Ethics of Entrepreneurship: Should we be Teaching Students the Inevitable Moral Dilemmas that Challenge all Entrepreneurs?

Marleen McCormick
Assistant Professor of Management
Lacy School of Business
Butler University
Indianapolis, Indiana

Hilary Buttrick
Associate Professor of Business Law
Lacy School of Business
Butler University
Indianapolis, Indiana

Richard McGowan
Instructor of Philospohy and Business Ethics
Lacy School of Business
Butler University
Indianapolis, Indiana

ABSTRACT

A colleague who teaches entrepreneurial courses said, "I do not do much with ethics in class. I'd like to do more." Our paper is designed to help our friend inasmuch as the paper offers a primer on entrepreneurial ethics. First, we discuss the nature of entrepreneurship and explore the unique ethical issues present in entrepreneurial activities. Then, we explore ways to convince students of the relevance of ethics to entrepreneurship. We introduce students to some conceptual issues, beginning with the question of whether ethics even bears upon entrepreneurship. Some argue that to take advantage of opportunities, an entrepreneur by definition will often need to break the rules during the creative destructive process (Brenkert, 2009). Others question "whether entrepreneurship may be considered ethical at all" (Jones & Spicer, 2009, p. 103). Next, we show the legal problems unique to entrepreneurial activity, especially as stakeholders are unknown, and inasmuch as character issues present themselves. Specifically, the paper will demonstrate the relevance of ethics to entrepreneurship, including an application of virtue theory and stakeholder theory (Freeman, 1984). This section will also explain how stakeholder theory is reflected in the law applicable to entrepreneurial activities, which helps students understand the necessity for other-regarding behavior. This lesson is especially important for students who aspire to start their own businesses and who, in all likelihood, lack the experience necessary to navigate the legal and regulatory landscapes applicable to their fields. The paper will show that entrepreneurial activity, despite its challenges, ought not be without ethics.

Introduction

Our paper is designed to offer a primer on the ethics of entrepreneurship. First, we discuss the nature of entrepreneurship and explore the unique ethical issues present in entrepreneurial activities. Then, we explore ways to convince students of the relevance of ethics to entrepreneurship. We introduce students to some conceptual issues, beginning with the question of whether ethics even bears upon entrepreneurship. Some argue that to take advantage of opportunities, an entrepreneur by definition will often need to break the rules during the creative destructive process (Brenkert, 2009). Others question "whether entrepreneurship may be considered ethical at all" (Jones

& Spicer, 2009, p. 103). Next, we show the legal problems unique to entrepreneurial activity, especially as stakeholders are unknown, and inasmuch as character issues present themselves. Specifically, the paper will demonstrate the relevance of ethics to entrepreneurship, including an application of virtue theory and stakeholder theory (Freeman, 1984). The paper will also explain how stakeholder theory is reflected in the law applicable to entrepreneurial activities, which helps students understand the necessity for other-regarding behavior. Our work is of practical importance because, as noted by Hanson (2015), the temptation is great for entrepreneurs to lie to customers and investors due to the challenges associated with securing funding, attracting customers, and learning to manage a growing business. Not only do these practices breach recognized ethical standards, but they also create legal liability that can bury a start-up. This paper will explain the relevance of ethical principles to the field of entrepreneurship, and demonstrate the importance of bringing these concepts into the entrepreneurship classroom. This lesson is especially important for students who aspire to start their own businesses and who, in all likelihood, lack the experience necessary to navigate the legal and regulatory landscapes applicable to their fields. In sum, entrepreneurial activity, despite its challenges, ought not be without ethics.

The Entrepreneurial Mindset and Ethics

Entrepreneurship is defined as "the process of discovering and developing opportunities to create value for an existing or new organization" (Fisscher, Frenkel, Lurie, & Nijhof, 2005, p. 207). Entrepreneurs are change agents who create a novel idea, introduce it to the marketplace, and thus (ideally) meet or exceed consumers' expectations (Buchholz & Rosenthal, 2005; Ireland & Webb, 2007). Since entrepreneurs generate new ideas, they must make decisions in conditions with high uncertainty (Schumpeter, 1942; Venkataraman, 1997). For if conditions were certain, there would be little role for entrepreneurs, who generate profits by acting on opportunities unnoticed by others (McGrath & Macmillan, 2000). Beyond innovating in the areas of new products or processes, entrepreneurs typically create new organizations or innovate existing organizations so they may realize the opportunities in a formal structure (Brenkert, 2009). This "twofold creative dimension"—creating new products and processes and then simultaneously creating an organization or transforming an existing organization to realize those efforts—offers the opportunity to address the importance of ethical issues to the entrepreneur (Brenkert, 2009, p. 450).

