The Moral Entrepreneur: A New Component of Ethical Leadership

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Abstract: During the past twenty years, there has been an explosion of new interest in entrepreneurs and their activities. Yet only recently has serious research attention been devoted to the ethical problems encountered by entrepreneurs and their organizations. Entrepreneurs face uniquely complex moral problems related to basic fairness, personnel and customer relationships, distribution dilemmas, and other challenges. This essay surveys contemporary research in entrepreneurial ethics, examines the kinds of ethical dilemmas entrepreneurs confront, identifies major research topics and methodological approaches, and discusses possible directions for future research. Ethical scandals and ethical misconduct caused millions of dollars in losses, left behind damaged organizations, forced them to close their business and left thousands employees jobless without any future guarantee or security. This incident has left scholars and business schools managers asking what role they might have played in these ethical scandals and what role they can play in the solutions. Scholar and managers collectively have responded to the ethical challenges that we face in organizational life. Some scholarship assesses the current state of ethics in management education, helping us to diagnose and tackle the realities of unethical behavior.
As the study of entrepreneurship and the study of business ethics become increasingly established, the intersection of entrepreneurship and ethics is receiving increasing scholarly attention. In this paper, we review the research connecting ethics and entrepreneurship, classifying the literature into three broad themes; we also identify and integrate the key themes that emerge, and we offer suggestions for future research.

KEYWORDS: Ethical leadership, social responsibility, development Proactive leadership Moral entrepreneurship

1. INTRODUCTION

During its activity, an enterprise passes through different life cycle stages, which differ in terms of management systems, formal structures, control systems, documentation of transactions, and number of procedural hurdles. Therefore, our main research problem focused on the differences in ethical behavior of entrepreneur at various organizational life cycle stages. Yet, the intersection of entrepreneurship and ethics, though receiving more recent research attention, remains relatively embryonic.

Although the emergence of academic research connecting entrepreneurship and ethics is fairly recent, increased interest in the topic has produced a good deal of initial scholarship. In addition, there are certain foundational works in management that have direct bearing on the connection between ethics and entrepreneurship. Normative, descriptive, and prescriptive research (c.f. Dees and Starr, 1992) are all represented in this body of work. A synthetic understanding of the variety of theoretical and empirical work in this area offers fascinating insights into the way in which ethics and entrepreneurship are related, and the questions raised by thinking about this interconnectedness.

2. LITERATURE REVIEW

Entrepreneurship is a state of mind; an artful, insightful and innovative mentality rather than business administration. Ethics deals with the distinction between what is right and wrong. It is concerned with the nature and grounds of morality, including moral judgments, standards, and rules of conduct (Taylor, 1975). The ethical climate of an organization can be defined as a shared set of norms, values and practices of organizational members regarding appropriate behavior in the workplace (Agarwal, 1999). The interface between ethics and entrepreneurship involves two related sets of issues. The first of these concerns the entrepreneurial context for ethics, while the second involves the ethical context for entrepreneurship. Scholars have devoted considerable attention to issues in the former area. It is generally concluded that the entrepreneurial context poses a number of unique ethical challenges. For instance, the financial and operational pressures found within most entrepreneurial firms heighten the incentive to engage in expedient behavior Moreover, the entrepreneur frequently confronts an array of ethical dilemmas the resolution of which directly affects company performance, it can be argued that the very nature of what some might refer to as "acting in an entrepreneurial way" raises ethical

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questions. Receiving less focus is the ethical context within which entrepreneurial activity takes place. Here, the concern is with the ethical environment created within an entrepreneurial firm, the mechanisms put in place by the entrepreneur to ensure ethical standards are observed, and the ways in which unethical behaviors on the part of employees are addressed. Work on ethical climates within organizations has more typically been concentrated in larger, established firms

In surveying the literature, the existing research connecting ethics and entrepreneurship tends to fall into one of three primary areas of inquiry: entrepreneurial ethics, social venturing, and entrepreneurship and society (see Fig. 1). In order to organize what we have learned from extant research in ethics and entrepreneurship – as well as highlight which questions represent fruitful avenues for future research – we discuss each of these conceptual categories in turn. 2.1. Entrepreneurial ethics Much of the existing literature linking ethics and entrepreneurship is focused on entrepreneurial ethics at the micro level. Emphasis is on the entrepreneur, with an interest in ethical dilemmas that may be especially relevant to the new venture setting, although some work also looks at the organizational dynamics of new ventures, and the impact on ethical behavior at the firm level.

