



Ethics and entrepreneurship[☆]

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ARTICLE INFO

Keywords:

Ethics
Entrepreneurship
Social entrepreneurship
Social welfare
Business and society

ABSTRACT

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. We conclude by introducing the articles in this special issue.

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1. Executive summary

During the past several decades, the significant and growing scholarly interest in entrepreneurs and new venture creation has resulted in the shaping of entrepreneurship as a rigorous academic field of study, including the creation of several dedicated scholarly journals, modification of business school curricula, and rise of entrepreneurship-specific research conferences. In a similar manner, the field of business ethics – including the study of both the ethical behavior and societal impact of profit-seeking firms – has during the last 20 years also achieved recognition and legitimacy as a rigorous and important field of study. Yet the intersection of entrepreneurship and ethics, though receiving more recent research attention, remains relatively embryonic.

What is the relationship between business ethics and entrepreneurship? How might insights from one discipline enrich the theoretical frameworks of the other? 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 from a growing literature that lies at the intersection of entrepreneurship research and business ethics scholarship. This growing body of work highlights the relevance of each academic field on the other. For instance, entrepreneurship scholars point out the importance of entrepreneurial ethics to the global economy (e.g., Bucar and Hisrich, 2001), and ethics researchers argue for more empirical orientation on small and emergent firms, rather than just large organizations, in ethics research (e.g., Spence and Rutherford, 2003).

However, the body of research connecting entrepreneurship and ethics addresses several very different types of research questions. Understanding these various areas of inquiry provides an inclusive picture of a growing research agenda in topics that connect ethics and entrepreneurship in various ways. Therefore in this article, we briefly review several streams of research at this nexus, broadly construed, and identify and integrate the key themes that emerge, offering suggestions for future research. We conclude by introducing the articles in this special issue.

[☆] The authors thank the Carlson School of Management at the University of Minnesota and the Business Roundtable Institute for Corporate Ethics for financial support, as well as a team of JBV editors and reviewers who provided feedback on the articles in this special issue. We express gratitude to the Holmes Center for Entrepreneurship at the University of Minnesota and to John Stavig and Elaine Nissen for logistical support of the associated 2006 Ethics and Entrepreneurship Conference, and Christine Harris for research assistance on this article. All errors remain our own.

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2. Ethics and entrepreneurship: a review and research agenda

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. 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. This stream of research asks at least six key questions.

2.1.1. How do entrepreneurs differ from non-entrepreneurs with respect to ethics?

One line of inquiry questions whether or not systematic trait differences between entrepreneurs and non-entrepreneurs carry over into corresponding systematic differences in ethical perception and action. While some research calls into question the existence of stable, systematic differences between entrepreneurs and non-entrepreneurs on dimensions such as risk tolerance (Xu and Ruef, 2004), Buchholz and Rosenthal (2005) argue that the qualities required for successful entrepreneurship – imagination, creativity, novelty, and sensibility – are systematically and theoretically crucial to ethical decision-making, suggesting that ethics and entrepreneurship are closely aligned. Similarly, others (Dunham et al., 2008) argue that entrepreneurial success requires moral imagination, in addition to an effective handling of the strategic dimensions of starting a new venture. Some research indicates that entrepreneurs may indeed generally place a greater emphasis on ethical behavior (Bucar and Hisrich, 2001) and exhibit higher levels of moral reasoning (Teal and Carroll, 1999). Other research shows fairness – or procedural justice – to be an important element in managing the relationship between entrepreneurs and key investors, leading to a set of desirable outcomes for the entrepreneur (Sapienza and Korsgaard, 1996). Such a focus on ethics and fairness on the part of the entrepreneur may bring its own risks, however; others (Goel and Karri, 2006; Karri and Goel, 2008; Sarasvathy and Dew, 2008) have debated whether or not entrepreneurs tend to ‘over-trust,’ making them more vulnerable to others’ opportunism.

On the other hand, other research finds that entrepreneurs possess a strong ‘action bias’ that may prevent them from adequately considering ethical issues (Bhide, 1996). Longenecker et al. (1988, 1989a) suggest that entrepreneurs are more focused than large firm managers on personal financial gain, even if it comes at others’ expense or violates norms of fairness. Although this effect has fluctuated over time (Longenecker et al., 2006), some scholars, like Kets de Vries (1985), caution about “specific negative factors that could permeate the personality of entrepreneurs and dominate their behavior” (Kuratko, 2007:5; see also Osborne, 1991). This ‘dark side’ of entrepreneurship – specifically, the propensity of entrepreneurs to act as rule-breakers that push institutional boundaries – is a theme explored empirically by Zhang and Arvey (2009–this issue), who examine the longitudinal connection between adolescent nonconformity and entrepreneurial status in adulthood. The relationship between rule-breaking

Entrepreneurial Ethics	Social Entrepreneurship	Entrepreneurship and Society
<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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

Fig. 1. Ethics and entrepreneurship: three themes.

and entrepreneurship is also analyzed normatively by Brenkert (2009–this issue), who explores the ethical tension represented by entrepreneurial rule-breaking.

