

# **Ethical Dilemmas in Entrepreneurial Decision Making**

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## **Abstract**

The paper addresses ethical questions in entrepreneurial decision-making. To this avail the authors rely on already existent discussions of ethics in entrepreneurship and extend these to dilemma situations where the entrepreneur is confronted with two or more ethically equally desirable alternatives. These situations which put the entrepreneur under severe ethical constraints are analyzed, and several types and categories of dilemmas are identified as examples and are then discussed. Moreover the paper relates to entrepreneurship as not only a source of dilemmas but also as a possible solution. We also provide hints for further research.

## **Questions for discussion:**

- Which other categories/examples of dilemmas do exist in entrepreneurship?
- What is special about ethics in entrepreneurship when compared to conventional business ethics?
- Empirical research on ethical question with regard to business and management has been difficult in the past. What can be done to improve this situation? How can qualitative and quantitative empirical research be put into effect?
- Should ethical dilemmas in entrepreneurial decision-making be part of entrepreneurship education? How should they be taught?

## 1. Introduction

The Rencontres de St. Gall's call for papers formulated a number of paradoxes with which the entrepreneur and the field of entrepreneurship as a scientific discipline are concerned. Explicitly mentioned paradoxes are “effectuation-causation, exploration-exploitation, delegation-control, tradition-innovation, flexibility-efficiency, growth-stability, regional-global, and emotional-rational”. In this paper we argue that in addition to these contradictory relationships the entrepreneur in his career is also faced with ethical dilemmas in his decision-making process. We will therefore focus on tensions in decision-making processes when the entrepreneur has to choose between two or more equally ethical or unethical alternatives. Since any choice will cause ethical opportunity costs, each choice will leave some ethical need unfulfilled.<sup>1</sup>

In the context of the financial and economic crisis, ethical aspects of entrepreneurial action and decision-making have become more and more important. Consequently, issues such as social entrepreneurship and corporate social responsibility have gained a high amount of attention. However, ethics and ethical decision-making are not restrained to specific types of entrepreneurship (Schramm 2010). They are important in every decision made within a company especially by its founders and leaders. Globalization has contributed to the topicality of ethics, especially since individual, organizational and social ethical models, values and attitudes differ considerably among different cultural areas, for example between Germany and China (Harmeling/Sarasvathy/Freeman 2009). Obviously, such differences affect entrepreneurial behavior as well. The perspective on what is right and what is wrong may hence be contradictory between aggregated social and cultural phenomena such as markets and nations (e.g. regarding manners of imitation, the appropriateness of bribery, etc.).

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<sup>1</sup> For pure reasons of readability this paper will adopt the masculinum. Other hints or meanings are not intended.

It is the aim of this paper to identify and analyze ethical dilemmas which in our view are characteristic to entrepreneurship. The paper proceeds as follows: Firstly we will provide an understanding of the term ethical dilemma and relate it to entrepreneurship and entrepreneurial decision making more closely. Then we will identify specific dilemmas of the entrepreneurial decision-making process, put them under more scrutiny and provide examples. We will then offer implications from these findings and endeavor to develop a conceptual approach to a possible solution of these dilemmas from the view of entrepreneurship theory.

## **2. Ethical Dilemmas in Entrepreneurial Decision-Making**

### Ethical Dilemmas

The Oxford Dictionary defines ethics as “*moral principles that govern a person’s behaviour or the conducting of an activity*” (<http://oxforddictionaries.com/definition/ethics>). Ethics thus provides the rules that determine one’s actions and decisions. An individual’s attitude towards what is right or wrong behavior and ethical or unethical in his personal conduct of life may be more or less congruent to the moral belief system of the society or culture that he lives in (Clarke/Holt 2010). However, while guiding moral principles may provide the individual with orientation, situations may occur in which these principles are at odds with one another, i.e. where one of a set of principles is contradictory to another, or where stubbornly holding on to them might provoke harmful results. The agent is then faced with a moral challenge that may in many cases be interpreted as a dilemma.

