

Before long, Infuze's business took a turn. Takeda and Koo knew that their pair of tea houses was too small to drive and sustain mainstream consumer demand for matcha alone. So even though their original business plan identified other retailers as a serious competitive threat, the duo found themselves supplying an increasing number of those same competitors with matcha powder. The biggest was a 40-store regional chain, which Takeda and Koo helped to develop its own matcha latte and "matcha chillo" drinks. This deal put matcha drinks into a competitor's store not five minutes away from one of their own.

Since Infuze was young, it was difficult for the founders to quantify the effects of this change in tactics—but they felt that wholesaling and retail beverage sales seemed to form a virtuous circle for the company. "Sure, we gave up being the only place in town for matcha," says Takeda. "But the more prevalent it was, the more popular it became. We were making money whether it was being sold wholesale or through our store, so it wasn't in our interests to clutch onto exclusivity on the retail side." With the chain's aggressive PR campaign, matcha grabbed national coverage. In less than six months, Infuze's bulk sales increased from 5 percent to 20 percent of gross revenue.

Even then, however, wholesale distribution was still a sideline. That changed after a meeting in late 2004. Takeda and Koo were invited to San Francisco to meet with senior decision-makers at a 500-location chain of smoothie stores. The smoothie giant was enthralled with matcha and was prepared to order it in bulk from Infuze in unprecedented volumes. It was also ready to move fast. "Product development in the beverage industry can be a year-long cycle," Takeda says. "They were ready to push it forward in three months."

But the new deal was fraught with peril. "There was nothing to stop our client from dealing with Aiya directly," said Takeda. "We were two guys in Vancouver working as middlemen between two massive corporations." And even if they could continue working with the client directly, Infuze stood to gain only a very modest markup on the cost of the bulk matcha—hardly commensurate with the resources Infuze was investing to close the deal.

By this time, Infuze had done a second round of financing. And Takeda and Koo's worries were echoed by their new investors, who insisted that Infuze's relationship with Aiya needed retooling. Infuze's management took their business case to Aiya: Infuze's bulk business was growing quickly, they had a 500-location chain waiting in the wings, but the present structure of the deal left Infuze no incentive for continuing to pursue bulk sales. Aiya responded with a "working understanding." Says Takeda: "Aiya basically promised me that we would find a fair way to share the risks and rewards of growing the matcha market. But they wouldn't commit to any details."

Aiya had a corporate culture that valued deliberation, and negotiations plodded on for months. Yet Infuze was still able to help its big, fast-moving client debut its matcha smoothie. The arrangement was held together by the good faith of Infuze's founders and two equity investments from Aiya as evidence of its commitment. Takeda, Koo, and their staff joined Aiya at trade fairs and conventions. Takeda and Koo were used to conveying matcha's value proposition clearly and concisely. "Behind the counter at Infuze, you've got 20 seconds of the customer's attention," Takeda says. They used their 20-second elevator pitch at the trade shows they attended to considerable effect. "We were getting 10 business cards for every one that Aiya's staff were getting."

New Deal

In May 2005, Aiya finally returned with a new deal for Infuze. The offer involved a five-year term, entitling Infuze to 33.3 percent of its gross margin for all sales to new or expanded Canadian and American accounts. Infuze, as a non-exclusive supplier and marketer, would be required to make "reasonable commercial efforts" to expand its own chain of branded tea houses, sell Aiya tea in its tea houses, and maximize North American sales.

The night they received Aiya's memorandum of understanding, Takeda and Koo stayed up late digesting its contents. Under its terms, Aiya and Infuze would share the cost of direct marketing and employees. Aiya would cover two-thirds of the costs and Infuze the remaining third. Infuze's spending would be subsidized by an injection of \$250,000 from Aiya, in exchange for a modest share of equity. "We were ecstatic. It was an unbelievable deal," says Takeda. "When we first talked with Aiya in January, they had been talking about performance milestones, contingent on growth levels. By the time we had a written deal, there were no performance requirements." The trust built during the two companies' long courtship allowed Aiya to feel comfortable with a flexible contract free of formal obligations beyond a commitment to revenue-sharing.

But for all their enthusiasm, Takeda and Koo were daunted by the road that lay ahead: Would Infuze miss its retail opportunity by moving into wholesale? What would it need to do to switch from retail to wholesaling? And how were two guys in Vancouver going to make Americans clamour for matcha and bring industry giants to their doorstep? "It was going to be a 180-degree turnaround in the direction of our business. And we needed strategy on the fly, in real time," says Takeda.

Infuze's founders were worn out and overwhelmed. They had been successful at retailing. Their first experiments in wholesaling had been extraordinarily promising. But were they ready to switch gears mid-race?

C · H · A · P · T · E · R

7

ETHICAL DECISION MAKING AND THE ENTREPRENEUR

A creative man is motivated by the desire to achieve, not by the desire to beat others.

Ayn Rand

RESULTS EXPECTED

Upon completion of this chapter, you will be able to:

1. Make decisions involving ethical issues and analyze your reasons for doing so.
2. Discuss with others the ethical implications of the decisions you make and identify how they might affect you, your partners, your customers, and your competitors.
3. Recognize the importance of high ethical standards in an entrepreneurial career.

RESULTS EXPECTED

OVERVIEW OF ETHICS

Most successful entrepreneurs believe that high ethical standards and integrity are exceptionally important to long-term success. For example, a study of 128 presidents/founders attending the Harvard Business School's Owner/President Management program were asked to name the most critical concepts, skills, and know-how for success at their companies at the time and what they would be in five years. Seventy-two percent stated that high ethical standards were the single most important factor in long-term success. A study of 1,700 MBA students from the U.S., Canada, and the U.K. by the Aspen Institute found that MBA students are concerned that their schools are not doing enough to prepare them for ethical dilemmas they may face in the business world.¹ Their concern and awareness is not surprising given the recent spate of corporate scandals. Ethical lapses like those of executives at Ravelston Corporation and Hollinger International, for example, erode the confidence in business activity at all levels. It should also be noted that business students have a marked propensity to cheat. In a study of 5,331 students in the U.S. and Canada, 56 percent of MBA students indicated that they had cheated in the past year.² It has been reported that 73 percent of university students admitted to "serious cheating incidents" on



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written work while in high school.³ “A recent University of Guelph study has discovered that more than half the student body in Canada is cheating its way through school.”⁴ And research has shown that those who “engage in dishonest behaviour in their college classes were more likely to engage in dishonest behaviour on the job.”⁵ The Internet has made both plagiarism and catching offenders easier. Technology has aided those aspiring to break the rules; text messaging during exams and camera phones copying an exam are common tactics. Ryerson University had to deal with a situation where students were working on solutions via Facebook.⁶ Some contend that much blame should be placed on the instructors and academic administrators who enable or do not properly handle dishonesty.