This tension has been highlighted in the context of entrepreneurial activity in large organizations as well, where it can be difficult to tell the difference between corporate entrepreneurs and ‘rogue’ middle managers (Kuratko and Goldsby, 2004). At the organizational level of analysis itself, ethics and corporate entrepreneurship has also been explored by describing ‘institutional entrepreneurship’ that pursues social causes (Maguire et al., 2004). How do stakeholders influence corporate entrepreneurship (Kuratko et al., 2007)? And when a firm’s innovative behavior runs counter to established societal norms, is this an example of organizational misconduct, or ‘positive ethical deviance’ (Hartman et al., 2005; see also Warren, 2003)?

2.1.2. How do entrepreneurs make ethical decisions?

All of this research indicates that a variety of dimensions can impact the decisions and actions of entrepreneurs with respect to notions of ethics. Ultimately, proposed theoretical models of ethical decision making in new ventures attempt to capture many of these dimensions (e.g., Solymosy and Masters, 2002). Furthermore, consistent with Gartner’s (1985) assertion that differences among entrepreneurs may be greater than differences between them and non-entrepreneurs (see also Sarasvathy, 2004b), research shows that small business owners exhibit heterogeneity with respect to both their ethical values held, and the demographic factors presumed to influence those values (Dawson et al., 2002). In addition, entrepreneurs exhibit cognitive heterogeneity; for example, individuals vary in their sensitivity to moral issues, or their moral awareness (e.g., Reynolds, 2006). Some cognitive differences among entrepreneurs may be due to socio-cultural influences (Sommer et al., 2000). In a mixed methods study, Bryant (2009–this issue) investigates the influence of cognitive factors on entrepreneurs’ moral awareness, finding a complex relationship between social cognitive dynamics and sensitivity to moral issues. His theoretical framing and empirical results point the way to further research aimed at delivering deeper understanding of the ethical cognition of entrepreneurs. For example, the work suggests that studying the role other cognitive factors play in entrepreneurial ethical decision making would be an important avenue to explore.

2.1.3. What particular ethical dilemmas arise from entrepreneurship?

Another stream of entrepreneurial ethics research addresses the peculiar or unique nature of the ethical dilemmas faced by entrepreneurs that arise from a variety of organizational or environmental factors that directly influence the new venture. It is well established in the literature that entrepreneurial organizations face unique challenges; depending on the industry setting and the specific nature of the business, new ventures often experience constant change and limited financial resources (Boyd and Gumpert, 1983). These pressures can have a profound effect upon ethical decision-making processes, resulting in ethical situations for entrepreneurs that are fraught with ambiguity (Chau and Siu, 2000). In such conditions, scarcity of resources – as well as other sources of personal strain – can impact the ethical standards of entrepreneurs (De Clercq and Dakhli, 2009–this issue). In addition, specific ethical dilemmas that are especially salient to entrepreneurs can arise with respect to the division of profits within the organization, high risk associated with newness, and the tradeoff between impression management, legitimation, and honesty (Dees and Starr, 1992). Furthermore, entrepreneurs tend to face ethical dilemmas involving their own values, organizational culture, employee well-being, customer satisfaction, and external accountability (Payne and Joyner, 2006). What other ethical issues are particularly salient to the new venture context? How does an increased understanding of these issues bolster our theoretical grasp of the relationship between entrepreneurship and ethics?

2.1.4. How does technological innovation impact entrepreneurial ethics?

A related stream of inquiry involves the peculiar ethical dilemmas faced by entrepreneurs arising from technological advancement. Because new ventures often emerge at the cutting edge of innovation, sorting out the ethics involved can be particularly challenging, not only because technology is of necessity always “value laden” (Martin and Freeman, 2004:356), but also because technological advancement – as with other paradigm-shifting exogenous shocks – often requires deep reflection in order to decide how to apply ethical standards, and can even potentially lead to a revision of one’s ethical judgments. McVea (2009–this issue) qualitatively explores the decision making of entrepreneurs confronted with an ‘ethically pioneering’ situation, and shows that entrepreneurs reason through the attendant moral challenges in an imaginative way. But what about the role of the entrepreneurial firm itself as the moral change agent? Under what conditions might new ventures, in the context of technological advancement and its inherent moral ambiguity, engage in ‘destructive innovation’ (Harting et al., 2006), and what are the moral implications that arise? Relatedly – and turning this notion on its head – others suggest that ethical value tensions themselves can serve as a source of innovation and entrepreneurship (e.g., Wempe, 2005). Clearly, the relationship between ethics and innovation is an avenue ripe for further inquiry and analysis.

2.1.5. How do organizational ethics develop in a new venture?

This leads us to other research on entrepreneurial ethics that also takes a more macro approach, taking as its principal focus the new organization itself as the level of analysis. For instance, some research has examined the effects of culture, context, and social capital on civic orientation of entrepreneurial organizations (Spence and Schmidpeter, 2003). There are specific investigations of new ventures and illegal behavior (Fadahunsi and Rosa, 2002) and a larger literature on entrepreneurship and corruption (e.g., Radaev, 1994) – primarily examined in an international context. This research ties directly to the questions of entrepreneurship and economic development, since the focus is largely on entrepreneurship in emerging democracies and economies.