Moral dilemmas in an ethical context occur when a person is confronted with a situation that leaves him with (at least) two antagonistic choices for action, where both choices may be equally desirable (or wrong for that matter) to the agent from an ethical point of view but

where only one can be (fully) pursued while the other has to be neglected (Foot 1983).<sup>2</sup>

Hence, McConnell defined moral dilemmas as such: “[...] *an agent regards herself as having moral reasons to do each of two actions, but doing both actions is not possible. Ethicists have called situations like these moral dilemmas.* [...] *The agent thus seems condemned to moral failure; no matter what she does, she will do something wrong (or fail to do something that she ought to do).*” (McConnell 2010, <http://plato.stanford.edu/entries/moral-dilemmas/>). In such a case the ethics, i.e. the moral principles (see above) that guide a person’s behavior are self-contradictory as one principle is in conflict with an equally potent other principle. Such moral conflicts are then not situational or contingent, but a clash of semi-permanent opposing rules for action (Foot 1983). We will speak of a true dilemma when the trade-off between two antagonistic alternatives for actions is equal in desirability and payoff and therefore insoluble without loss.<sup>3</sup> Ethical dilemmas thus also leave scholars who aim to develop normative implications for certain problems in a paradoxical situation; when the conflicting principles are both valid and equally desirable, there is no unique solution to the problem and action guiding is therefore hampered (McConnell 2010). In the next sections we argue that such dilemmas are characteristic of some aspects of entrepreneurship and hence may as well pose a problem to any researcher or educator in the discipline trying to provide normative advice to them.

### Ethics and Entrepreneurship

William Baumol observed that entrepreneurship can have several functional effects in a society or economy (Baumol 1990, Baumol/Litan/Schramm 2007). Discerning between

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<sup>2</sup> If the desirability, rightfulness, etc. of one alternative supersedes the other by far, then the dilemma is not consistent as the choice is clear (McConnell 2010).

<sup>3</sup> Please note that we consider the term payoff in the widest sense, i.e. non-monetary detrimental consequences such as harm to social relations etc. are explicitly included.

productive, unproductive and destructive types of entrepreneurial behavior he and his coauthors suggest that entrepreneurial action may either contribute to the society's (economic) development through innovation activities that enhance progress and welfare or be detrimental to social development through rent seeking or even criminal conduct. Entrepreneurship may then either be congruent with general social principles or deviate from them. Based on this functional approach moral dilemmas in entrepreneurship can be seen as an ethically ambivalent or neutral phenomenon. In this sense an entrepreneur is not per se an ethical or unethical agent but - may produce both ethical and unethical external effects in the course of entrepreneurial action. These effects may be brought about quite deliberately by the entrepreneur (Baumol's destructive entrepreneurship) or be a by-product that develops unconsciously.

We will thus start from the assumption that the entrepreneur per se is not more or less ethical than any other member of society. In Schumpeter's view a person is "an entrepreneur only when he actually carries out new combinations and loses that character as soon as he has built up his business...being an entrepreneur is not a profession" (Schumpeter 1934, p. 78). This implies that a person is only an entrepreneur within a certain phase of his life and not throughout his whole lifetime. It is therefore unlikely that people are more or less ethical in the entrepreneurial phase of their lives than in any other phase. This is even more true because the role of the entrepreneur is only a part of any individual's life even in his entrepreneurial phase so that ethical attitudes at any time will be co-defined by other aspects of life than entrepreneurship as well.

In relation to Baumol's concept and to the role attributed to the entrepreneur by Schumpeter (1934, 1939) we suggest that from an economic perspective it is the function of the entrepreneur as the agent of innovation that needs to be incorporated into the analysis of ethical dilemmas in entrepreneurial decision-making rather than e.g. personal attributes (as in

the traits approach, see e.g. McClelland 1961, Carland/Hoy/Carland 1988, Jauch/Frese 2007).

It is in the fulfillment of his function that the agent and his ethical behavior do account for ethical dimensions of entrepreneurship. This is not to say that the behavior of others and of institutions such as the legislative and the judicative powers do not influence the ethics of entrepreneurial behavior, but referring to the definition of ethics as provided above it is the individual's attitude and decision-making with reference to the overall values of society that determine the ethical aspects of his actions. Consequently, moral dilemmas in entrepreneurial decision-making have to be faced and overcome by the entrepreneur in the first place.