An article appearing in the *Journal of Business Ethics* finds that with regard to moral principles in business, “the argument is about values: are they universal or emergent? In entrepreneurship, it is about opportunities—are they discovered or constructed?” The authors of the article conclude that ethics and entrepreneurship are quite similar; both require a decision maker who has the preparation for the unexpected.⁷ Entrepreneurship carries ethical challenges beyond those that may confront a manager in an established organization. While entrepreneurs may be praised as innovators contributing to society by developing new products, generating employment opportunities, and opening further possibilities—entrepreneurs are often bound through the dynamic value creation process alone and without precedent. On the other hand, the manager in an established corporation has guidance from colleagues, rules/regulations, and company culture to direct him or her through ethical obstacles.⁸ The assertion follows that the tenacity to succeed may push the entrepreneur to bend his or her own personal values.⁹

In the search for profits, quite often, moral dilemmas enter the mix. Unethical behaviour is found among a range of stakeholders in the business world.¹⁰ Financial pressures, short-term tactics, and heightened competition push entrepreneurs to do the ‘wrong things,’ just as they do others—including health care providers and educators. Richard Hudson of Mount Allison University and Roger Wehrell of Saint Francis Xavier University found that those pursuing a socially responsible cause often experience inferior profit margins whereas those putting profits first may be forced to push other considerations aside.¹¹ It becomes easier to have a “voice” where a fledgling enterprise is concerned; how much harm can you do by protesting Air Canada’s corporate activity by boycotting their services or selling your few shares?

A provocative article in the *Harvard Business Review* asserted that the ethics of business were not those of society but rather those of the poker game.¹² The author of the article argued, “Most businessmen are not indifferent to ethics in their private lives, everyone will agree. My point is that in their office lives they cease to be private citizens; they become game players who must be guided by a somewhat different set of ethical standards.” The author further argued that personal ethics and business ethics are often not in harmony, and by negotiation or compromise, a resolution must be reached. The article provoked a storm of response. The question remains, how are businesspeople supposed to operate in this capitalist system?

One individual has shown that hard work, determination, and high ethical standards are the proper response. Prem Watsa grew up in Hyderabad, India, and after earning a chemical engineering degree at the Indian Institute of Technology moved to Canada to study where he worked nights in order to support himself. Watsa founded Fairfax Financial Holdings, which posted over US\$1.5 billion in profits for 2008. Some have labelled Prem Watsa the “Canadian Warren Buffet” and the *Globe and Mail* awarded him 2008’s CEO of the Year, noting his company’s success in the face of economic downturn. In challenging times, Watsa points out “a good university education is more important than ever.” He has recently become Chancellor of the University of Waterloo and aims to “foster a new generation of entrepreneurs.” His words of wisdom: “Stay positive and look at adversity as opportunity. Integrity, a solid work ethic and the right attitude are essential tools for tomorrow’s business leaders.”¹³

In addition, the law, which one might expect to be black and white, is full of thorny issues. Laws not only have authority but also limitations. Laws are made with forethought and with the deliberate purpose of ensuring justice. They are, therefore, ethical in intent and deserve respect. However, laws are made in legislatures, not in heaven. They do not anticipate new conditions; they do not always have the effect they were intended to have;

they sometimes conflict with one another; and they are, as they stand, incapable of making judgments where multiple ethical considerations hang in the balance or seem actually to war with one another. Thus, from the beginnings of recorded history in Egypt and the Middle East, a code of laws was always accompanied by a human interpreter of laws, a judge, to decide when breaking the letter of the law did not violate the spirit or situation that the law was intended to cover.

ETHICAL STEREOTYPES

The 1990s ushered in the “New Era of Entrepreneurship” worldwide. Canada, now as in the past, is seen as providing an inviting and nurturing climate for those wishing to start their own enterprises and reap the rewards. In part, this is because the provincial and federal governments have encouraged an atmosphere under which market forces, private initiative, and individual responsibility and freedom can flourish. But as has been pointed out an entrepreneur need not be a decent and law-abiding individual, a criminal can be regarded as enterprising.¹⁴ Just as surely as there is illegal business activity, there is immoral entrepreneurship. A study published by the Canadian Council for Small Business and Entrepreneurship in 2009 compared the legitimate entrepreneur with the illegitimate entrepreneur. Whether an entrepreneur adds value to society or extracts value from society, he or she will utilize similar enterprising skills and managerial capabilities.¹⁵

Laws, enacted in response to society’s changing perceptions of what constitutes ethical business practices, have had the desirable effect of encouraging those in many industries to develop codes of ethics—in large part because they wished to set their own rules, rather than to have rules imposed on them.

As the ethical climate of business has changed, so has the image of the entrepreneur. Most ‘rags to riches’ stories personify the good stereotype. Entrepreneurs doing business in the unfettered economic climate of the 19th century—the era of the robber barons, where acts of industrial sabotage were common—represent the ruthless stereotype. The exploitation of immigrant labour to build the railroads leaves an unsavoury aftertaste for today’s more ethically conscious entrepreneurs.

Yet, thoughtful historians of entrepreneurship will also recall that regardless of standards by which they are judged or of the motivations attributed to them, ‘great’ entrepreneurs gave back to society with libraries, concert halls, and charitable foundations. Critics are much more inclined to examine and dissect the ethical behaviour of the commercial sector, rather than that of the clergy, or even of academia itself. In many comparisons, the behaviour of business moguls would look quite pure.

A touch of suspicion still tinges entrepreneurial activity, and the word *entrepreneur* may still connote to some a person who belongs to a ruthless, scheming group. In 1975, *Time* suggested that a businessman might make the best-qualified candidate for U.S. president but noted the “deep-rooted American suspicion of businessmen’s motives.”¹⁶ “Anyone with previous business experience becomes immediately suspect. Certain segments think he can’t make a decision in the public interest.”¹⁷ However, in 1988, the prophecy of *Time* magazine was fulfilled when George Bush, an oil entrepreneur, was elected president of the United States, and later reinforced in 2000 when his son George W. Bush, a Harvard MBA, became president. Canada has largely avoided having business leaders go into politics. In Europe, however, it is common for leaders from industry to go into politics or vice-versa. But Canada remains critical of conflicts of interest and mixed-motives (witness investigations of Brian Mulroney and Jean Chrétien).