Other organization-level analyses focus on the ethical climate and behavior of new ventures, specifically exploring the formation of organizational ethics in a new venture, and what might influence those ethical norms over time and through organizational change. Neubaum et al. (2004) conduct a cross sectional study that examines the effect of both venture age and entrepreneurial

orientation on the ethical climate of the organization. Other research (Longenecker et al., 1989b; Schminke et al., 2005) find that the values of the entrepreneur play a substantial role in the new venture's ethical climate, subject to other moderating influences. Morris et al. (2002) develop a more comprehensive theoretical framework for understanding how the ethical climate of entrepreneurial firms grows and develops. They perform a cross-sectional cluster analysis, finding support for heterogeneity among new ventures and raising a host of important questions about the development of ethical climate in new ventures.

In addition to inquiry about how a healthy ethical 'infrastructure' (Tenbrunsel et al., 2003) might be formed in a new venture, a related, critical line of inquiry involves whether or not such an ethical infrastructure has any lasting effect. In other words, how might ethical standards inculcated in developing organizations (Joyner et al., 2002) achieve resilience over time, showing resistance to the buffeting of the intense organizational and environmental forces that accompany new venture creation and growth? How much do initial conditions matter? This area is virtually unexplored and vitally important; a better understanding of ethical infrastructure formation and resilience in new ventures will enhance our understanding of ethics in larger, more established firms.

2.1.6. How does stakeholder theory apply to new ventures?

Another stream of entrepreneurial ethics research applies stakeholder theory to entrepreneurship (Harrison, 2002; Venkataraman, 2002). While generalized stakeholder concepts have practical governance implications for the boards of newly formed ventures (Ackoff, 1987), a relatively unexplored area of research is the application of stakeholder theory to the unique and intensely personal stakeholder relationships that center around the entrepreneur. What characterizes the particular stakeholder expectations for a new venture (Choi and Shepherd, 2005), versus a more mature organization? Because of the tightly linked association between the founding entrepreneur and the new organization, important organizational stakeholders also tend to be individuals involved in close, personal relationships with the founder. In the initial stages of venture formation, for example, entrepreneurs are often required to manage social relationships with family and friends who may also be investors and employees (Starr and MacMillan, 1990); in other words, entrepreneurial stakeholders always have 'names and faces' (McVea and Freeman, 2005). This can give rise to unique and complex ethical problems, especially when the pre-venture and post-venture roles of the stakeholding individuals change; a choice to invest or not invest, or a mere change in the social character of a relationship, may lead to conflicts of interest or other incentive problems (Dees and Starr, 1992). The small stakeholder networks associated with small firms have also been shown to play a role in increasing unethical behavior, since social ties can also facilitate collusion and misconduct (Barlow, 1993).

Small business owners tend to prioritize the interests of customers ahead of employees or stockholders (Vitell et al., 2000); they have also been shown to have differential approaches to community involvement, and these differing initiatives have heterogeneous effects on organizational performance (Besser and Miller, 2004). Furthermore, the "profit-maximization-for-shareholder-gain" objective commonly ascribed to large firms seems "inappropriate for the small business" (Spence, 2004:118), and smaller ventures tend to have a correspondingly supportive view of their competitors (Spence et al., 2001). Future research in this area, therefore, could focus on the development of a 'stakeholder theory of entrepreneurship', specifically addressing the theoretical and practical challenges faced by entrepreneurs in balancing the claims of the stakeholders that are specific to – and commonplace in – new ventures. How do entrepreneurial stakeholders and their dynamic interactions qualitatively differ in character from the traditionally considered large-corporation stakeholders? How would a stakeholder theory of entrepreneurship account for the wide range of entrepreneurial stakeholder scenarios, from venture-backed IPO companies to small family firms?

2.2. Social entrepreneurship

Broadly construed, a second burgeoning area of study at the intersection of ethics and entrepreneurship is that of social entrepreneurship, or social venturing. Extant research engages in at least six different research avenues in this area of research.

2.2.1. What is social entrepreneurship?

Initially, academic interest in this activity primarily focused on the creation of philanthropic organizations, effective nonprofit management, and the application of business-like discipline to institutions created primarily to address social sector problems rather than the pursuit of economic objectives. This activity attracted its own scholarly literature, interest groups, and resource networks (e.g., Dees et al., 2001); in practice, successful social entrepreneurs in public (DeLeon, 1996) or nonprofit administration have the potential to bring about significant changes in the perception, policy making, and even implementation of social change in the public sector (Waddock and Post, 1991).

However, social venturing is best understood more broadly. Social entrepreneurship can also include business ventures with a strong overarching social purpose, as well as a wide range of hybrid organizations that mix both nonprofit and for-profit elements (Dees, 1998; Townsend and Hart, 2008). Indeed the concept of social entrepreneurship is recognized as

encompassing a wide range of activities: enterprising individuals devoted to making a difference; social purpose business ventures dedicated to adding for-profit motivations to the nonprofit sector; new types of philanthropists supporting venture capital-like 'investment' portfolios; and nonprofit organizations that are reinventing themselves by drawing on lessons learned from the business world. In the past decade 'social entrepreneurship' has made a popular name for itself on the global scene as a 'new phenomenon' that is reshaping the way we think about social value creation (Mair et al., 2006:1).