Several scholars of entrepreneurship and ethics have noted that the entrepreneur occupies a special role as far as ethical conduct and specifically business ethics are concerned (see among others Longenecker/McKinney/Moore 1989, Venkataraman 2002, Saravathy 2008, Harmeling/Sarasvathy/Freeman 2009, Clarke/Holt 2010). This special role is a result of the entrepreneur's function as an innovator as explicated above. Since innovation will by definition alter the landscape of markets in terms of many structural variables it is quite likely that ethical issues emerge as these structural variables might affect and contain social and business customs, traditions and other social artifacts. Moreover it is possible that ethical standards may change through entrepreneurship and innovation when old rules and principles no longer apply or stop to make sense through the production of external effects. Entrepreneurship may hence be a catalyzing and stimulating force to ethical economic and social behavior (see e.g. Schramm 2010, as well as the "social legitimacy"-dilemma explicated below.).<sup>4</sup>

Recently, Harmeling/Sarasvathy/Freeman (2009) as well as Clarke and Holt (2010) have specifically dealt with the relationship between ethics and entrepreneurship. Most interestingly, the analysis of Clarke and Holt is an explicit response to the view purported by

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<sup>4</sup> Please note that this influence may be both positive and negative.

the former authors. Harmeling and her coauthors suggest an approach that is guided by the pragmatist philosophers Dewey, Goodman and Rorty. They outline a concept that relies on contingency, arguing that the complexity of entrepreneurship and the singularity of every entrepreneurial attempt rendered universal rules or conventions unfit for application to the individual case, as overarching principles do not (fully) apply in complex, contingent contexts. Especially so, as in their view the entrepreneur is – through the process of innovation – a creator of both new economic value *and* of new values in a moral sense. The former function is fulfilled through the business he creates, while the latter is produced through deliberately altering his surroundings and its specific rules to create an ethical environment that is more appropriate in his view. With special regard to Rorty (1989) the entrepreneur is thus envisioned as a “strong poet” who reinvents and reshapes the rules of the world in the course of his activities and therein eliminates earlier constructs and beliefs in the private and the public sphere.

Clarke and Holt (2010) criticize this contingency-based view as being in danger of equating ethical decision-making with pragmatic problem solving. They argue that ethical principles are not contingent but based on semi-permanent, overarching social beliefs. Entrepreneurs are then not guided by their immediate situation alone, but by principles which they perceive as given rules for action that are amalgamated in their internal code of conduct and existent within their social environment. They hence propose an approach that does not regard contingency but is based on Kant’s concept of “reflective judgment” which “*occurs when we consider whether the reasons we assume something to be the case, or the reasons we invoke a rule arising from assumptions, are in themselves generalizable and so reasonable [...].*” (ibid, p. 320). From this point of view the entrepreneur as an innovator is someone who continually relies on his own judgment in his decision-making processes as far as his enterprise is concerned but reflects this judgment with a perspective to what he perceives as in tune with a

generalizable code of conduct. This kind of ethical decision-making occurs whenever the agent is confronted with a situation that is challenging his inner beliefs or requirements. It is thus characterized by an inner struggle between a compelling but unethical solution and a less comfortable but ethical one. In such a perspective the entrepreneurial decision is not governed by immediate circumstance but by self-legislation where the entrepreneur decides whether a decision is appropriate within his internal code of conduct. If he decides through such reflective judgment that a new code of conduct is appropriate and acts accordingly with regard to his (new) enterprise, he may then also alter the moral principles that underlie his behavior. Reflective judgment thus may also lead to the redefinition of broader standards by the entrepreneur. However, as mentioned above, these standards are neither contingent nor immediate but of a sustained, long-term character and not independent from the ethics of the entrepreneur's environment. With regard to this Clarke and Holt show that the entrepreneur is most of the time not able to simply rewrite all the ethical rules in a society or market; while entrepreneurs may indeed change some rules of the game, they also have to strictly adhere to more fundamental rules of a culture and society so as to gain and remain within legitimate boundaries in the eyes of their relevant stakeholders (Stinchcombe 1965). However, in Clarke's and Holt's view, too, the entrepreneur is a shaper of novelty and of novel value if reflective judgment leads him to establish a new path and hence to deviate from older conventions should his (ethical) deliberations require such a move and should his resource base enable him to do so.