Jeremy Hall of the University of Calgary and Philip Rosson of Dalhousie University explored entrepreneurial opportunities and ethical dilemmas. Their study divides entrepreneurship into three types: productive, unproductive, and destructive (criminal).¹⁸ They observe that technological turbulence in particular, which creates opportunities for the newcomer and challenges incumbents as well as established regulations, may generate ethical dilemmas. From photocopier to file-sharing, technology can push the boundaries of the rules of the game. A key challenge is to be prepared for the inevitable confrontations an entrepreneur will encounter.

SHOULD ETHICS BE TAUGHT?

Just as recent years have ushered in a new era of worldwide entrepreneurship, the landscape of business ethics has redefined itself. According to Andrew Stark of the University of Toronto:

Advocates of the new business ethics can be identified by their acceptance of two fundamental principles. While they agree with their colleagues that ethics and interest can conflict, they take that observation as the starting point, not the ending point, of an ethicist's analytical task. . . . Second, the new perspective reflects an awareness and acceptance of the messy work of mixed motives.¹⁹

The challenge facing this new group of business ethicists is to bridge the gap between the moral philosophers and the managers. The business ethicists talk of "moderation, pragmatism, minimalism"²⁰ in their attempt to "converse with real managers in a language relevant to the world they inhabit and the problems they face."²¹ With this focus on the practical side of decision making, courses on ethics can be useful to entrepreneurs and all managers.

Ethics Can and Should Be Taught

Derek Bok, former president of Harvard University, argues that ethics can and should be taught by educational institutions and that this teaching is both necessary and of value:

Precisely because its community is so diverse, set in a society so divided and confused over its values, a university that pays little attention to moral development may find that many of its students grow bewildered, convinced that ethical dilemmas are simply matters of personal opinion beyond external judgment or careful analysis.²²

Brenda Zimmerman of York University points out that 20 years ago, doing charitable work was an extra, something on the side, but today's MBAs "want to see much greater integration between their causes and the way they make money."²³ Many are choosing a career path where the returns are not measured entirely by salary. Tal Dehtiar and Michael Brown founded MBAs Without Borders while at McMaster University with the idea that there has to be another use for all their great business knowledge.²⁴ The University of Toronto has NeXus—"a non-profit management consulting service established to help non-profit organizations and social enterprises build capacity, explore new revenue streams, and broaden their networks for financial and community support."²⁵ Ann Armstrong of the University of Toronto explains that with social entrepreneurship, "if you had to choose between the social and economic outcome, you'd pick the social."²⁶ It brings to altruistic ventures "the ruthless efficiency of traditional business—something typically missing from charities, non-profits, and government aid agencies." "The ratio of social benefit to invested dollar is often not very good with those organizations," according to Dirk Matten of York University. Canadian Jeff Skoll, the first president of eBay, is a big supporter of social enterprises. His Skoll Foundation, which started with about US\$1 billion has backed numerous social enterprises. Skoll championed the creation of the eBay foundation, which is a philanthropic program supporting children, education, volunteerism, economic and community revitalization, as well as the natural environment.

John Shad, a former chairman of the New York Stock Exchange, gave more than \$20 million to the Harvard Business School to include ethics in the MBA curriculum. J. Gregory Dees, an ethics professor at Duke University, stresses that the "primary objective of such courses is to get people thinking about issues that are easy to avoid. . . . What we want people to leave with is a commitment to raising these issues in other settings, other courses, and on the job, with [an acceptable] comfort level in doing so."²⁷

In addition, we have recently seen the emergence of numerous courses on socially responsible behaviour, social entrepreneurship, and on the role of environmentally sustainable business practices. A study published in 2009 in *Business Ethics* showed that personal values of entrepreneurs translated positively into economic performance of their ventures. Socially responsible business practices towards employees, customers, and society benefited the bottom line.²⁸

Integrity as Governing Ethic

Lynn Paine, a specialist in management ethics, distinguishes among avoiding legal sanctions, compliance, and the more robust standard of integrity.

From the perspective of integrity, the task of ethics management is to define and give life to an organization's guiding values, to create an environment that supports ethically sound behavior, and to instill a sense of shared accountability among employees.²⁹

Paine goes on to characterize the hallmarks of an effective integrity strategy and the strategies for ethics management (see Exhibit 7.1). Clearly, the call for ethical strategies and practices is being heard. That is good news for our society, our economy, and you!

Entrepreneurs' Perspectives

Most entrepreneurs also believe ethics should be taught. In the research project previously mentioned, entrepreneurs and chief executive officers attending a management program at the Harvard Business School were asked the question: Is there a role for ethics in business education for entrepreneurs? Of those responding, 72 percent said ethics can and should be taught as part of the curriculum. (Only 20 percent said it should not, and two respondents were not sure.)

The most prominently cited reason for including ethics was that ethical behaviour is at the core of long-term business success, because it provides the glue that binds enduring successful business and personal relationships together. In addition, the responses reflected a serious and thoughtful awareness of the fragile but vital role of ethics in entrepreneurial attainment and of the long-term consequences of ethical behaviour for a business. Typical comments were:

EXHIBIT 7.1 Strategies for Ethics Management

Characteristics of Compliance Strategy		Characteristics of Integrity Strategy	
Ethos	Conformity with externally imposed standards	Ethos	Self-governance according to chosen standards
Objective	Prevent criminal misconduct	Objective	Stable responsible conduct
Leadership	Lawyer driven	Leadership	Management driven with aid of lawyers, HR, others
Methods	Education, reduced discretion, auditing and controls, penalties	Methods	Education, leadership, accountability, organizational systems and decision processes, auditing and controls, penalties
Behavioural Assumptions	Autonomous beings guided by material self-interest	Behavioural Assumptions	Social beings guided by material self-interest, values, ideals, peers
Implementation of Compliance Strategy		Implementation of Integrity Strategy	
Standards	Criminal and regulatory law	Standards	Company values and aspirations, social obligations, including law
Staffing	Lawyers	Staffing	Executives and managers with lawyers, others
Activities	Develop compliance standards, train, and communicate	Activities	Lead development of company values and standards; Train and communicate; Integrate into company systems; Provide guidance and consultation; Assess values performance; Identify and resolve problems; Oversee compliance activities
Education	Compliance standards and system	Education	Decision making and values; Compliance standards and system

Source: Lynn Sharp Paine, "Managing for Organizational Integrity," *Harvard Business Review* 72, no. 2 (1994): 113. Copyright © by the Harvard Business School Publishing Corporation; all rights reserved.