Social entrepreneurs at the core of these kinds of ventures look for the most effective methods of achieving their missions, which increasingly involve both social and economic objectives (e.g., Choi and Gray, 2008).

We will not attempt a more comprehensive review of definitional work on social entrepreneurship here; rather, we commend the thorough treatment by Zahra et al. (2009-this issue), as well as several other articles that examine social venturing through theoretical and historical lenses (Mair and Marti, 2006; Nicholls and Cho, 2006; Vasi, 2009). Several academic compilations contain the most recent and varied research on social entrepreneurship (Mair et al., 2006; Nicholls, 2006; Perrini, 2006a; Ziegler, 2009), and additional research efforts have focused specifically on the globalized context of social entrepreneurship (Robinson et al., 2009; Zahra et al., 2008). We also note that academic research on social venturing continues to unfold against a larger backdrop of growing societal interest in social venturing as a solution to third world poverty and other pressing social problems (e.g., Bornstein, 2004; Elkington and Hartigan, 2008); hence much of the academic work in social entrepreneurship centers around the so-called bottom of the pyramid (BOP) approach to profitably alleviating third world poverty (Hart, 2005; Prahalad, 2004; Prahalad and Hart, 2002), though considerably less has been said about how to actually devise and implement BOP strategies (for notable exceptions, see Hart and Sharma, 2004; Seelos and Mair, 2007; Werhane et al., 2009).

2.2.2. *What distinctive ethical issues arise in social ventures? How is performance measured?*

Although the ethics of social entrepreneurship is relatively unexplored, Zahra et al. (2009-this issue) develop a framework for thinking about ethical issues in social ventures. In addition, several specific, related research topics have received some research attention; although they are often not a primary focus of social entrepreneurship research per se, they are topics with relevance to entrepreneurial activity that incorporates a social purpose. One example is the unique context of the university/business partnership startup (Lockett et al., 2005), which embodies a particular kind of hybrid organization expressly supported for societal reasons. Yet this relationship introduces a host of ethical issues, such as conflicts of interest, tensions between academic and business values, and just distribution of gains (Bowie, 1994; Dees and Elias, 1998). Relatedly, there is increasing interest in the concepts of social return on investment (e.g., Lingane and Olson, 2004; Perrini, 2006b), and double- and triple-bottom-line accounting practices (e.g., Norman and MacDonald, 2004) that attempt to measure the success of social mission achievement, both of which are of increasing importance as the practice and academic analysis of social entrepreneurship grows. Additional research is required to better understand the particular ethical issues endemic to social entrepreneurship, as well as the assessment of success in hybrid organizations that value both social and economic aims.

2.2.3. *What about disenfranchised entrepreneurs?*

Another example of related research that is commonly overlooked in the mainline social venturing literature is the application of several ideas common to BOP research (such as entrepreneurship as a vehicle of poverty alleviation, the empowerment of disenfranchised populations, and the connection between commerce and political equality) to urban, developed-nation contexts, rather than solely to the underdeveloped third world. A small but growing body of work (Bates et al., 2007; Boyd, 1991, 1998; Fairchild, 2008, 2009; Fairlie, 2004) explores the antecedents and outcomes of ethnic minority entrepreneurship, highlighting strategic and policy-related implications, yet a number of questions raised in this growing literature bear further exploration. How are different ethnic minorities, such as native vs. immigrant populations (c.f. Bogan and Darity, 2008; Fairlie and Meyer, 1996), impacted differentially? What environmental factors (c.f. Aldrich and Martinez, 2001) drive minority entrepreneurship, and what are the attendant ethical considerations?

2.2.4. *How do social ventures differ from traditional ventures?*

A broader question in social venturing research involves the assessment of entrepreneurship and social entrepreneurship, and how these enterprises differ (Austin et al., 2006). On one hand, market forces may affect business and social enterprises in profoundly different ways. In addition, even with the use of social performance measurement tools, it is difficult to determine the 'success' of a social venture, because markets often do not effectively value societal improvements or public goods. On the other hand, it is also apparent that nonprofit and philanthropic startups are subject to intense competitive forces, even if of a slightly different nature. And what about creativity and opportunity exploitation; are social entrepreneurs able to seize opportunities that would otherwise be ignored by traditional entrepreneurs, as Monllor and Attaran (2008) suggest? Dees (1998) argues that a primary difference between social and business entrepreneurship is the explicit, central mission of social ventures – which influences the way social entrepreneurs perceive and assess opportunities. In this view, mission-related impact is a central criterion for entrepreneurial action. This suggests that social entrepreneurs may be particularly concerned with designing (Sarasvathy, 2004a) their new ventures around a particular purpose, even when this imposes economic costs on the entrepreneur (Baron, 2007) – whereas traditional entrepreneurs often solve problems and create new ventures in an improvisational and exaptive way (Dew et al., 2008; Dew et al., 2004).