What unites both approaches then is the perception of the entrepreneur as an active generator of new rules, value and values albeit within a differing range and concern. We will adopt this perspective on the relation between ethics and entrepreneurship within this paper. We will further rely on the view purported by Clarke and Holt as we find ethics to be durable and overarching in human decision-making rather than contingent terms that only apply to

specific, momentary and arbitrary settings. Moreover, this view is also consistent with Foot's characterization of dilemmas as a clash of overarching principles (Foot 1983). Based on the discussion provided above, we will now turn to ethical dilemmas faced by entrepreneurs in their decision-making processes.

### Ethical dilemmas in Entrepreneurship

In their reflection on the relationship between entrepreneurship and ethics Clarke and Holt formulated the following observation: "*What we understand to be particularly ethical about entrepreneurship is the continual struggle in which entrepreneurs resist the pull of external, conventional agreement about values and what is of value, relying instead on their own ability to continually judge business life in spite of prevailing opinions and values.*" (Clarke/Holt 2010, p. 320). In this view the entrepreneur who introduces innovation through carrying out new combinations (Schumpeter 1934) is continually challenged to choose between widely and publicly accepted standards of value and his own perception which might deviate more or less from the common belief. In order to identify opportunities for innovation the entrepreneur's perception of what is of value and important has to differ from generally accepted wisdom, otherwise he would by definition not be able to perform an act of novelty (Rumelt 2005). It is different ways of cognition, a different set of knowledge or different abilities that enable the entrepreneur to identify opportunities in the first place regardless whether these stem from his own resource base (the effectuation approach, Sarasvathy 2001) or are residing within the environment (the causalational approach, Shane 2003). The entrepreneur then has to decide whether he seeks to pursue this opportunity. However, because of the entrepreneur's deviating characteristics it is likely that his behavior will be faced with skepticism as it may very well be in conflict with common belief and accepted

rules. Specifically, one may assume that the higher the degree of novelty is (as in the discussion regarding the liability of newness, cf. Freeman et al. 1983), and the more the entrepreneur's basis of information is asymmetric to common knowledge the higher is the probability of facing public resistance. Therefore, Clarke and Holt (2010) also observe that the entrepreneur needs to work within and with society. He finds both the customers as well as the resource base within his environment. An entrepreneur void of any social relations or social acceptance is hence doomed to fail. The entrepreneur's actions and consequently the underlying decision-making process are thus faced with the paradox of a) breaching social and/or business conventions to introduce new products, services, etc. and b) adhering to social standards – or not deviating too far from the existing ones – in order to find acceptance among customers, resource providers, etc. We will show that this ethical conundrum is the source of further paradoxes of entrepreneurial decision-making.

### **3. Categories and Examples of Ethical Dilemmas**

In this section we will describe dilemmas that are characteristic in situations of entrepreneurial decision-making and entrepreneurial behavior. Moral dilemmas were defined above as situations that occur when a person is challenged by the choice between two alternatives which may be equally desirable and the failure to perform either one will result in moral failure. With a perspective to entrepreneurship this definition implies that in the execution of his enterprise the entrepreneur is confronted with situations that force him to make choices where he finds that the results may be contradictory to the prevailing ethical standards of his social environment or the non-fulfillment to commit to either one will result in moral failure. In both situations he will be faced with breaching standard moral obligations. Influences on the ethical behavior of entrepreneurs may stem from individual influences (e.g.

friends and family), organizational factors (e.g. organizational cultures, incentives for rent-seeking, etc.), and the wider social sphere as contextual factors (social norms and values, cultural specifics etc. (Brenkert 2011). Without assuming any form of completeness we will now point out some situations we find characteristic for such moral dilemmas in entrepreneurship. We will address five different types of dilemmas we have termed the greater good dilemma, the lifestyle dilemma, time-horizon dilemma, the intercultural dilemma, and the legitimacy dilemma. For illustrational purposes we will also provide empirical examples for all of these.