- If the free enterprise system is to survive, the business schools better start paying attention to teaching ethics. They should know that business is built on trust, which depends upon honesty and sincerity.
- If our society is going to move forward, it won't be based on how much money is accumulated in any one person or group. Our society will move forward when all people are treated fairly—that's my simple definition of ethics. I know of several managers, presidents, etc., who you would not want to get between them and their wallets or ambitions.
- In my experience the business world is by and large the most ethical and law-abiding part of our society.
- Ethics should be addressed, considered, and thoroughly examined; it should be an inherent part of each class and course. . . ; instead of crusading with ethics, it is much more effective to make high ethics an inherent part of business—and it is.

However, these views were not universally held. One entrepreneur who helped to found a large company with international operations warned: "For God's sake, don't forget that 90 percent of the businessman's efforts consist of just plain hard work." Another argument holds that certain conditions make it is easier to be ethical, perhaps even a luxury. "If you've got a job and a pension, it's a lot easier to buy organic foods." Whereas, for the poor and unemployed—survival may be the primary driver; taking the higher ground and worrying about the planet may not be a primary concern.³⁰

There is also some cynicism. The 40-year-old head of a real estate and construction firm with 300 employees and \$75 million in annual sales said: "There is so much hypocrisy in today's world that even totally ethical behaviour is questioned since many people think it is some new negotiating technique."

It would be unfortunate if the entrepreneur did not realize his or her potential for combining action with ethical purpose because of the suspicion that the two are unrelated or inimical. There is no reason they need be considered generically opposed. Nevertheless, in analyzing ethics, the individual can expect no substitute for his or her own effort and intelligence.

THORNY ISSUES FOR ENTREPRENEURS

Although the majority of entrepreneurs take ethics seriously, researchers in this area are still responding to David McClelland's call for inquiry: "We do not know at the present time what makes an entrepreneur more or less ethical in his dealings, but obviously there are few problems of greater importance for future research."³¹ Exhibit 7.2 outlines topics for consideration. Clearly, opportunities for further research exist.

Action under Pressure

An entrepreneur will have to act on issues under pressure of time and when struggling for survival. In addition, the entrepreneur will most likely decide ethical questions that involve obligations on many sides—to customers, employees, shareholders, family, partners, himself, or a combination of these. Walking the tightrope and balancing common sense with an ethical framework is precarious.

To cope with the inevitable conflicts, an entrepreneur should develop an awareness of his or her own explicit and implicit ethical beliefs, those of his or her team and investors, and those of the milieu within which the company competes for survival. As the successful entrepreneurs quoted above believe, in the long run, succumbing to the temptations of situational ethics will, in all likelihood, result in a tumble into the quicksand, not a safety net—just ask executives at Nortel and Bre-X, or Garth Drabinsky and Myron Gottlieb, co-founders of the theatre production company Livent.

An appreciation of this state of affairs is succinctly stated by Fred Allen, chairman and president of Pitney-Bowes:

EXHIBIT 7.2 Selected Ethical Dilemmas of Entrepreneurial Management

Dilemma: Elements	Issues That May Arise
Promoter: Entrepreneurial euphoria Impression management Pragmatic versus moral considerations	What does honesty mean when promoting an innovation? Does it require complete disclosure of the risks and uncertainties? Does it require a dispassionate analysis of the situation, with equal time given to the downside as well as the upside? What sorts of influence tactics cross the line from encouragement and inducement to manipulation and coercion?
Relationship: Conflicts of interest and roles Transactional ethics Guerrilla tactics	Tension between perceived obligations and moral expectations. Changes in roles and relationships: pre- versus post-venture status. Decisions based on affiliative concerns rather than on task-based concerns. Transition from a trust-based work environment to one that is more controlled.
Innovator: "Frankenstein's problem" New types of ethical problems Ethic of change	Side effects and negative externalities force a social reconsideration of norms and values. Heightened concern about the future impact of unknown harms. Who is responsible for the assessment of risk? Inventor? Government? Market? Breaking down traditions and creating new models.
Other dilemmas: Finders-keepers ethic Conflict between personal values and business goals Unsavory business practices	Is there a fair way to divide profits when they are the result of cooperative efforts? Should the entrepreneur take all the gains that are not explicitly contracted away? Managing an intimate connection between personal choices and professional decisions. Coping with ethical pressures with creative solutions and integrity. Seeking industry recognition while not giving into peer pressure to conform.

Source: J. Gregory Dees and Jennifer A. Starr, "Entrepreneurship Through an Ethical Lens," in *The State of the Art of Entrepreneurship*, Donald L. Sexton and John D. Kasarda, eds. (Boston, MA: PWS-Kent Publishing Company, 1992).

As businessmen we must learn to weigh short-term interests against long-term possibilities. We must learn to sacrifice what is immediate, what is expedient, if the moral price is too high. What we stand to gain is precious little compared to what we can ultimately lose.³²

Stumbles, Tumbles, and Falls from Grace

NORTEL³³

Quick shake-ups at the top. Jean Monty was CEO from 1993 to 1997; John Roth from 1997 to 2001, during which time he lobbied the authorities for lower taxes and threatened to move Nortel to the United States, market capitalization plummeted from \$398 billion to \$5 billion, 60,000 employees were laid off and Roth cashed in \$135 million in stock options. Frank Dunn was CEO from 2001 to 2004 when he was fired with other financial executives; Dunn came under investigation by the U.S. Securities and Exchange Commission as well as the Ontario Securities Commission, and was arrested by the RCMP in mid-2008. U.S. Admiral William Owens took the helm from 2004 to 2005 to right the sinking ship, and then Mike Zafirovski took over and steered Nortel into bankruptcy in 2009 amid calls for a new captain!

BRE-X³⁴

Smoke and mirrors, no substance. Bre-X was a Canadian mining company that had a short stratospheric economic rise on prospects of discovering gold. Its stock soared from just about nothing to \$285 per share and a market capitalization of \$6 billion. The discovery of gold was found to be a hoax and key players went into hiding. After a fleeting tumultuous ride, investors were left holding worthless paper.

LIVENT^{35,36,37}

Lights, curtain, legal action. Garth Drabinsky and Myron Gottlieb wrestled their favourite division away from Cineplex Odeon. They took a business unit that included the Pantages Theatre in Toronto and *The Phantom of the Opera*. The company went public on the TSX and within a few years and under heavy financial losses, Drabinsky and Gottlieb were escorted by security guards out the door. Live Entertainment Corporation of Canada, Inc. (Livent) subsequently filed a \$225-million lawsuit against the pair. Livent went bankrupt as the RCMP launched a criminal investigation and U.S. and Canadian securities regulators began investigating the company's books. Drabinsky and Gottlieb were indicted in a New York courtroom for which they failed to appear and therefore had fugitive arrest warrants entered against them. More recently, Canadian police charged four Livent senior executives with fraud totalling nearly half a billion dollars. The Supreme Court of Canada in 2009 denied Drabinsky and Gottlieb's appeal for their civil case. In their criminal case both were convicted on two counts of fraud and one count of uttering forged documents.