2.2.5. *What is the role of 'purpose' in social entrepreneurship? In traditional entrepreneurship?*

The primacy of purpose in social ventures strongly evokes the more generalized notion that purpose is central to success in business organizations, originally envisioned by Barnard ([1938]1968), who argues that purpose gives meaning to an organization and serves as a morally binding, unifying principle. In this view, an explicit focus on organizational purpose could be a potential source for distinctiveness and competitive advantage in social ventures. And if so, why not in traditional startups as well, the case for entrepreneurial effectuation (e.g. Sarasvathy, 2001) notwithstanding? In other words, what could traditional entrepreneurs learn from the teleological, purpose-driven venturing of social entrepreneurs? Under what conditions might such an explicit focus on 'purpose' provide advantage for traditional entrepreneurs, versus not? Ackoff (1987:187) suggests that entrepreneurs are free to create any organizational design they wish, since they are free of the burden of an "organizational past". This leads to interesting

questions about the differences between social and business entrepreneurship, such as: Are founders with past traditional entrepreneurship experience more likely to be successful in launching a new social venture? Do entrepreneurs with past social venturing experience provide better entrepreneurial leadership than inexperienced entrepreneurs? Do such entrepreneurs provide more effective leadership than founders with only traditional entrepreneurship experience? What lessons, in other words, can mainstream entrepreneurial practice learn from the social venturing arena? Rigorous research addressing these types of questions is another potential source of future research.

2.3. Entrepreneurship and society

The third broad area of scholarly inquiry involving ethics and entrepreneurship takes a much more macro view of entrepreneurship, exploring the role of new ventures on the relationship between business and society. There is an exhaustively large body of research on questions involving the connections between entrepreneurship, economic development, and social welfare, primarily in the economics literature. We will not attempt to comprehensively review all of that work here; rather, we will attempt to give an overview that touches on several persistent questions. Employing both philosophical and empirical approaches, this body of literature explores at least six such questions.

2.3.1. From the standpoint of economic theory, what role does entrepreneurship play in social welfare?

There is a tremendous clash in economic theory as to the social and moral role and impact of entrepreneurship. Although scholars have convincingly argued that Smithian capitalism contains a strong entrepreneurial and ethical focus (Newbert, 2003; Werhane, 1991, 2000), the mainstream neoclassical view is that entrepreneurship is either an allocation mechanism or an aberration. As an alternative, Schumpeter ([1934]1983) suggests that entrepreneurship is the driving market force for 'creative destruction', revolutionizing the existing economic structure by destroying the old equilibrium and creating a new one, via innovation – a perspective inherently concerned with “disequilibria, decision making, uncertainty”, and therefore focused on “how the economic and its variables change endogenously in a historical and political context” (Thanawala, 1994:360). Etzioni (1987) argues that such entrepreneurial creative destruction dramatically affects the evolution of ethical and societal elements, placing the entrepreneur in a central position with respect to society's ethical demands.

An explicit focus on moral perspectives or approaches to ethics could potentially enrich our current economic theories of entrepreneurship (c.f. Minniti and Levesque, 2008). For instance, Sarasvathy (2002) provocatively suggests that the traditional economic frameworks employed to discuss entrepreneurship are limited in their usefulness, and therefore should be discarded in favor of a new, more imaginative economic framework that better incorporates the ethical demands of entrepreneurship within society. What would this new paradigm look like? Alternatively, how would the incorporation of a more explicit treatment of ethical issues inform or modify our existing economic theories of entrepreneurship?

2.3.2. What is the role of entrepreneurship in macroeconomic development?

Empirically, entrepreneurship is viewed as a primary mode of economic development; indeed most job creation occurs in small, entrepreneurial firms (Acs and Audretsch, 1992; Birch, 1987; van Praag and Versloot, 2007). Going further, Kirchoff (1991) suggests that entrepreneurship may be the wellspring of most economic growth. Researchers continue to examine entrepreneurship's role in the growth and development of economic markets, and although there is general consensus that entrepreneurial activity is of critical importance, there is disagreement about the specific relationship between venturing and economic development. Much of the research builds upon the assumption that economic growth is driven by entrepreneurial innovation; while the dominant view centers around product innovation as an economic driver (e.g., Romer, 1986), other scholars argue for the importance of process innovation (Corriveau, 1994). Other work (e.g., Acs et al., 2009; Audretsch et al., 2008) suggests that entrepreneurship produces knowledge spillovers arising from agglomeration, which *in turn* drive economic growth.

Some researchers eschew this association between innovation and economic growth, proposing instead that imitative entrepreneurship is a much more powerful economic driver than the less-common innovative activities (Baumol, 1986, 1993; Schmitz, 1989). Powell (1990) concurs, suggesting that the need for imitative entrepreneurship is especially acute in emerging economies, where it has also been shown to have the most impact on economic growth (Minniti and Levesque, *in press*). Baumol (1990) also suggests that the mode of entrepreneurship pursued by entrepreneurs depends heavily on the quality and extent of supporting societal institutions already in place, a theory confirmed by other scholars (e.g., Sobel, 2008). Yet differential institutional environments – whether in developed or transition economies – have very different effects on entrepreneurial activity (Aidis et al., 2008; Dore, 2006; Galbraith, 2006; Henrekson, 2005; Minniti, 2008; Phan et al., 2008).