### The Greater Good Dilemma

A first category to be described here can be deemed as the “greater good” dilemma which is typical in the innovation process of certain industries. This dilemma appears whenever an entrepreneur is faced with the question if a morally problematic behavior like animal testing or stem cell research may lead to the development of products, processes, etc. that can but need not benefit a greater amount of people in the aftermath; i.e. while the ethically problematic operations are certain to occur, it is unsure that the undertaking will be successful in terms of the aspired beneficial effects. For example, an entrepreneur may have an idea for a certain cure to a lethal disease and thus may potentially save many human lives. The process of developing the required medication will however require the testing on living and feeling animals and will eventually lead to their deaths. It will also require the use of control groups that only receive placebos and whose members will hence (with some certainty) die as well. Other examples that may fall under this category are pollution and whistle blowing. However, if the entrepreneur decides to refrain from his invention he will be unable to contribute to

curing any ill people at all. This dilemma touches a number of different aspects.<sup>5</sup> First of all the entrepreneur's inner code of conduct is affected, as he has to decide which ethical rules he values more. Then, topics as those mentioned above are of deep social concern (see also the social legitimacy dilemma below). The entrepreneur will hence in most of these cases be unable to conform to every part of society. Whichever way he chooses, he is likely to lose the social acceptance of at least one social group. Especially because of the unforeseeable outcome greater good dilemmas come very close to what has been characterized as "true dilemmas" above as there is no one right or wrong solution and every alternative seems to have its own advantages and pitfalls, all of them serious and morally challenging.

### The Lifestyle Dilemma

A second characteristic dilemma faced by entrepreneurs regards the utilization of their personal resources, especially time. The entrepreneurial venture is often very time consuming especially in the initial phases. This confronts the entrepreneur with a dilemma of allocating time, attention, etc. between the (new) venture and other aspects of his life, most considerably family and friends (on the relationship between entrepreneurship and family cf. Aldrich/Cliff 2003). We term this the lifestyle dilemma. Here the entrepreneur is set between conflicting but legitimate demands with regard to his behavior and way of life in his personal sphere. Having to choose between potentially supporting (or neglecting) his enterprise or his spouse, children, etc. he has to make an ethical decision on how to effectively distribute his time and resources while being potentially unable to successfully satisfy the demands of both or all sides. A family father may for example be occupied with founding a new company which absorbs a vast amount of his time. Now, an important customer has offered a deal that will

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5 Greater good dilemmas are not necessarily linked with innovations. This category comprises a wide variety of different ethically problematic processes and contexts, for example pollution and whistle blowing. However, as this paper concentrates on innovation as the function of the entrepreneur these are left aside.

considerably sustain the company for at least one year. The offer however will imply that the entrepreneur works long nights and throughout the weekends for the next year which will prevent him from taking his family on holiday, attending important events in his children's lives, etc. If he does accept the offer the company, his employees and his family will be economically safe for a considerable time span so that he can fulfill his moral obligations as economic supporter of these stakeholders. His private life, however, will suffer tremendously. If he chooses to reject the offer and to concentrate on his private life, he will be able to be involved in his children's and wife's life more intensely but may risk his family's and his employees' welfare. The overarching principles that are addressed here regard the demands put upon the entrepreneur as a responsible business leader and economic caretaker on the one side and that of the responsibilities of a caring father and husband on the other. Both demands are social and valid but conflicting in the case portrayed here. Such dilemmas with regard to the entrepreneurial lifestyle and the work-life balance are encountered by many entrepreneurs in the course of their venture, and often more than once in their entrepreneurial life (Humbert/Lewis 2008). They are likely to become a considerable threat to the well-being of the venture, the family and private life and to the entrepreneur himself.

