a distinctive name, design, symbol, or other representation used to identify a product and distinguish it from others

warranty

a representation made by a seller to a buyer regarding the quality and/or performance of a product

Road Map (3 of 7)

Road Map

Readings:

- Complete the readings for Lesson 11 listed in the [course syllabus](#).
- Read the online commentary for Lesson 11.

Assignments:

1. View the video linked in the Lesson 11 assignments.
2. Participate in Discussion Forum 7 (graded).
3. Complete Quiz 4.

Ethics and Social Responsibility (4 of 7)

Ethics and Social Responsibility

Our society most often measures a successful business by its level of sales, the operational locations it has established, or the profit it returns. These measures are critical to providing jobs, economic stability, and goods or services. Our society is continually telling businesses that they must do more.

However, new and existing laws, court decisions, media attention, and public opinion have placed additional emphasis on the business's responsibility to act in an ethical and concerned manner in all of its interactions with society. Here are some questions to consider:



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- What are ethics? What role should ethics play within the business?
- When faced with an ethical dilemma, how is the best decision made?
- How can the entrepreneur satisfy all the stakeholders?
- How do personal values and beliefs translate to non-personal entities like businesses?
- How can small businesses be profitable in an ethical fashion?

These questions face the owners and managers of both large and small businesses.

Professionals, such as doctors, nurses, and accountants, have guidelines and ethical standards. Such entities as the American Medical Association, American Nurses Association, and Financial Accounting Standards Board determine these guidelines and have the power to sanction professionals as needed.

Many large corporate entities have an array of policies and procedures in place to encourage and require ethical behaviors. One only has to look as far as the [J&J Credo](http://www.jnj.com/about-jnj/jnj-credo/) (<http://www.jnj.com/about-jnj/jnj-credo/>) to see how large corporate entities attempt to encourage and promote ethical activity. Along with credos and codes of ethics, many large businesses have created ethical ombudsman positions and toll-free phone numbers for employees to anonymously report unethical and illegal behaviors without fear of retaliation. But what about the small business owner who may not have the time or expertise (let alone the money) to create and develop guidelines, policies, and codes of ethics? An article from *Forbes*, [Observing the Small Business Code of Ethics](http://www.forbes.com/forbes/welcome/) (<http://www.forbes.com/forbes/welcome/>), offers some advice.

This author firmly believes that small businesses are on the right track in terms of having strong value systems in place in today's day and age. A small business is less likely to be able to survive a serious ethical lapse mainly because it does not have the deep pockets of a typical large corporation.

When a small business owner is faced with an ethical dilemma, he or she must carefully weigh the consequences of the decision on both the business itself and its reputation. Today's business leaders must consider many sides to the decisions they make. Just working to make a profit is no longer acceptable. How that profit is made, where it is made, who it affects, and what the profit is used for must be considered. Many decisions do not have clear-cut right or wrong answers—rather, there are various degrees of right or wrong. Small businesses have wide-ranging impact on the communities in which they exist; business owners must evaluate decisions based on their effect on all stakeholders.

As small business owners make both routine and non-routine decisions, they need to be aware, knowledgeable, and sensitive. For example, a business shouldn't just concern itself with sending parts outside the community for assembly or with the dumping of waste. Rather, the business must consider day-to-day decisions, such as which or how many children's sports programs to sponsor or how it should respond to community or employee catastrophes. For any business, this requires a balance and understanding of limitations and capabilities. This is especially true for a small business, where the result of an error could cause an immediate critical (and possibly unrecoverable) situation.

Small business owners face other important issues, such as AIDS, drug testing, sexual harassment, and privacy concerns. Small business owners are not immune from these important societal issues. It is critical that entrepreneurs be aware of and knowledgeable about each of these areas. Legal expenses as a result of a misstep can quickly bankrupt a small business.

The owners and managers of today's small businesses must tread carefully. Leaning too far to one side—whether it is toward profit maximization or socially responsible actions—can be disastrous. An ethical balance requires involvement, meaningful thought and evaluation, and, most of all, leadership's recognition of the business's position in the community and in society as a whole. Business owners must establish an ethical framework to guide them and their employees.