Within this scholarly discussion about economic impact, there is a particular interest in the societal influence of entrepreneurial activity on the emerging economies and societies of developing, transition, or third-world countries (Brown, 2002; Bruton et al., 2008; Harper, 1991; Jarillo, 1989; McMillan and Woodruff, 2002) as well as the benefits to the developing-world entrepreneurs themselves (Nussbaum, 2000). Yet these environments can be particularly challenging to entrepreneurs because of corruption, which represents the breakdown of institutional ethics. As such, Anokhin and Schulze (2009-*this issue*) empirically explore the relationship between corruption and entrepreneurial innovation, which has implications for the relationship between entrepreneurship and economic development. All of this work highlights a number of related questions for future research: From the standpoint of macroeconomic development, which modes of entrepreneurship are most desirable, and under what conditions? How do entrepreneurs in a corrupt environment deal with risks of expropriation? How does the relationship between corruption and entrepreneurship factor into macroeconomic growth? What are the policy implications?

2.3.3. What other societal roles does entrepreneurship play?

As part of the debate about entrepreneurship and economic development, some scholars argue that the link between venturing and macroeconomic growth is tenuous at best, and that the true benefit to societal welfare arising from entrepreneurship is the diversification of the socioeconomic portfolio. For example, *Shapero (1985)* argues that the true benefit to the quality of life in a society stems from the diversification of economic entities which respond to the environment in different ways – using the Irish potato famine as a disastrous counterexample of the perils of an undiversified socioeconomic portfolio.

At the very least, a number of other social metrics may be interrelated with macroeconomic development, but their impact can be specifically considered, irrespective of their influence on economic outcomes. For instance, it is suggested that entrepreneurs can play an overarching and prominent role in building a ‘good society’ (*Brenkert, 2002*); indeed the primacy of entrepreneurship within a societal framework is in many ways a pivotal indicator of socioeconomic views on self-determination, freedom, wealth disparity, and distributive justice (*Nielsen, 2002*). Small and medium-sized enterprises, which are oftentimes entrepreneurial firms, have ubiquitous societal influence on norms of civic engagement and the building of social capital (*Spence and Schmidpeter, 2003*). Entrepreneurial activity is connected with political policies that advance socioeconomic freedom (*Bjornskov and Foss, 2008; Sen, 1999*). As a direct link between individual citizens and economic entities, entrepreneurs and their new ventures have an immediate and particular salience to stakeholder evaluations and judgments about business citizenship (*Wood and Lodgson, 2002*).

As previously discussed, institutions play an important role in fostering or discouraging entrepreneurship. But what happens when there are ‘voids’ in place of functioning institutions? *Mair and Marti (2009-this issue)*, show that in such situations, new ventures – in addition to creating economic benefits to entrepreneurs themselves – also play a key role in institution building. Entrepreneurs may create new networks of stakeholders, ultimately creating markets where they did not exist before (*Sarasvathy and Dew, 2005*). On the other hand, already-established entrepreneurial networks, in the absence of robust institutions and markets, can actually serve as a barrier to entry to new ventures, dampening additional entrepreneurial activity and creating substantial transaction costs for newcomers trying to establish new ventures (*Aidis et al., 2008*). More research is required to better understand how entrepreneurs deal with institutional voids. Under what conditions does entrepreneurship in developing economies engender a virtuous cycle, instead of devolving into collusion and corruption? As with other lines of research connecting entrepreneurship and society, what are the implications for policy?

2.3.4. How do entrepreneurs enact social change?

Much of the research connecting entrepreneurship and society suggests that the entrepreneur can stimulate positive political change by discarding obsolete or anachronistic social patterns and helping to enact new ones – but what do we know about this process? For one thing, *Van de Ven et al. (2007:353)* suggest that entrepreneurs are aware of their own role in advancing societal interests; indeed they argue that the portrayal of entrepreneurs as self-interested, rugged individualists is “incomplete”, and hence “explanations of entrepreneurial behavior will be more theoretically complete and empirically accurate if they address both self- and collective interests simultaneously than when they are based only on either self-interests or collective interests.” As previously discussed, *Mair and Marti (2009-this issue)* show in rich detail of how one particular entrepreneurial actor navigates a resource- and institution-constrained environment and ultimately does ‘institutional work’ in that environment – impacting the shaping of nascent institutions. Entrepreneurs that advance social change are often part of larger social movements (*Vasi, 2009*), and they engage in certain activities – such as framing their objectives to appeal to diverse stakeholders and using nonmarket and political means (*Maguire et al., 2004*) – in order to achieve those objectives. Ultimately, Peter Drucker suggested that social entrepreneurs can “change the performance capacity of society” (*Gendron, 1996*), but compelling questions remain; for instance, what strategic techniques are most effective at connecting entrepreneurial actions with larger social changes? Research could also further unpack the entrepreneurial processes by which institutions are created, modified, or replaced – which might start to build a “theory of entrepreneurial ethics-in-practice” (*Dees and Starr, 1992:103*).