### The Time-Horizon Dilemma

A third type of dilemma may reside in the timing of an enterprise's activities and strategy as well as in exploration and exploitation activities. Put simply we refer to entrepreneur's planning horizon that is often disjoined into his short-term needs and his long-term aspirations. We hence term this problem time-horizon dilemma. Especially young entrepreneurs working alone or in a small team are often confronted with severe resource constraints that confront them with choosing between short- and long-term deals and benefits (see for example Timmons and Spinelli 2003). While the short term occasions are often those

that keep the venture going by providing immediate revenue and liquidity, they tend to keep the entrepreneur from identifying, tracking and using long-term opportunities and strategies, so that potentially bigger chances are left aside. Hence, if the entrepreneur decides to seize the short term opportunities only, he may risk his company's viability on the mid- to long-term run. Again, the entrepreneur is faced with a problem of allocation of time and resources. While this seems to be a simple problem of management at the first glance, it is also ethical. Under strong resource constraints the entrepreneur may set the income of his present employees and shareholders, as well as the interests of his stakeholders at risk if he decides to pursue strategic but at present unprofitable operations. In that case, the profitable albeit strategically undesirable short-term solution may seem to be the more ethical decision at a given instant. On the other hand if he decides to adopt the less risky and profitable short term opportunities, he may risk the company's solvency and viability on the long run. A classic example in this regard is encountered by small engineers and developers who, in lack of sufficient slack, have to accept short-term deals to keep their operations going but are thus precluded from effectively drawing on their talents to strategically develop more profitable and far reaching innovations - a problem that often leaves them (their stakeholders, and most importantly their families) in dire straits after a few years of business.

### The Intercultural Dilemma

As noted above globalization may confront entrepreneurs with challenges to their ethical beliefs through intercultural differences – a circumstance we call the intercultural dilemma. This kind of dilemma may emerge whenever an entrepreneur chooses to conduct international business operations. Reasons for the emergence of such a dilemma may reside in interculturally different attitudes and behavior concerning the handling of business operations and conducting trade. More specifically, matters of imitation and property rights but also

differing expectations on leadership styles, employee treatment etc. can be subsumed under this category. For example an investor in a developing country discovers that his operations involve child labor and may want to stop this in his newly acquired businesses. However he finds out that child work is generally accepted within the country and that the children's salary represents the only income to some of the families. Firing the children will thus be in conformity with his own ethical aspirations and beliefs as well as with those of his customers at home, but it may very well interfere with the well-being of the children's families and potentially of the children themselves thus challenging his ethical responsibilities towards these. Another example in this category regards bribery. While corruption is a serious offense in most nations, it is also a common habit in many processes worldwide. In some countries bribes are even essential for workers in public administration in order to make a living. The number of current investigations by the SEC against multiple international companies is a vivid example of the existence of this problem. Entrepreneurs are thus confronted with the dilemma of either paying corrupt money or of losing out on markets and contracts. While the former indicates a violation of the law, the latter may mean to accept serious disadvantages for the company with regard to its competition. Not only will an entrepreneur's business be less successful, but refraining from customary bribery may also strengthen those competitors who feel less qualms and raise their revenues. It also has to be mentioned that bribery is not always as obvious as giving money to a person. The donation of presents, provision of holidays but also supporting certain issues a company is interested in (e.g. the local football club) may all fall under this category.

### The Social Legitimacy Dilemma

We end our endeavor with an ethical controversy related to innovation as already implied in the end of the former section. Schumpeter's notion of "creative destruction" through

innovation (Schumpeter 1950) does not only imply the replacement of old combinations of factors by new ones. This kind of destruction also conveys the potential obliteration of existing economic and social structures manifested in companies, business relationships and jobs. While the range of impact will differ considerably based on the qualities of the innovation, it is realistic to assume that innovation will create external effects, some of which can be harmful to other players in the economy. The innovating entrepreneur in this sense is hence in a position where he can or may know the potential destructiveness of his activities and is left to choose whether to proceed with the undertaking or not. The underlying calculus may however take different forms. The first one is that of the entrepreneur's own utility in pursuing his idea. In a basic, strictly economic decision-making process the entrepreneurial agent as homo oeconomicus will refer his decision-making to a monetary calculation and invest as soon as the projected profits rise to a certain amount. From a broader perspective, however, he will consider if this kind of innovative behavior could also be detrimental to his social relations or to society as a whole because a) the destructiveness of the innovation might lead to social harm and b) the degree of novelty may lead to social repression. The entrepreneur is thus faced with the dilemma to stick to his own deep inner beliefs and plans or to remain in conformity with society and thereby neglect what he considers vital progress. It is this dilemma that both Harmeling, Sarasvathy and Freeman (2009) as well as Clarke and Holt (2010) refer to. In this area, the simple model of homo oeconomicus is replaced by a more complex approach that acknowledges the emergence of ethical dilemmas from innovation. We term this dilemma the social legitimacy dilemma. Classic examples for this can be found in the introduction of very basic novel products both in industries and in the arts. The introduction of a basic, new design sets the entrepreneur at odds with social beliefs. Examples are the introduction of the dangerous but much more effective alternating current instead of the rather harmless but less effective and efficient direct current in the “war of