3. RESEARCH DESIGN DESCRIPTIVE STUDY

This research article plans to make a descriptive study of entrepreneurship ethics at various stages of organizational life cycle. There are certain foundational works in management that have direct bearing on the connection between ethics and entrepreneurship. It would further attempt to describe how the relationship between ethics and entrepreneurship varies with the different stages of organizational life cycle.
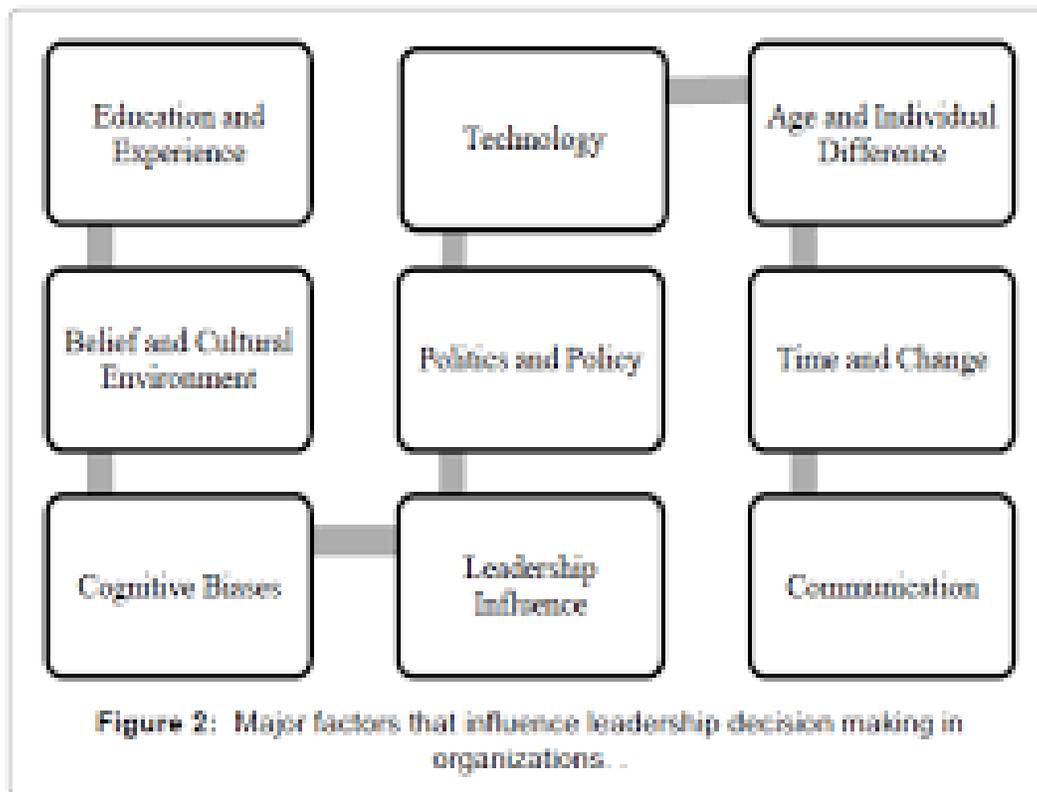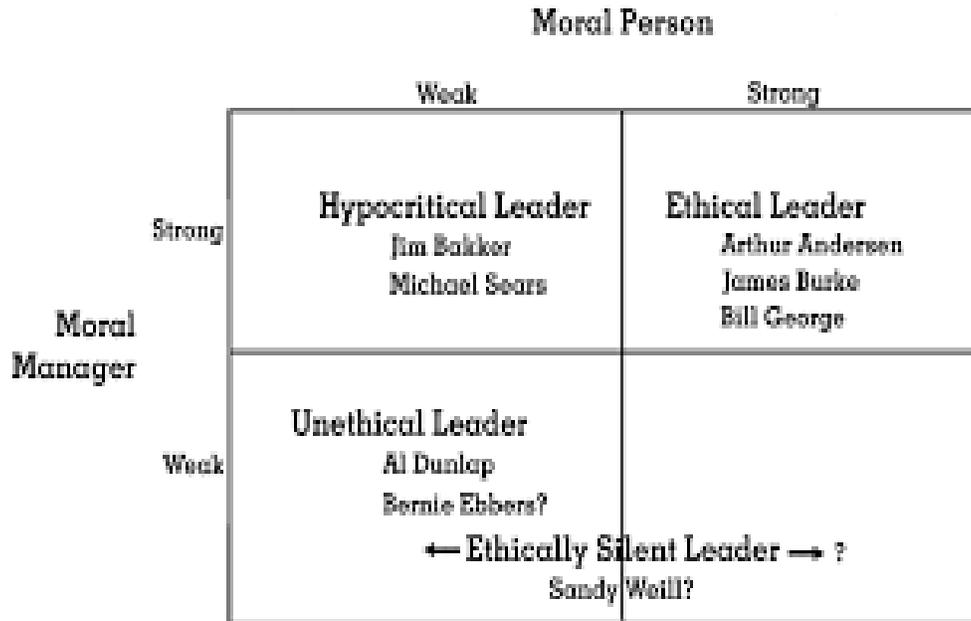
Tools of data collection