2.3.5. In what ways can entrepreneurship be socially unproductive?

While entrepreneurship is described as an inherently containing a moral imperative (*Anderson and Smith, 2007; Carr, 2003*), or at the least, being consonant with ethical conduct (*Surie and Ashley, 2008*), other work points out that entrepreneurship can actually be societally detrimental. For example, *Baumol (1990)* points out that opportunistic entrepreneurial rent seeking can encourage corruption and its consequences; *Davidson and Ekelund (1994)* propose that such outcomes are better characterized as an evolutionary process that indicates the presence of pareto optimality mechanisms, and therefore represent timing problems. Nevertheless the uncomfortable fact remains that entrepreneurial innovation can result in “losses and hardships for some members of society” because entrepreneurship is “destructive of some stakeholders’ wellbeing even as it creates new wellbeing among other stakeholders” (*Dew and Sarasvathy, 2007:267*). It is also possible that certain new enterprises might profit at the expense of societal or public goods; that is, the venture could appropriate private gains while imposing societal costs; these ventures are what *Davidsson and Wicklund (2001:90)* refer to as “robber enterprises”. From a policy standpoint, does this suggest that entrepreneurship should be governed by certain societal constraints? How should we ethically account for stakeholders who are disadvantaged by entrepreneurship? Under what circumstances are such outcomes morally problematic? How would different moral frameworks address this problem?

2.3.6. What are the ethics of opportunity exploitation?

The ‘Austrian school’ of economics places a fundamental emphasis on the entrepreneur, but in contrast to the Schumpeterian view, scholars in this tradition suggest that venturing opportunities are instead created by extant market disequilibria (*Kirzner,*

1997). The role of the entrepreneur in this view, therefore, is to discover and capitalize on such opportunities (Shane and Venkataraman, 2000). This raises some interesting questions regarding the ethics of opportunity exploitation. While exploitation is often viewed as a desirable, morally-neutral description of either entrepreneurial initiative (e.g., Choi and Shepherd, 2004) or organizational learning (March, 1991), an important yet unexplored area of research is the ethical considerations of entrepreneurial opportunity exploitation (Hannafey, 2003). Future research might examine such questions as: What are the moral implications of entrepreneurial creative destruction? Under what circumstances is opportunity exploitation indefensible? How might entrepreneurs distinguish between ethically sound value creation and opportunistic exploitation? What patterns emerge in the cultural or institutional factors that influence entrepreneurial exploitation? What are entrepreneurs' special or particular societal obligations, as distinct from managers in mature firms? Additional research along these lines is needed to advance our understanding of entrepreneurial opportunity exploitation.

3. This special issue

A large number of excellent papers were considered for this special issue. In the end, the eight papers selected advanced through a difficult screening process that had its beginnings in the spring of 2006 at a targeted conference on ethics and entrepreneurship held at the University of Minnesota's Carlson School of Management. Early versions of these papers were some of the best papers presented at the conference, and subsequently underwent (and survived) a rigorous double blind process at JBV in which each paper was reviewed in several iterations by an editor and at least two referees. The contributing scholars bring a variety of disciplinary backgrounds, including organization theory, economics, philosophy, and management. Their papers employ several different conceptual and empirical methods, and each of the three broad areas of inquiry discussed above is represented. As such, the papers in this issue constitute a varied, multidisciplinary collection, and advance each of the three areas of research connecting ethics to entrepreneurship.

In "Entrepreneurship in and around institutional voids: A case study from Bangladesh," Johanna Mair and Ignasi Marti conduct and in-depth, qualitative case study of BRAC, a non-governmental organization, and its efforts to alleviate poverty. In doing so, they are able to provide a detailed picture of an 'institutional entrepreneur' as well as the resource-constrained environment in which it operates – an environment particularly deprived of institutions typically prevalent in modern market economies.

Their paper advances theory in several respects. Because studies of institutional entrepreneurs have tended to examine powerful actors with sufficient resources, it provides visibility into a different kind of institutional entrepreneur; in this case, one with an explicit social mission. This extends previous work on institutional entrepreneurship, and also advances our understanding of social ventures by showing the process by which BRAC 'makes do' with minimal resources. Their findings show three distinct, relatively unexplored elements of entrepreneurial bricolage: the bricoleur's ongoing process of sensemaking, the political nature of 'making do,' and the production of unintended consequences that potentially work against the very social mission in which the institutional entrepreneur is engaged.

Two papers in this issue examine the tension connecting entrepreneurship and rule-breaking. The first paper on the topic, entitled "Rule breaking in adolescence and entrepreneurial status: An empirical investigation," by Zhen Zhang and Richard Arvey, examines the longitudinal relationship between negative forms of rule breaking in adolescence and entrepreneurial status in adulthood. To do so, they make novel use of the longitudinal data from the Minnesota Twins Registry, and relate several interesting findings. First, after controlling for the personality traits of achievement and social potency, they find that modest rule breaking is significantly related to entrepreneurial status in adulthood. Furthermore, they show that such rule breaking also serves as a mediator in the risk propensity – entrepreneurial status relationship. Hence these findings show an interesting empirical connection between the tendency to challenge the status quo and the likelihood of becoming an entrepreneur, which leads to precisely the kind of moral tension explored in the next paper.

"Innovation, rule breaking and the ethics of entrepreneurship," by George Brenkert, analyzes the normative tension represented by these interconnected concepts. Whereas much can be said for not breaking certain rules (such as moral or legal ones), the entrepreneur is often mythologized as a bold, path breaking maverick; how to reconcile these opposing concepts into an 'ethics of entrepreneurship'? Brenkert suggests that rule-based views of entrepreneurial ethics are mistaken, and instead offers up a model of ethical decision-making that moves beyond focus on entrepreneurial rule-breaking toward an understanding of the kinds of characters, businesses, and societies that are involved. Key to Brenkert's argument is a focus on virtue, and the Aristotelian ethics of virtue. Viewed through this lens, the entrepreneur acts not only as an economic change agent, but as a moral one as well.

