

The Ethics of Entrepreneurs

A comparative analysis of attitudes and behavior of entrepreneurs and managers.

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Abstract

I. Introduction

David, the popular and admired king of Israel, coveted Bathsheba, wife of his warrior Urija. To cover-up his adultery and to allow him marrying Bathsheba, David assigned Urija to a dangerous military command war, where he was killed in action [2 Samuel 11,1-27].

Like in the biblical story above, corporate executives and managers are admired role figures for many and their public image is characterized by positive connotations, such as initiative, economic growth, innovation and creativity (cq. Ludwig & Longenecker 1993). Recently, however their image has suffered in the light of corporate scandals and ill managed firms going into bankruptcy. The public questions whether the moral credibility of managers and entrepreneurs is sufficiently strong to meet the requirements for societal leaders or whether they exploit their societal position selfishly.

Most studies on entrepreneurs' ethic are conceptional and theoretical and the few empirical studies are most confined to descriptive analyses with the exception of Bucar et al. (2003) and Hisrich & Bucar (2001). Therefore, this paper has to main objectives. First, it attempts to develop testable hypotheses explaining ethical attitudes and behavior and thereby builds upon the numerous studies discussing potential drivers for ethical attitudes and behavior. Second, these hypotheses are tested empirically with a large international data set.

II. Methodology

For the empirical analysis we use the 'European Social Survey' (ESS) database. The European Social Survey is a joint initiative of leading social science research institutes and held bi-annually in most European countries. The data-base consists of representative samples of participation countries' population and has ~ 42.000 respondents from 20 countries (for further information visit www.europeansocialsurvey.org or see Jowell et al. 2005). The total sample includes also ~ 2.000 managers and ~ 4.400 entrepreneurs, which allows us to compare these two groups with each other and the remaining population. The survey held in 2004 also included 30 questions regarding the economic morality of the respondents. This question block is the focus of our study.

Compared to other samples, the sample we use has several advantages. First, it is substantially larger than other samples and also covers a broad array of different countries, which both increase the external validity of the results. Second, it distinguishes explicitly ethical attitudes and ethical behavior, while other studies either measure attitude or hypothetical behavior. Third, the concept of economic ethics taken in the ESS is much broader than in studies focusing on business or entrepreneurial ethics (see, e.g., Longenecker et al. 1988, 1989, 2001). While more focused studies confront people with ethical issues of the business world, such as stealing of company property and false claims of travel costs, the ESS asks for more general ethical issues in the economic domain, such false insurance claims or bribing public officials. Therefore the ESS questions are applicable and relevant to the whole population, which enhances the interval validity of the study and the criterion-related validity of our measurement. Fourth, the information provided in the ESS is not

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limited a person's ethics, but includes plenty back ground information on the respondents, next to demographics, also religiosity, values, social embeddedness and general economic situation of the respondent. This additional information allows us to control for other explanations of ethical attitudes and behavior when we compare entrepreneurs, managers and the remaining population.

III. Results

Table 1 below depicts some main results of our analysis, model A shows the estimates for ethical attitudes and model B and C the estimates for ethical conduct. Within this abstract, we will focus the discussion of the results on the set of four dummy variables describing entrepreneurs and managers of small as well as large firms in comparison to the remaining population. It should be noted that the effects we find for those set of variables is controlled for many other factors that according to previous studies affect ethical attitudes and behavior, such as values, social embeddedness, economic pressure, marital status, children, age, religiosity, immigrant and gender (see, e.g., Bucar et al. 2003; Fuxman 1997; Hannafey 2003, Longenecker et al. 2001). Thus, the coefficients of these four dummy variables are less likely to be spurious and can be interpreted in the sense that specific properties and attributes of entrepreneurs respectively managers explain some variance in ethical attitudes and behavior.

Table 1: Estimates of multiple regression analysis with the dependent variable ethical attitude (model A) and ethical conduct (model B and C). Models also include country dummies, but results are not reported. Robust estimation of standard errors.
*: $p \leq .001$

	model A attitudes	model B behavior	Model C behavior
Ethical attitudes			.076 *
Rigidity of ethical principles			.054 *
Experience with unethical behavior of others			-.108 *
Entrepreneur small firm	-.021	-.029 *	-.016 *
Entrepreneur medium sized firm	-.023	-.071 *	-.050 *
Manager small firm	.060	-.017	-.010
Manager large firm	.101 *	.009	.008
Self-enhancement	.023 *	.016 *	.010 *
Openness for change	.024 *	.019 *	.010 *
Selftranscendence	-.101 *	-.029 *	-.018 *
Conservatism	-.059 *	-.037 *	-.017 *
Social embeddedness	.003	-.004 *	-.005 *
Perceived economic pressure	-.005 *	.005 *	.008 *
Married	.020 *	.010 *	.013 *
Children	.006	.001	-.001
Age	.002 *	.002 *	.002 *
Female	.013 *	.048 *	.040 *
Religiosity	.005	.008 *	.003
Immigrant	-.001	.014 *	.018 *
Intercept	3.614 *	-1.362 *	-1.551 *
N	38,960	38,161	37,363
F-Value	149.43 *	73.97 *	104.94 *
R ²	.12	.08	.16

With respect to ethical attitudes (model A) the results show that entrepreneurs do not differ significantly from the remaining population but managers of large firms do. Those managers hold more ethical attitudes than any other group. In the psychological literature, one usually assumes a rather close relationship between attitudes and behavior. In model C we included attitudes as

predictor for behavior. Although the effect of attitudes on behavior is as expected positive and significant, the relation is not as strong as one might expect, as attitudes explain roughly just 3 % additional variance in behavior. We also observe considerable shifts when we analyze ethical behavior and not attitudes (model B and C). First, entrepreneurs of small as well as medium and large sized firms behave significantly less ethical than the remaining general population, while managers do not differ from the general population. Moreover, the discrepancy between attitudes and behavior is relatively large for entrepreneurs and managers compared to the remaining general population, more specifically managers' and entrepreneurs' attitudes seem to be more ethical than their actual behavior. In model C, we also included two other variables related to the economic ethics of a person, namely the rigidity of moral principles and the experience with unethical behavior of others. The coefficient of the first variable is as one might expect positive. The effect of experience with unethical behavior of others is negative, indicating that those who report having been a victim of unethical behavior are also less ethical. Due to the cross-sectional nature of the data, we cannot establish the causal directions, whether people become less ethical when they experience a lower morale around them or whether those who are less ethical have also a larger chance to encounter someone with doubtful intentions.

IV. Advances and Contributions

The study has been an attempt to pull together different strings of studies concerned with the ethics of entrepreneurs. Its main contributions are that it tests explanations on whether entrepreneurs are more or less ethical than managers or the general population simultaneously with other common explanations that are related to psychological dispositions or socio-demographic characteristics. Moreover, the study is based on very large dataset of an exceptional methodological quality covering 20 countries in Europe. Thus, this study is another step in expanding the external validity of considerations regarding the ethical behavior of entrepreneurs and managers. Moreover, previous studies have mostly investigated the US and surprisingly also Eastern European countries. Our study includes many Western European countries and closes another gap in the international research landscape.

Literature

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