The article is based on the secondary research i.e. research articles, research papers, news, books, etc. related to ethics, entrepreneurship, various stages of organizational development or other topics relevant to the articles fulfillment.

Research Questions

What is the interplay of ethics and entrepreneurship at various stages of an organizational life cycle? What is the relationship between business ethics and entrepreneurship? Does the new venture setting contain specific and unique ethical challenges? If so, how might they be effectively understood and addressed? These (and other) questions arise that lies at the intersection of entrepreneurship research and business ethics.

Entrepreneurial Ethics	Social Entrepreneurship	Entrepreneurship and Society
• Entrepreneurs versus non-entrepreneurs • Ethical decision making of entrepreneurs • Ethical dilemmas in entrepreneurship • Technological change and ethics • Formation of ethical infrastructure in new ventures • Stakeholder theory of entrepreneurship	• Defining social entrepreneurship • Ethical concerns in social ventures • Measurement of social venture 'performance' • Empowerment of disenfranchised entrepreneurs • Social ventures versus traditional ventures • Role of 'purpose' in new ventures	• Entrepreneurship and economic theory • Entrepreneurship and macroeconomic development • Other societal roles of entrepreneurship • Entrepreneurs as social change agents • Detrimental impact of 'creative destruction' • Ethics of opportunity exploitation

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Figure 2: Major factors that influence leadership decision making in organizations.

Moral Person

4. RESEARCH OBJECTIVES

The major objective of this research article is to know about the interplay of ethics and entrepreneurship at various stages of an organizational life cycle. Other objectives are: to know the relationship between business ethics and entrepreneurship, to know about the entrepreneurship ethics addressing, etc.

Ethical conflicts occur when "an individual perceives that his/her duties and responsibilities toward one group are inconsistent with his/her responsibilities toward some other group including one's self". Conflicts can take two forms: conflict within the individual resulting from the individual's value hierarchy, and conflict between individual values and organizational values (Liedtka, 1989). Individuals can be expected to differ in the extent to which they predominantly rely on situational cues or individual inner-states, dispositions and attitudes to guide their actions (Snyder and Cantor, 1980). Ethical theories from philosophy have been adapted to reflect the (typically large) corporate environment, where the decision-maker is forced to make decisions as an agent of a corporate body rather than as a free agent (Kant, 1959; Hunt and Vitell, 1986; Vitell and Ho, 1997). Here, the concern is with obligations that managers "should" or "ought to" fulfill in their business relationships. Three leading examples include stockholder, stakeholder 1044 Ruchi Tanwar and social contract theories. Stockholder theory (Friedman, 1997) holds that managers (as agents of