currents”, or the emergence of the “impressionist” movement in 19<sup>th</sup> century France, when the term “impressionism” was in fact a vilification of the artists.

Concluding our characterization of ethical dilemmas in entrepreneurial decision-making, we will now return to a more abstract discussion. Obviously, there is as much opportunity for ethical (mis)conduct in entrepreneurship as there is in any economic situation. The economic literature has dealt extensively with these problems especially in the area of New Institutional Economics and Game Theory. The issue of how incentives may steer agents towards ethical behavior has been addressed for example by the scholars of Principal-Agent Theory (e.g. Alchian/Demsetz 1975). However, relating the question of ethical conduct to entrepreneurship adds new aspects to the problem since interdisciplinary real-life settings are becoming as important as the economic calculus. A question that arises is thus: How can an entrepreneur effectively deal with ethical dilemmas and what characterizes an entrepreneurial solution to ethical dilemmas?

One approach to this question can be distilled from the role of the entrepreneur as creator of value and values as portrayed above. With regard to the solution of dilemmas, the German economic philosopher Suchanek identified investment as a possible answer. He defines investments broadly as an abstinence from consumption to realize larger gains in the future and includes the allocation of any possible resource such as money, time, energy, attention, etc. as investment (Suchanek 2007). Stretching the approaches of Harmeling/Sarasvathy/Freeman (2009) and Clarke/Holt (2010) even further, the entrepreneur is then not only a decider on whether to breach given ethical dilemmas. He is also able to willfully reshape his environment to form situations where the innovation or novel behavior is in accordance with the old rules or can at least still be accepted. The entrepreneur may invest further so that he builds acceptance for the innovation and hence strategically invests to

design the new rule by himself. In this role the entrepreneur thus eventually also becomes an agent of social innovation. Solving ethical dilemmas through innovation will however also mean to deliberately breach existing codes of conduct. In order to establish an innovation through a process of diffusion and a change of generally accepted principles, the entrepreneur also needs to acquire social acceptance and legitimacy not only for his business but also for the new way of solving the accompanying dilemmas.

The nature of true dilemmas (Foot 1983, McConnell 2010) is of special interest here. When the entrepreneur is faced with an ethical problem where complying to one alternative solution implies significant failure in other ethical aspects, incentives and relying on simple models of the homo oeconomicus will no longer be sufficient. More intricate and complex approaches are required.

#### **4. Discussion**

The current literature on ethics and entrepreneurship is in a very conceptual state. We have tried to contribute to the discussion and improve the debate with the concept of ethical dilemmas in entrepreneurship as outlined in this article. We believe that further research into ethical aspects of entrepreneurship is necessary and potentially fruitful for a number of reasons. First of all, the alleviated interest in entrepreneurship both in research and in business life necessitates the scientific treatment of entrepreneurial ethics. Secondly we argue that ethics in entrepreneurial decision-making differs from the much more elaborated business ethics in that the latter concentrates on managerial problems rather than on the aspects of novelty, innovation and the challenges provoked by the liabilities of entrepreneurship and small and medium-sized businesses. Research results as well as their normative implications may therefore differ considerably from the findings of conventional business ethics. This