Legal Issues (5 of 7)

Legal Issues

Every individual and organization within our society is obligated to follow the rules and regulations set forth by our government and judicial system.

Whether they are regulations concerning safety, reporting, licensing, trade practices, or taxes, for the small business, they have been part and parcel of existence from the day it was formed.

For the entrepreneur, the legal requirements of running a business may be the most frustrating part of the entire venture. The laws tend to be difficult to



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understand and even contradictory. Compliance can be very costly and the paperwork overwhelming.

Every entrepreneur should make all efforts to learn as much as possible about legal regulations, but should not presume to know it all. It is very important for a small business owner/manager to obtain the support needed to ensure compliance with the law, even if that means hiring a knowledgeable professional. For example, you may retain the services of a knowledgeable attorney who is familiar with the legal intricacies of your industry and type of business—someone with whom you are compatible, who has time to handle your business needs, and who is affordable. Laws are a fact of life; they must be followed or the repercussions can be costly, as ignorance of the law is no defense.

As we wrap up the course, I hope you take with you a broadened knowledge base and skill set, an enlightened view, and a greater appreciation of those men and women who put the entrepreneur hat on every day, driven to be successful in this ever-changing world. We have read about many types of businesses, from old-fashioned, traditional businesses to creative, new businesses. Whether the small business is a brick-and-mortar store or a

completely online business, one fact has stood the test of time: change is inevitable. From the legal/regulatory environment to our societal value systems to our technological advancements, a business must always be ready to adapt to ever-changing environmental factors. If it cannot, there will always be another curious and creative entrepreneur ready to take on the challenge.

Reference (6 of 7)

Reference

Smith, C. (2010, July 25). Dr. Randy Pausch: The last lecture (from Oprah) [Video file]. Retrieved from <https://www.youtube.com/watch?v=Wn9L4CxAaQY>

Lesson Assignments (7 of 7)

Lesson 11 Assignments

Complete all of the following tasks and readings by the due dates listed in the [course syllabus](#).

Online Video

Watch the following video (Smith, 2010). It provides background for this lesson and focuses on ethics and social responsibility from the perspective of a college professor and researcher.

Video 11.1. Dr. Randy Pausch: The Last Lecture



Time: 00:10:10

No transcript available.

If you would like to view the complete version of this lecture (1:16 hours), visit [The Last Lecture](https://www.youtube.com/watch?v=ji5_MqicxSo) (https://www.youtube.com/watch?v=ji5_MqicxSo) by Randy Pausch.



Discussion Forum

Following the [Discussion Forum Guidelines](#), participate in the following discussion forum topic. Your initial discussion post for the question is due by **Thursday at 6:00 p.m. (ET)**. Your responses to your classmates' initial posts are due by **Sunday at 11:55 p.m. (ET)** as outlined in the [course syllabus](#).

Discussion Forum 7: Last Lecture Video Reflection (5 points)

This is your opportunity to start an original post topic. Please reflect back on this course as it relates to the "Last Lecture" video in preparing your post.

Create one original post for this discussion and respond to two of the posts from other students. Please post your responses to [Discussion Forum 7: Last Lecture Video Reflection](#) (<https://cms.psu.edu/section/content/default.asp?WCI=Goto&WCU=CRSCNT&MATCH=Discussion+Forum+7:+Last+Lecture+Video+Reflection>).



Quiz 4

Complete [Quiz 4](https://cms.psu.edu/section/content/default.asp?WCI=Goto&WCU=CRSCNT&MATCH=Quiz+4) (https://cms.psu.edu/section/content/default.asp?WCI=Goto&WCU=CRSCNT&MATCH=Quiz+4) . It will cover Lessons 10 and 11. See [Course and Projects Overview](#) in the syllabus for quiz details.

Please direct questions to the [World Campus HelpDesk](http://student.worldcampus.psu.edu/student-services/helpdesk) (http://student.worldcampus.psu.edu/student-services/helpdesk) |

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