5. IDENTIFY -Ethical Issues

stockholders) should behave in a manner that conforms to the basic rules of society as embodied in law and ethical custom. Thus, they are to engage in free competition without deception or fraud. Stakeholder theory (Clarkson, 1995; Donaldson and Preston, 1995; Freeman, 1994) proposes that regardless of the potential for improved financial performance, a firm should resolve ethical dilemmas by finding the optimal balance among all the important stakeholders such as stockholders, employees, customers, suppliers, the community and society, without violating the rights of any stakeholder. The principle of corporate legitimacy requires that stakeholders have the right to participate in decisions that substantially affect their welfare, while the stakeholder fiduciary principle states that management must act in the interest of both the stakeholders and the corporation, thereby safeguarding the long-term interests of each group (Hasnas, 1998; Smith and Hasnas, 1999). Finally, social contracts theory (Donaldson, 1982) posits that the members of society allow a corporation to be formed and in return, its managers are ethically

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obligated to pursue corporate profit only if it increases social welfare above what it would be in the corporation's absence, and without violating the basic canons of justice. In an attempt to synthesize the seemingly disparate viewpoints from the normative and descriptive research, Donaldson and Dunfee (1994) introduced integrative social contracts theory (ISCT). It recognizes ethical obligations based on both a theoretical "macro-social" contract among economic participants and a real "micro-social" contract among members of specific communities. Social norms serve as the foundation for rules of behavior within a community.

6. CHARACTERISTICS OF ENTREPRENEURS

Entrepreneurs face complex ethical problems related to basic fairness, personnel and customer relationships, honesty in communications, distribution dilemmas, and other challenges. Entrepreneurship can be found in any organization; small or large businesses, franchises, family businesses, government entities, or nonprofits. Because of the nature of startups, many of these ethical problems are often new to the young entrepreneur. Entrepreneurs must win the consent of customers, investors and bankers, suppliers, employees, and others to support the risks and uncertainties of the new enterprise. Entrepreneurs face difficulties of survival due to lack of brand name recognition, sales and cash flow in order to survive, which may lead to unethical decision making. Inducing possible questionable behavior are the problems confronted by the business in start-up stage (e.g., long hours, decisions made in haste due to time restraints). Furthermore, due to the "wear all hats syndrome" entrepreneurs may be more inclined to put out the fire now and deal with the consequences later. Case in point, Rutherford, et. al., (2009) indicated that entrepreneurs in start-up, for-profit companies were involved in questionable ethical behaviors, including legitimacy lies– intentional misrepresentation of facts. They stated that entrepreneurs in start-up companies must overcome liabilities of newness and smallness.

7. RESPONSE OF ENTREPRENEURS

Fundamentally, what many consider to be "entrepreneurial behavior" is a set of actions fraught with ethical dilemmas. Entrepreneurs are often admired for the creative ways in which they overcome significant limitations, obstacles and sources of resistance to their new venture ideas. Practices such as bending or breaking rules, putting other people's resources at risk, creatively interpreting the facts, exaggerating one's position, and promising more than one is currently able to deliver are presented by some as clever manifestations of the entrepreneurial spirit. To the extent that these practices are entrepreneurial, and the more a person engages in them the more entrepreneurial that person is being, the ability to reconcile "entrepreneurial" and "ethical" can become problematic. The unique ethical challenges found in entrepreneurial ventures can be traced to the newness and smallness of these firms. Compared with larger, more established businesses, entrepreneurial firms are more vulnerable to environmental forces, especially given the limited cash reserves and debt capacity of such organizations, their frequent over-dependence on a limited product/service line, and their tendency to rely on a niche customer base. Many small firms also suffer from a relatively limited market presence, subjecting them to significant demand fluctuations, aggressive competitor forays, and lack of support from suppliers and distributors. Moreover, there is a liability of newness, especially at the early stages of the venture, when entrepreneurs are unfamiliar with their roles and the roles of the firm, and are apt to commit a variety of errors and blunders (Morris and Zahra, 2000). The characteristics described above often result in conditions that encourage or justify ethical compromises. These conditions include time pressures, cash shortfalls, the fact that making compromises can mean the difference between venture survival and failure, the power position of the entrepreneur, the lack of internal reference points for acceptable and unacceptable behaviors and the reduced public visibility of the firm. Various observers have noted that the fast-paced, high expectation and inflated valuation world of the Internet has found firms engaging in a number of questionable business practices (Fortune, 2000; Seglin, 1999). Useem (2000, p. 84) notes the existence of an inverted dynamic, in which: ". . . entrepreneurs have begun to regard the capital market not as a disciplining force, but as the customer. Companies are created, hyped, and sold with less concern for attracting real customers than for lining one's pocket with investors' money. A number of researchers have examined the role of cognitive processes under conditions of time pressure, high levels of uncertainty, strong emotions, fatigue and other factors that might increase the entrepreneur's susceptibility to biases and errors in reasoning and judgment (Baron, 1998; Kahneman and Lovallo, 1994; Palich and Bagby, 1995). These conditions test