hypothesis, however, requires research in itself. Obviously, it would be desirable to move theory and research onward to a situation where the empirical foundation supersedes anecdotal evidence. Hence thorough efforts in further empirical research would be an important starting point. Especially an initial understanding of real dilemmas frequently encountered by entrepreneurs would be valuable here. Clearly, the works of Harmeling/Sarasvathy/Freeman (2009) and of Clarke/Holt (2010) which were discussed in some depth in this paper provide approaches to this. Since the range of possible dilemmas is vast, we suggest that several and diverse research approaches are necessary. Embedded in-depth case studies, both of exemplary as well as of key cases (Yin 2003, Gerring 2007) will provide detailed insight from an overview on individual examples and thus contribute to theory building (Eisenhardt 1989). Ethnographical research and participatory observation are likely to be most useful here. The narratives of ethical issues provided by both Harmeling/Sarasvathy/Freeman (2009) and Clarke/Holt (2010) pose another interesting question: The importance of individual cognition. In other words: What may seem to be an ethical dilemma to one person may not be one to another. In coming research one may thus have to differentiate between dilemmas and ethical issues that are of a lasting, overarching nature (“socially accepted” dilemmas) and individual behavior in these situations. It would also be interesting to ask in how far the dilemmas faced by entrepreneurs differ from those of others and if there are genuine entrepreneurial ways of addressing them. The work that has been done in general business ethics may provide researchers in entrepreneurial ethics with another starting point for their endeavors.

Experimental studies (Christensen 1998) as another methodological approach may elucidate at least two aspects in this regard when observing the behavior of entrepreneurs faced with ethical conundrums: a) General patterns of standard behavior towards typical dilemmas by the mass of entrepreneurs may be identified and b) entrepreneurial patterns of solving dilemmas

can be analyzed, i.e. where and in which cases has innovative behavior resolved situations that seemed to pose a dilemma before? The first line of research will offer insight into the behavior of entrepreneurs as a group of agents while the second line is concerned with entrepreneurial behavior as creative problem solving through innovation (Manimala 2009).

A very interesting aspect may lie in the obvious difficulties in solving “true” dilemmas, i.e. ethical problems where the entrepreneur faces some kind of loss either way. They may however pose serious challenges to researchers concerned with helpful normative advice and to entrepreneurs as well. We suggest that such ethical problems are beyond the scope of pure economic research but require an approach that adds psychological, philosophical and sociological aspects. Especially the lifestyle and greater good categories are likely to present the hardest conundrums here because these kinds of dilemmas have been discussed for a very long time in different aspects already and because opinions and attitudes are likely to be most diverse and, more importantly, most hardened here. Innovation in the solution of dilemmas may hence be the most interesting aspect of entrepreneurial research in this regard. Also the social acceptance of new solutions to ethical dilemmas in entrepreneurial settings is of further interest to research. Above we have observed that general social acceptance in a wider understanding and market acceptance in a narrower sense are the decisive factors for innovative success. Which mechanisms are at work if society and/or the markets refute an innovative approach and how can an entrepreneur overcome them?

Ethical aspects of entrepreneurial decision-making are hence also of special interest to entrepreneurship education. The ethical dilemmas portrayed here and the complex, heuristic environment in which innovative entrepreneurship takes place provide two exemplary fields for learning. Firstly, the students are directly confronted with ethical issues in entrepreneurship as well as with the obstacles and hazards that entrepreneurs face in innovation processes. Secondly, they may acquire skills in observing and communicating their

entrepreneurial ideas with regard to social legitimacy and acceptance by studying the ethical requirements of a given business environment. Finally, it has to be observed that “true” dilemmas and the complexity of entrepreneurship will preclude us from presenting standardized solutions to our students. As educators we are instead challenged to evoke a sensitivity to recognize and manage ethical aspects of entrepreneurship, especially in dilemma situations. We may, however, be able to convey some virtues of doing business and performing entrepreneurial decision-making (Hicks 2009). But this also means to accept that any normative guidance offered in (entrepreneurship) education is an ethical decision in itself. With regard to entrepreneurship and entrepreneurial decision-making, the analysis presented here has also shown that the entrepreneur bears profound responsibility not only for his venture but also for the way he manages his venture with a wider ethical perspective to staff, stakeholders, and also to society and culture. Being able to understand and alter the rules of business also implies the necessity to consider the overall effects.

## 5. Literature

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