Fisscher (2005) and colleagues posit that "the relationship between entrepreneurship and ethics can be characterized as an intense love-hate relationship. On the one hand, entrepreneurs, who are regarded as creative innovators, are praised for their contribution to the development of society by creating new products, employment opportunities and thus opening new possibilities for all of us. On the other hand, entrepreneurs are often criticized for a one-sided pursuit of business success and being willing to compromise moral values if needed" (p. 207).

For aspiring young business owners, ethical dilemmas regarding entrepreneurship are both foreseeable and of critical importance. Research shows that entrepreneurs reference moral identity through the entire startup process, from the decision to launch a new venture all the way through the stages of running the business (McVea, 2009). It is reasonable that creative and moral decision making tend to occur simultaneously. Buchholz and Rosenthal (2005) explain that ethical decision making requires the same qualities that make for a successful entrepreneur. For example, imagination is required for both creativity in entrepreneurship and for moral reasoning (Dunham, McVea, & Freeman, 2008). Entrepreneurs find additional challenges in ethical decision making because technological advances are outpacing moral consensus (McVea, 2009), and the global economy is becoming increasingly more important to the entrepreneur (Bucar & Hisrich, 2001). Both technology and the global marketplace increase the complexities of the entrepreneur's ethical decision making and in doing so demonstrate an increased value in educating future entrepreneurs on these issues.

Entrepreneurs clearly differ from non-entrepreneurs, but they differ also from executives, managers, and others involved in the business environment. Compared to managers, entrepreneurs are less rational in the decision making process, but they are more optimistic, which is particularly interesting because entrepreneurs are making decisions in situations that tend to arise with limited information and a high degree of outcome uncertainty (Busenitz & Barney, 1997). While executives' primary focus is on the finances of an opportunity, entrepreneurs spend more time gathering additional holistic information, such as the amount of risk involved (e.g., Kaish & Gilad, 1991).

Studies that explore which group of individuals, entrepreneurs or managers, behave more ethically have produced mixed results. Teal and Carroll (1999) find that entrepreneurs exhibit higher levels of moral reasoning as compared to non-entrepreneurs. One reason why entrepreneurs may exhibit more ethical behavior than managers is because the stakes are higher in both risk and equity (Bucar & Hisrich, 2001). Yet others see a decline in ethical standards among young business owners because of a declining societal standard of ethical practices and an increasing level of greed among entrepreneurs (Vitell, Dickerson, & Festervand, 2000). Others even go so far as to describe a "dark side" to entrepreneurship (e.g., Zhang & Arvey, 2009), where it is commonplace for entrepreneurs to be "rule breakers"—pushing boundaries during the process when the entrepreneur may not take the time to consider all ethical issues (Bhide, 1996). There are even differences as firms grow. Smaller firms tend to have executives who demonstrate more ethical values than executives of larger firms (Longnecker, McKinney, & Moore, 1989).

In this global and technologically advanced economy, it is more important than ever to prepare students for ethical dilemmas that will arise specifically from entrepreneurship. Some of those unique challenges are well established in the literature. Chau and Siu (2000) found that scarce resources and time pressures made environmental conditions even more challenging for the entrepreneur, which in turn was detrimental to ethical decision making. Entrepreneurs are also working under the pressures of labor issues, with the hiring of new employees, and the building of new relationships with suppliers, buyers, and creditors (Hannafey, 2003). Due to the originality of all entrepreneurial actions, a level of uncertainty is strongly associated with entrepreneurship. There is ambiguity that comes with introducing new products, processes, and ventures (Gartner, 1990; Schumpeter, 1934). As the firm grows, there are additional challenges regarding the division of firm profit and establishing legitimacy in the marketplace (Dees & Starr, 1992). Each of these unique challenges is external to the entrepreneur, but the entrepreneur faces internal challenges as well; as entrepreneurs make decisions they naturally turn to their own values, which establish the culture of the firm (Payne & Joyner, 2006).

Accordingly, it is essential that students of entrepreneurship take stock of those values and appreciate the relevance of ethics to their business activities. To make that case to students, however, we must start at the beginning and allow students to explore the threshold conceptual question: Do ethics matter for entrepreneurs?

Do ethics matter for entrepreneurs? Should ethics matter?

For one of the authors of this paper, the very question, should ethics matter, was positively breath-taking. Most of us would simply say, "Yes, ethics matter in all we do." To paraphrase a famous business ethics textbook, "There does not seem to be anything special about business [including small business enterprises] that would prevent us from applying the same standards of ethics to business activities [including small business activities] that should be applied to all voluntary human activities" (Velasquez, 2011, p. 21). In other words, yes, of course, entrepreneurial activities and, by extension, entrepreneurship courses, must be governed by and include ethical standards.