Sources: "The Good, The Bad & The Ugly," *Canadian Business*, March 30, 2009; "Theatre Impresario Awaiting Sentencing on Fraud, Forgery," *CBC news*, May 14, 2009; Shannon Kari, "Months, Years Before Livent Duo Face Any Prison Time," *Financial Post*, March 25, 2009; Barbara Shecter, "Livent Dazzled Audiences, Investors While Taking on Hollywood," *Financial Post*, May 3, 2009.

Different Views

Different reactions to what is ethical may explain why some aspects of venture creation go wrong, both during start-up and in the heat of the battle, for no apparent reason. Innumerable examples can be cited to illustrate that broken partnerships often can be traced to apparent differences in the personal ethics among the members of a management team. So, too, with investors. While the experienced venture capital investor seeks entrepreneurs with a reputation for integrity, honesty, and ethical behaviour, the definition is necessarily subjective and depends in part on the beliefs of the investor himself and in part on the prevailing ethical climate in the industry sector in which the venture is involved.

Business ethics has evolved and continues to change over time. Acceptable behaviour changes, sometimes quite quickly. In the present era of transparency, Mark Wexler of Simon Fraser University observes that as a firm grows in size, "you need a lot more internal vigilance and self-auditing," while a smaller enterprise can be run as an extension of the leader's personality.³⁸

Problems of Law

For entrepreneurs, situations where one law directly conflicts with another are increasingly frequent. For example, a small-business investment company got in serious financial trouble. The federal authorities stated the company should begin to liquidate its investments, because it would otherwise be in defiance of its agreement with them. However, the securities regulatory authorities stated that this liquidation would constitute unfair treatment of stockholders, due to resulting imbalance in their portfolios. After a year and a half of agonizing negotiation, the company was able to satisfy all the parties, but compromises had to be made on all sides.

Legal demands involve labour practices that mandate particular treatment of aboriginal peoples, members of visible minorities, women, and persons with disabilities. In addition, the Canadian government frequently has a campaign to promote the hiring of immigrants. And, not all laws apply to all businesses, the Employment Equity Act and Employment Equity Regulations cover 400 private sector employers and Crown corporations. These laws are based on valid ethical intent, but the administration and interpretation of them is no simple matter. Recently a number of individuals have been accused of fraudulently obtaining Aboriginal status solely to receive government contracts.

Further, unlike international laws governing commercial airline transportation, there is no international code of business ethics. When doing business abroad, entrepreneurs may find that those with whom they wish to do business have little in common with them—no common language, no common historical context for conducting business, and no common set of ethical beliefs about right and wrong and everything in between. For example, in Canada, bribing a high official to obtain a favour is considered both ethically and legally unacceptable; in many parts of the world, it is the only way to get things done. What we see as a bribe, those in other parts of the world see as a tip, like what you might give the headwaiter at a fancy restaurant for a good table.

"When in Rome" is one approach to this problem. Consulting a lawyer with expertise in international business before doing anything is another. Assuming that the object of an entrepreneur's international business venture is to make money, he or she needs to figure out some way that is legally tolerable under the laws that do apply and that is ethically tolerable personally.

Examples of the Ends-and-Means Issue

A central question in any ethical discussion concerns the extent to which a noble end may justify ignoble means—or whether using unethical means for assumed ethical ends may subvert the aim in some way. As an example of a noble end, consider the case of a university agricultural extension service whose goal was to aid small farmers to increase their crop productivity. The end was economically constructive and profit oriented only in the sense that the farmers might prosper from better crop yields. However, to continue being funded, the extension service was required to provide predictions of the annual increase in crop yield it could achieve, estimates it could not provide at the required level of specificity. Further, unless it could show substantial increases in crop yields, its funding might be heavily reduced. In this case, the extension service decided, if need be, to fudge the figures because it was felt that even though the presentation of overly optimistic predictions was unethical, the objectives of those running the organization were highly ethical and even the unethical aspects could be condoned within the context of the inability of the various groups involved to speak each other's language clearly. The funding source finally backed down in its demand, ameliorating the immediate problem. But if it had not, the danger existed that the individuals in this organization, altruistic though their intentions were, would begin to think that falsification was the norm and would forget that actions that run contrary to one's ethical feelings gradually would build a debilitating cynicism.

Another example is given in the case of a merger of a small rental-service business with a midsize conglomerate, where a law's intent was in direct opposition to what would occur if the law were enforced literally. In this case, a partner in the rental firm became involved in a severe automobile accident and suffered multiple injuries shortly before the merger and was seemingly unable to return to work. The partner also knew that the outlook for his health in the immediate future was unpredictable. For the sake of his family, he was eager to seek some of the stock acquired in the merger and make a large portion of his assets liquid. However, federal law does not allow quick profit-taking from mergers and therefore did not allow such a sale. The partner consulted the president and officers of the larger company, and they acquiesced in his plans to sell portions of his stock and stated their conviction that no adverse effect on the stock would result. Still unsure, the man then checked with his lawyer and found that the federal law in question had almost never been prosecuted. Having ascertained the risk and having probed the rationale of the law as it applied to his case, the man then sold some of the stock acquired in the merger to provide security for his family in the possible event of his incapacitation or death. Although he subsequently recovered completely, this could not have been foreseen.

In this instance, the partner decided that a consideration of the intrinsic purpose of the law allowed him to act as he did. In addition, he made as thorough a check as possible of the risks involved in his action. He was not satisfied with the decision he made, but he believed it was the best he could do at the time. One can see in this example the enormous ethical tugs-of-war that go with the territory of entrepreneurship.

An Example of Integrity

The complicated nature of entrepreneurial decisions also is illustrated in the following example. At age 27, an entrepreneur joined a new computer software firm with sales of \$1.5 million as vice president of international marketing of a new division. His principal goal was to establish profitable distribution for the company's products in the major industrialized nations. Stock incentives and a highly leveraged bonus plan placed clear emphasis on profitability, rather than on volume. In one European country, the choice of distributors was narrowed to 1 from a field of more than 20. The potential distributor was a top firm, with an excellent track record and management, and the chemistry was right. In fact, the distributor was so eager to do business with the entrepreneur's company that it was willing to accept a 10-percent commission, rather than the normal 15-percent royalty. The other terms of the deal were acceptable to both parties. In this actual case, the young vice president decided to give the distributor the full 15-percent commission, even though it would have settled for less. This approach was apparently quite successful because, in five years, this international division grew from zero to \$18 million in very profitable sales, and a large firm acquired the venture for \$80 million. In describing his reasoning, the entrepreneur said his main goal was to create a sense of long-term integrity. He said further:

I knew what it would take for them to succeed in gaining the kind of market penetration we were after. I also knew that the economics of their business definitely needed the larger margins from the 15 percent, rather than the smaller royalty. So I figured that if I offered them the full royalty, they would realize I was on their side, and that would create such goodwill that when we did have some serious problems down the road—and you always have them—then we would be able to work together to solve them. And that's exactly what happened. If I had exploited their eagerness to be our distributor, then it only would have come back to haunt me later on.