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the limits of the entrepreneurs' cognitive capabilities in unpredictable and complex situations. This challenge is further compounded by the entrepreneur's strong commitment to his/her ideas and business, thereby increasing the potential for a self-serving bias, 1046 Ruchi Tanwar counterfactual thinking or self-justification (Baron, 1998) and hence, for making unethical decisions. In this vein, Longenecker et al. (1988) found that entrepreneurs exhibited a tendency toward egoism and experienced greater pressure to engage in unethical behavior. Dees and Starr (1992) suggest the ethical challenges encountered by entrepreneurs can be categorized into: promoter dilemmas (e.g., pragmatic versus moral considerations), relationship dilemmas (e.g., transactional ethics), innovator dilemmas (e.g., avoiding responsibility for one's creation) and other dilemmas (e.g., conflict between personal and business goals). Small firm respondents expressed more stringent ethical views on faulty investment advice, favoritism in promotion, acquiescing in dangerous design flaws, misleading financial reporting and misleading advertising. The same respondents demonstrated greater tolerance than did those from large firms when it came to padding expense accounts, tax evasion, collusion in bidding, insider trading, discrimination against women and copying of computer software. Vitell et al. (2000) found that small business owners believe ethical standards today are lower than twenty years ago primarily due to lower standards in society, the lack of personal integrity, and greed. The entrepreneur can play a pervasive role in defining the ethical climate in the early stages of the life cycle. In attempting to explain an individual's initial judgment of what is right or wrong and subsequent behavior when facing ethical dilemmas, Trevino and Youngblood (1990) take as the starting point the entrepreneur's stage in Kohlberg's cognitive development model. For the owner-manager in a smaller firm, the need to obey authority or to look for the approval of relevant others may be less relevant. The fact that achievement is more important than pecuniary interests might suggest a stronger ethical posture. At the same time, an emphasis on growth and innovation as forms of achievement brings with it a host of ethical dilemmas, including exploitation of scarce resources, scientific advances into uncharted areas, and obsolescence of existing products, resources and ways of doing things. Thus, one might conclude that the entrepreneurial context does not require a different general ethical standard, but the tendency for standards to vary depending on the entrepreneur's own feelings towards particular issues may adversely affect the manner in which the ethical climate of the firm evolves.

8. CONCLUSION

The results of this research article provide direction for future research. Researchers may be oversimplifying when they generalize about entrepreneurs being more ethical or less ethical. Thus, are there conditions where Pain and Gain firms decide to add the more formal ethical initiatives to experiment with either the formal or informal structural elements? While this study represents only a first step, it does appear the ethical development framework holds promise for entrepreneurs and educators. Further, the relationship of ethics and entrepreneurship identified in this research can guide ongoing research efforts, while also serving as a valuable self-assessment tool, helping entrepreneurs determine where their firms are relative to other firms, and where they aspire to be**.**

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