However, arguments exist that there is little or no connection between ethics and entrepreneurial activity. The strongest position holds that the two are simply unrelated. Jones and Spicer (2009) wonder "whether entrepreneurship may be considered ethical at all" (p. 103). Their position, that they are unrelated, relies on the conceptual argument and some empirical observation. Jones and Spicer (2009) state that entrepreneurship is "a placeholder in the history of the political and economic struggle over valuation and right to waste" (p. 70). Roscoe's (2011) critical review of their work says Jones and Spicer's book "may be summarized as follows: the entrepreneur is an empty vessel set in the matrix of capitalist social relations, which, through the gratuitous dispersal of large sums of money gifted to him/her by way of these same social relations, becomes a tool of capitalist domination" (p. 319). In other words, the argument, at least as presented by Jones and Spicer and criticized by Roscoe, amounts to an anti-capitalist broadside in which ideology trumps empirical evidence and ignores earlier conceptual analysis.

Brenkert (2009) argues that "certain instances of rule breaking, even if morally wrong, are nevertheless ethically acceptable and part of the creative destruction that entrepreneurs bring not only to the economy but also to morality" (p. 448). He states that it is mistaken to think "that when entrepreneurs break legal and moral rules then what they do is wrong" (p. 448). Brenkert relies on a virtue based account of ethics to defend his position. Virtue ethics, whose origin can be traced back to the ancient Greeks, especially Aristotle, focuses on character issues, including the fundamental question of what constitutes a proper human life. If a person were to ask, "What kind of person should I be?" the person would be asking a question about virtue.

Aristotle observed that temperance, prudence, courage, and justice are the cardinal virtues since each produces "habits that are constructive to society and the individual" (McGowan, et al., 2010, p. 100). Is being immoral or doing unethical acts virtuous or vicious? Is repeatedly doing an act that is a little vicious but produces gain the kind of habit that will strengthen or weaken character? Stanley Milgram had an answer to the question. Posing the question also shows that rather than relying on "virtue based ethics," Brenkert's argument appears to be firmly rooted in a utilitarian mentality. That mentality has produced a litany of horrors, including slavery, Nazi research, and the Tuskegee experiments.

Aside from the intuitive response that all human activities need to be conducted ethically, a strong argument additionally could be raised specifically regarding business. Quite simply, research shows that being unethical and doing unethical acts tends to reduce a business's profit margin (McGuire, Sundgren, & Schneeweis, 1988). The aspiring young business owner is advised to do what is ethical. Doing the right thing is not just the right thing to do but also the most likely profitable thing to do.

Entrepreneurial Character and Stakeholder Theory

Brenkert's (2009) argument is eminently correct, though, in its implicitly asserting the importance of the character of the entrepreneur. Consider the word "accountant" or "police officer" replacing the word "entrepreneur": it is mistaken to think that when a police officer or accountant breaks the law or does something immoral, then what they are doing is wrong. The sentence makes more sense when the word "entrepreneur" appears as the subject partly because entrepreneurs are thought of as rule-breakers. As opposed to people working in and for a large organization, the character of the entrepreneur becomes the character of the small business. As Joyner et al. (2002) put the matter, "the values of the leader…have been inculcated into the business via written policies and by the patterns of ethical behavior established and modeled by the founders" (p. 113).

Were the entrepreneur to establish and model unethical and illegal behavior, the entrepreneur could and should expect employees to behave similarly, even if the behavior is against the developing organization itself. Character matters.

While it may seem trivial to say that character matters, studies suggest that in entrepreneurial ethics, character does matter. Here, for instance, is a comment in a 1988 publication: "The authors' study indicates that independent and egoistic tendencies may lead entrepreneurs down a different ethical path when the issue is financial gain" (Longnecker, McKinney, & Moore, 1988, p. 64). Solymossy and Masters (2002) reiterate the finding: "Recent work in the fields of ethics and entrepreneurship has raised the possibility that entrepreneurs may differ from other individuals in the moral issues they face, in their moral judgements and behaviors concerning those issues, and even in their level of cognitive moral development" (p. 227). They "suggest some ways in which the ethical framework of entrepreneurs may differ systematically from that of other business people" (p. 227).

Winstead, Novicevic, Humphreys and Popoola (2016) researched the history of Trumpet Records and explored the "congruencies and incongruences between the moral and entrepreneurial accountabilities of Lillian McMurry" (p. 2). They suggest that Ms. McMurry's moral sensibility ultimately led to the failure of Trumpet Records. That she put ethics before entrepreneurial gain is consistent with other research. Payne and Joyner (2006) studied the ethical choices made by founding entrepreneurs and concluded that "the ethics and/or values that the entrepreneurs either explicitly or implicitly acknowledged were in fact similar to those of society in general" (p. 203).