ETHICS REDUX

The following statements are often made, even by practising 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.

However, the contemplation of ethical behaviour is not unlike poetry—emotion recollected in tranquillity. This chapter is intended to provide one such tranquil opportunity.

Through the decisions actually made, or not made, an individual becomes 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. However, in the online exercise for this chapter, participants are asked only to answer questions. They are not asked to carry out an action. Between intent and action lies a large gap, which can be filled only by confronting and working through a number of ambiguous situations. Visit www.mcgrawhill.ca/olc/timmons to try the exercise and test your ethical mettle.

Chapter Summary

1. The majority of CEOs, investors, and entrepreneurs believe that a high ethical standard is the most important factor in long-term success.
2. Historically, ethical stereotypes of businesspeople ranged widely, and today the old perceptions have given way to a more aware and accepting notion of the messy work of ethical decisions.
3. Most business schools today have incorporated ethical issues into their curricula.
4. Entrepreneurs can rarely, if ever, finish a day without facing at least one or two ethical issues.
5. Ethical dilemmas challenge entrepreneurs at the most crucial moments of survival.

Study Questions

1. Many professional exams (e.g., CA, CMA, CFA) test ethics. Can ethics be tested on paper? Actual behaviour isn't being tested, so wouldn't an unethical person be able to get ethics questions correct just as likely as a truly ethical person?
2. What are the most thorny ethical dilemmas that entrepreneurs face, and why?
3. Describe an actual example of how and why taking a high ethical ground results in a good decision for business.

Mind Stretchers *Have you considered?*

1. How would you define your own ethics?
2. What was the toughest ethical decision you have faced? How did you handle it, and why? What did you learn?
3. How do you personally determine whether someone is ethical or not?
4. How would you describe the ethics of the prime minister of Canada? Would these ethics be acceptable to you from an investor, a partner, a spouse? Are the ethics of elected leaders different from those in the private sector, such as the CEO of a chartered bank or the CEO of a multinational oil company?

EXERCISE Ethics

First Part

Make decisions in the following situations.

You will not have all the background information on each situation; instead, you should make whatever assumptions you feel you would make if you were actually confronted with the decision choices described. Select the decision choice that most closely represents the decision you feel you would make personally. You should choose decision choices even though you can envision other creative solutions that were not included in the exercise.

Situation 1. You are taking a very difficult chemistry course, which you must pass to maintain your scholarship and to avoid damaging your application for graduate school. Chemistry is not your strong suit, and because of a just-below-failing average in the course, you must receive a grade of 90 or better on the final exam, which is two days away. A janitor who is aware of your plight informs you that he found the master stencil for the chemistry final in a trash barrel and saved it. He will make it available to you for a price, which is high but which you could afford. What would you do?

- (a) I would tell the janitor thanks, but no thanks.
- (b) I would report the janitor to the proper officials.
- (c) I would buy the exam and keep it to myself.
- (d) I would not buy the exam myself, but I would let some of my friends, who are also flunking the course, know that it is available.

Situation 2. You have been working on some complex analytical data for two days now. It seems that each time you think you have them completed, your boss shows up with a new assumption or another what-if question. If you only had a copy of a new software program for your personal computer, you could plug in the new assumptions and revise the estimates with ease. Then a colleague offers to let you make a copy of some software that is copyrighted. What would you do?

- (a) I would readily accept my friend's generous offer and make a copy of the software.
- (b) I would decline to copy it and plug away manually on the numbers.

- _____ (c) I would decide to go buy a copy of the software myself for \$300 and hope I would be reimbursed by the company in a month or two.
- _____ (d) I would request another extension on an already overdue project date.

Situation 3. Your small manufacturing company is in serious financial difficulty. A large order of your products is ready to be delivered to a key customer, when you discover that the product is simply not right. It will not meet all performance specifications, will cause problems for your customer, and will require rework in the field; but this, you know, will not become evident until after the customer has received and paid for the order. If you do not ship the order and receive the payment as expected, your business may be forced into bankruptcy. And if you delay the shipment or inform the customer of these problems, you may lose the order and also go bankrupt. What would you do?

- _____ (a) I would not ship the order and place my firm in voluntary bankruptcy.
- _____ (b) I would inform the customer and declare voluntary bankruptcy.
- _____ (c) I would ship the order and inform the customer, after I received payment.
- _____ (d) I would ship the order and not inform the customer.

Situation 4. You are the cofounder and president of a new venture, manufacturing products for the recreational market. Five months after launching the business, one of your suppliers informs you it can no longer supply you with a critical raw material since you are not a large-quantity user. Without the raw material the business cannot continue. What would you do?

- _____ (a) I would grossly overstate my requirements to another supplier to make the supplier think I am a much larger potential customer in order to secure the raw material from that supplier, even though this would mean the supplier will no longer be able to supply another, non-competing small manufacturer who may thus be forced out of business.
- _____ (b) I would steal raw material from another firm (non-competing) where I am aware of a sizeable stockpile.
- _____ (c) I would pay off the supplier, since I have reason to believe that the supplier could be persuaded to meet my needs with a sizeable under-the-table payoff that my company could afford.
- _____ (d) I would declare voluntary bankruptcy.

Situation 5. You are on a marketing trip for your new venture for the purpose of calling on the purchasing agent of a major prospective client. Your company is manufacturing an electronic system that you hope the purchasing agent will buy. During the course of your conversation, you notice on the cluttered desk of the purchasing agent several copies of a cost proposal for a system from one of your direct competitors. This purchasing agent has previously reported mislaying several of your own company's proposals and has asked for additional copies. The purchasing agent leaves the room momentarily to get you a cup of coffee, leaving you alone with your competitor's proposals less than an arm's length away. What would you do?

- _____ (a) I would do nothing but await the man's return.
- _____ (b) I would sneak a quick peek at the proposal, looking for bottom-line numbers.
- _____ (c) I would put the copy of the proposal in my briefcase.
- _____ (d) I would wait until the man returns and ask his permission to see the copy.