But what happens when new ventures are themselves emerging within a culture of distrust, abuse of power, and gray markets? In other words, what if *corruption* fills the type of institutional void identified by Mair and Marti? In "Entrepreneurship, innovation, and corruption," Sergey Anokhin and William Schulze (2009-this issue) examine the effect of systemic corruption on entrepreneurial and innovative activity across different sociocultural settings. Longitudinal data from 64 nations shows a positive, curvilinear relationship between the control (or minimization) of corruption and three independent measures of entrepreneurial and innovative activity. They also demonstrate that these relationships are moderated by foreign direct investment.

These results underscore the influence of corruption on innovation, lending support to the notion that corruption – and ultimately, the quality of a nation's institutions – plays a major role in explaining the disparities in entrepreneurship rates across multinational settings. In addition, the results are suggestive regarding corruption's potential role as a variable of impact in the larger body of work relating entrepreneurship to economic growth.

However, in addition to influencing the amount of entrepreneurial innovation, the trustworthiness of institutions also has an impact on the ethics of the individual entrepreneur. This is one of the results found in "Personal strain and ethical standards of the

self-employed,” by Dirk De Clercq and Mourad Dakhli. In addition, they examine several other sources of pressure associated with starting a new venture, including indicators of economic status, educational status, and social support networks, and discover differential effects of these factors on the ethical standards of entrepreneurs. Furthermore, consistent with the findings of Anokhin and Schulze, De Clercq and Dakhli show that these effects exhibit cross-national variation, suggesting that the effects of personal strain on entrepreneurial ethics are subject to country-level factors.

John McVea, in “A field study of entrepreneurial decision-making and moral imagination,” reports a qualitative analysis of entrepreneurial decision-making using an inherently challenging, ethically ambiguous case protocol. McVea interviewed a group of experienced entrepreneurs in the field (along with a similarly-sized control group of MBA students), and analyzed their efforts to work through the difficult challenge represented by the case protocol. The findings suggest that the experienced entrepreneurs had a much greater tendency to exercise ‘moral imagination’ than the non-entrepreneurs; that is, the experienced subjects were much more likely to frame the problem as inherently concerned with ethics at the outset, and were less inclined to compartmentalize the economic issues from the moral ones. The business school students, on the other hand, were more apt to frame the problem as primarily one of financial risk and to consider a narrower range of stakeholders.

This paper advances theory in several ways. First, it tells us something about how entrepreneurs make ethically-laden decisions, and gives some insight into their use of moral imagination. Second, it represents a powerful examination of moral imagination, which has previously remained a more abstract ethical concept subjected to very little empirical investigation. As such – and along with several other papers in this issue – it helps bridge the normative-descriptive divide (Harris and Freeman, 2008; Hartman, 2008). Third, it shows that moral imagination is in part a matter of how decision-makers view themselves, and in particular their own moral identity, which extends prior work on moral imagination.

In “Self-regulation and moral awareness among entrepreneurs,” Peter Bryant further investigates the concept of moral awareness in entrepreneurs. In a mixed methods study, he specifically explores a particular aspect of social cognition – self-regulation – and shows that entrepreneurs with stronger self-regulatory characteristics are more morally aware, resulting in an emphasis on personal integrity and interpersonal trust. Those entrepreneurs with weaker self-regulation have diminished moral awareness, and focus primarily on ethical issues related to venture failure. These findings suggest that self-regulation influences the type and object of moral awareness, and not simply the occurrence and strength of moral awareness generally – a contribution to the literature on moral awareness and ethical decision-making.

Finally, as others (e.g., Robinson et al., 2009) have pointed out, research on social entrepreneurship is growing but still fairly nascent. Substantial research work is required in order to keep pace with the real-world growth in social venturing. Hence Shaker Zahra, Eric Gedajlovic, Donald Neubaum, and Joel Shulman, in their paper “A typology of social entrepreneurs: Motives, search processes and ethical challenges,” offer a much-needed treatment of the burgeoning research focus on social entrepreneurship, with a particular focus on the ethics of social entrepreneurship. The paper makes several contributions; first, the authors advance a typology identifying three specific types of social entrepreneurs. Second, they highlight several ethical concerns that arise in this specific organizational form that has both social and economic objectives. This points the way to further research on the ethics of social entrepreneurship.

4. Conclusion

In summary, research connecting entrepreneurship and ethics is extremely rich and varied, even within each of the three broad themes summarized here. We have highlighted six specific lines of inquiry within each broad area, summarizing the major findings and highlighting a host of remaining research questions. Although robust scholarly inquiry has begun in each research stream, many research questions remain.

Along those lines, we have also introduced the articles in this special issue of JBV, which – each in their own specific way – push forward the frontiers of what we currently understand about ethics and entrepreneurship. As such, we hope this special issue will stimulate new scholarly conversations and lines of inquiry, generate further interest in research connecting ethics and entrepreneurship, and encourage more cross disciplinary work connecting the two fields.

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