Second Part

Step 1 Based on the criteria you used, place your answers to each of the above situations along the continuum of behaviour shown below.

	Duty	Contractual	Utilitarian	Situational
Situation 1				
Situation 2				
Situation 3				
Situation 4				
Situation 5				

Step 2 After separating into teams of five to six people, record the answers made by each individual member of your team on the form below. Record the answers of each team member in each box and the team's solution in the column on the far right.

Member Name						Team Answer
Situation 1						
Situation 2						
Situation 3						
Situation 4						
Situation 5						

Step 3 Reach a consensus decision in each situation (if possible) and record the consensus that your team has reached above. Allow 20 to 30 minutes.

Step 4 Report to the entire group your team's conclusions and discuss with them how the consensus, if any, was reached. The discussion should focus on the following questions:

- Was a consensus reached by the group?
- Was this consensus difficult or easy to achieve and why?
- What kinds of ethical issues emerged?
- How were conflicts, if any, resolved, or were they left unresolved?
- What creative solutions did you find in order to solve the difficult problem without compromising your integrity?

Step 5 Discuss with the group the following issues:

- What role do ethical issues play and how important are they in the formation of a new venture management team?
- What role do ethical issues play and how important are they in obtaining venture capital? That is, how do investors feel about ethics and how important are they to them?
- What feelings bother participants most about the discussion and consensus reached? For example, if a participant believes that his or her own conduct was considered ethically less than perfect, does he or she feel a loss of self-respect or a sense of inferiority? Does he or she fear others' judgment, and so on?

Step 6 Define each group member's general ethical position and note whether his or her ethical position is similar to or different from yours:

Member Name	Position	Different/Similar

Step 7 Decide whom you would and would not want as a business partner based on their ethical positions:

Would Want	Would Not Want

CASE

TANGENT HOST: AN UNEASY PARTNERSHIP

Preparation Questions

1. How would you resolve the situation if you were Rick Peterson?
2. Should you confront Drew Fitchburg, if so how?
3. What has Rick Peterson done right and wrong?

In July 2009, Rick Peterson was contemplating the future of his company. Several new opportunities, coupled with ongoing and seemingly unsolvable problems, were causing the 27-year-old president and CEO of Tangent Host to question his involvement with what had started out as just a side-business but now occupied him full-time. Of immediate concern was the behaviour of Rick's business partner; things were off track and needed to be resolved. "I'm a bit more ambitious than Drew," confessed Rick. "I've worked hard to get this far and I'm keen to move forward. I put myself through university and graduated with honours, while Drew accumulated some certificates and credentials in the I.T. sector working a variety of odd jobs. In fairness, I probably learned from Drew's mistakes growing up a few years behind him."

Tangent Host (Tangent), an Internet services firm in Kanata, Ontario, provided database management, e-business consulting, and server collocation.¹ Tangent had grown considerably since its inception just three and a half years prior. At first the growth was an exciting surprise because Rick had not considered the business to be a possible source of stable income. His perception had changed quickly; in only months Tangent—initially run from the basement of his home—had attracted the attention of many companies with unmet needs for reliable, affordable, and innovative Internet services. More specifically, Rick had taken on several large clients that needed collocation services and had built a portfolio of over 450 clients paying monthly fees to have their Web sites and databases backed up on Tangent's servers. "I'm still hopeful we can reach 500 by the end of 2009, Rick admitted. "We had roughly 375 clients in 2008, 325 in 2007, and 225 back in 2006—our first real year on the books."

Coping with Challenges as the Venture Grows

Rick took the plunge and turned down additional work in downtown Ottawa as a federal government tech consultant and moved just west of Ottawa to Kanata (otherwise known as "Silicon Valley North"). Despite its apparent success, the firm was experiencing some difficulties and the personal costs of being an entrepreneur were becoming obvious to Rick. Tangent was in the midst of transition and these 'growing pains' preoccupied Rick's thoughts. He realized now that a firm's sales on paper were not always reflected in its bank account.

Timely collection of accounts receivable seemed to be a full-time job in its own right. Collections were unpleasant for Rick because many of Tangent's clients had become friendly with him and his partner, Drew Fitchburg, and some of them expected special treatment. At the same time, Rick considered the strength of these relationships to be the root cause of Tan-

gent's surprising growth, as existing clients' word-of-mouth referrals compensated for the absence of a robust advertising budget. In fact, about a third of all new business came to Tangent this way.

Many clients had chosen to stay with Tangent even after competitors had offered lower prices. Tangent rarely had technical problems, but even after one of its servers was hacked, Tangent lost only two clients. Although no dollar value could be placed on their customers' trust in Tangent, Rick believed that having healthy client relationships was reflected in the firm's revenues—both positively and negatively. Rick explained, "Their confidence in us guarantees sales, but those relationships cut the other way too. Often we're taken advantage of by friends—they delay payment and ask for extras. A few of Tangent's old friends, worth very little to the bottom line, are high-maintenance accounts—always asking for a little more work for free."

"If Tangent were to become a serious endeavour," Rick mused, "it would have to start producing enough income to support both partners." For one thing, Rick's government job had compensated him better than Tangent seemed able to do, and Rick had been working day and night in order to run the business. Rick had begun to think that he would not be able to derive the income he desired from Tangent unless he tightened up on its cash flow, exercised greater control over costs, and doubled the firm's revenues. That, he thought, would take time, operational prudence, and innovative management.

MARKET ATTRIBUTES The market for Tangent's two principal products, Web hosting and Web design, were characterized by intense competition among countless small firms and a few medium and large firms, all providing the same services. Firms differed in the customers they served (based on size and industries), the scope and variety of their services (Web hosting, Web design, graphics, programming, etc.), and the extent to which they used in-house resources. Many firms, including Tangent, outsourced some of their services.

Tangent struck deals with Web designers and technology consultants, paying referral fees for clients they brought to Tangent. This method of generating new clients produced over half of the firm's Web hosting revenues and had spawned several important relationships. Web site designers in Toronto, Montreal, and Ottawa typically took a 30-percent cut of hosting revenues from clients they referred to Tangent (unbeknownst to the clients). These clients ended up paying premium prices for Web hosting, and generally had little understanding of the services they purchased.

COLLECTIONS It seemed to Rick that one of Tangent's growing problems was that "we mix business relationships with friendships." After telling one client, a construction company owner, about Tangent's collections problems, Rick received a phone call from a local collection agent offering to take care of bad debts. He worried that resorting to such means could sour Tangent's relations with customers. Rick believed that part of the blame for cash flow problems rested on the fact that payment for Web site design was received in phases. Clients paying either upon satisfactory completion of the project or at certain milestones meant that Tangent Host could be held at ransom (without compensation). Rick shared, "It's not unusual for Drew and I to have to do more work than we bargained for. Clients often demand more than what we quoted them." Rick continued, "And occasionally a client has failed to pay after a Web site is delivered for review. The worst offenders are the small margin contracts and those individuals that we know personally. We're just not attracting the high-end clients that we need to attract. Vague written contracts and the occasional oral agreement have created other problems—unpredictable revenue flow and mounting bad debt." (See Exhibit 1.)

Rick saw Tangent's rapport with clients as a double-edged sword. The personal touch had kept clients from departing despite increasingly frequent technical glitches—something Drew used to be able to prevent. "As Tangent grew we were overwhelmed by calls to our help desk." Tapping the mobile phone clipped to his belt, Rick continued, "This led us to force clients to contact us only through email." Bad debts were also taking their toll. Rick exclaimed, "I never imagined the road to Easy Street would look like this." He recently had threatened to take a client's Web site offline. Rick chuckled, "Turning off a client's email gets their attention."

AN UNEASY PARTNERSHIP After a little over three and a half years of modest financial success with Tangent Host (see Exhibit 1), Rick's attention had begun to drift toward transforming the fledgling venture into a serious business. Rick admitted, "Right now we're amateur and I want to be big league; and I want Drew to want and work for this too. But we've got issues and obstacles to confront. Specifically, Drew's and my deteriorating relationship—he's just avoiding me more and more. He doesn't have to report to me, but I've got to know what—if anything—he's doing. I certainly keep him informed as things develop—even if it's bad news. Drew's contribution has been essential to Tangent's continuance. He possesses the technical skills, experience, and expertise needed to manage much of the business. But it's become apparent that Drew has been taking his involvement less seriously than before and now he's acting more like an employee than a partner with an interest in seeing the firm thrive."

Tangent's increasingly frequent problems with quality and reliability were an embarrassment for Rick, who saw them as consequences of Drew's poor performance. "Although the

partnership agreement specified in writing that both of us would devote our full attention to the business, Drew seems to be less and less available when problems arise. After a year of him coasting, I've begun to question Drew's commitment to the firm." Rick paused and then continued, "I just don't know where we are headed. Our agreement makes no mention of an exit strategy—a way for one partner to buyout the other and bow out gracefully."

In April 2009, Rick received a curious call from Tangent's accountant, Nicolas Rowell. After briefly discussing the company's finances, Nicolas probed Rick by asking: "Why is there such a great discrepancy in income between you two?" Rick responded, "What do you mean by 'discrepancy'?" "Well," Nicolas continued, "it would seem that Drew has declared almost double the personal income from the business compared to you." This was alarming news to Rick, who had thought Drew's personal income was derived solely from Tangent Host dividends they split equally.

According to Canadian income tax practices, each partner could separately declare income and personal expenses derived from their involvement in the business. It became apparent to Rick that somehow Drew was earning far more revenue than Rick, maybe even incurring fewer expenses. The next day Rick raised the issue in conversation with Drew and learned that Drew had lumped some non-business income, derived from his personal side activities, with his income from Tangent Host. In other words, Drew had been running a smaller business in his spare time. He had built a small Internet marketing business that provided advertising services to a substantial and growing customer base. Indeed, Drew was selling banner-advertising space to Tangent's existing clients using Google AdSense.

Although uncertain if Drew's side business violated the terms of the partnership, it seemed to Rick to be a significant conflict of interest. Invariably, the tracking of Tangent clients' Web site traffic would have involved some data that Drew garnered through his position at Tangent. Drew seemed to have had so much success with his side business that it was unthinkable to Rick that Drew could be equally committed to Tangent. Sitting in his home office, Rick pondered whether it was fair for Drew to be running a second business while Tangent Host struggled to grow.

The Road Ahead

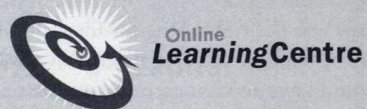
As the July sun set over the Ottawa Valley, Rick Peterson peered out the window to see its rays reflect off the river and glisten through the pine trees. He questioned again whether remaining in business with Drew was the right thing for him, and if so, what direction the company should take. He thought it undeniable that something would have to change if Tangent were to be worth the countless hours and energy he devoted to it.

This case was written by Nicholas P. Robinson, Faculty of Law, McGill University, and Prescott C. Ensign, for purposes of classroom discussion.

¹ Collocation was the storage of identical information on different servers, typically located in different places, to ensure access to data even if one server was unavailable.

EXHIBIT 1 Tangent Host Income Statements (Canadian Dollars)

	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006
Web Hosting Sales	60,000	45,000	30,000
Web Design Sales	60,000	45,000	30,000
Domain Name Sales	1,440	1,100	750
Total Revenues	121,440	91,100	60,750
Expenses			
Server Lease	15,000	12,000	9,000
New Computer Charges	12,000	10,000	8,000
Software Expense	1,800	1,400	1,200
Domains Expense	1,500	1,200	1,000
Advertising	2,400	2,000	1,600
ISP Access	3,600	3,200	2,800
Personal Account (Drew)	1,440	1,300	1,200
Personal Account (Rick)	1,440	1,300	1,200
Office Supplies	1,200	1,200	1,000
Bad Debt Expense	9,000	6,500	4,000
Affiliate Fees	6,000	4,500	3,000
Toll-free Telephone Number	720	700	675
Total Expenses	56,100	45,300	34,675
Net Income	65,340	45,800	26,075



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PART

IV

FINANCING ENTREPRENEURIAL VENTURES

A financing strategy should be driven by corporate and personal goals, by resulting financial requirements, and ultimately by the available alternatives. In the final analysis, these alternatives are governed by the entrepreneur's relative bargaining power and skill in managing and orchestrating the fund-raising opportunities. In turn, that bargaining power is governed to a large extent by the cruelty of real time. It is governed by when the venture will run out of cash given its current cash burn rate.

More numerous alternatives for financing a company exist now than ever before. Even in the wake of economic turmoil, many contend that money remains plentiful for well-managed emerging firms with the promise of profitable growth. Savvy entrepreneurs should remain vigilant for the warnings noted here to avoid the myopic temptation to "take the money and run." The cost of money can vary considerably.

While some of these alternatives look distinct and separate, a financing strategy probably will encompass a combination of both debt and equity capital. In considering which financial alternatives are best for a venture at any particular stage of growth it is important to draw on the experience of other entrepreneurs, investors, lenders, accountants, and other professionals.

In the search for either debt or equity capital, it is important that entrepreneurs take a professional approach to selecting and presenting their ventures to both investors and lenders.