The finding of Payne and Joyner (2006) should not come as a surprise. Plato dealt with the same conflicting tendencies in his brother, Glaucon, in the Republic. Glaucon has a lot of talent and drive, like entrepreneurs. Socrates would have Glaucon think of others on his way to success and not be the kind of person who seeks, above all, the satisfaction of self-interest. Hence, book IX poses the choice between becoming a tyrant, with self-interest allowed to rule Glaucon, or a philosopher, one who is other-regarding.

The psychological research of Perry (1968) also suggests that entrepreneurs present typical patterns of behavior. Perry (1968) observes the choice at the higher levels of intellectual development and says a person can become a "self-avowed opportunist," (p. 134) exploiting each situation to satisfy self-interest, or make an attempt to transcend relativism by understanding the "social responsibility that springs from compassion" (p. 134-135). The person who actively and intentionally pursues a self-centered lifestyle and uses his or her talents on behalf of self-interest grows selfishly, not socially. Those options present confined judgments, either relative to the surrounding environment or relative to the self. Those options, therefore, avoid the necessity of "a reiterated choice between courage and despair" (Perry, 1968, p. 32) that would lead a person to the stage of commitment, which "refers to affirmations: in all the plurality of the relativistic world-truths, relationships, purposes, activities, and cares in all their contexts—one affirms what is one's own" (Perry, 1968, p. 135).

Entrepreneurs are routinely situated in the position of choice. Regardless of whether entrepreneurs show a different personality, entrepreneurs are driven or motivated by conflicting desires and interests (Steinbauer, Rhew, Kinnamon, & Fabian, 2014). On the one hand, entrepreneurs want the business to succeed; if Payne and Joyner (2006) are correct, on the other hand, entrepreneurs normally want to do the right thing.

But even if entrepreneurs want to do the right thing, considerable problems remain. Ethics is a knowing related to a doing. Failure to act rightly may be a function of ignorance or a function of temptation to do the wrong act. If any area is rife with uncertainty, developing businesses surely are. A brief foray into the widely accepted and popular stakeholder theory ought to make the point clear.

Freeman's Strategic Management: A Stakeholder Approach, published first in 1984 and then in 2010, observed that a "stakeholder" originally meant the people or parties who could and were likely to impact a firm's or organizations success (p. 23). Now, that term "takes into account all of those groups and individuals that can affect, or are affected by, the accomplishment of organizational purpose" (p. 24). Not only must the firm or organization consider those who play a role in an organization's success, but also those likely to feel the consequences of the organization's behavior. Freeman speaks as a manager when he says that "we must understand our strategy for each group and must assess the strategy in real terms" ensuring "integrated approaches for dealing with multiple stakeholders on multiple issues" (p. 26). Stakeholder theory requires that managers recognize the need to "help take into account the concerns of many groups..." so managers are capable of "dealing with" each stakeholder group (p. 26).

Incipient and developing businesses, or any kind of organization, do not always know the stakeholders who might be impacted. As Pellegrini and Ciappei (2015) put the matter, "Due to the uncertainty that is intrinsically related to entrepreneurial activities, a judgement based on a company's past experience, or on a collection of existing routines, may be insufficient to control and interpret all ethical questions and consequences" (p. 770). They argue for the virtue of perspicacity to get past the challenges posed in entrepreneurial activity in that "Using ordinary norms and precepts may be 'blind' and lead to unexpected outcomes and possible inertial replies" (p. 770). In other words, practical reason should be used in situ when a challenge comes along; falling back on existing norms may not produce the morally proper act.

Stakeholder Theory, the Entrepreneur, and the The Law

The entrepreneur can look to the law as a source of the "practical reason" noted above. While stakeholder theory highlights the importance of other-regarding behavior, the law mandates it. When the entrepreneur looks behind the law to see its moral underpinnings, the entrepreneur gains a better understanding of the stakeholders he or she must consider. In fact, Freeman (2012) attacked managerial capitalism by arguing, in part, that the law requires businesses to consider the interests of multiple stakeholders, not just those of the owners (p. 97). The law recognizes and protects the interests of various groups, including consumers, employees, business partners and shareholders, investors, the environment, and even competitors. This lesson is especially important for students who aspire to start their own businesses and who, in all likelihood, lack the experience necessary to navigate the legal and regulatory landscapes applicable to their fields. The entrepreneur's legal obligations vis-à-vis these stakeholders reflect the moral obligations to act honestly, to act in good faith, to consider the dignity and rights of others, to take responsibility for actions that cause harm, and to anticipate and minimize known risks of harm. A discussion regarding the legal rights of stakeholder groups provides aspiring entrepreneurs with an opportunity to understand the ethical foundations of the laws that will affect them as they start their own businesses (McGowan & Buttrick, 2015, p. 9).

The law requires the entrepreneur to consider the interests of consumers. For example, product liability law gives consumers the right to sue manufacturers for personal injury or property damage arising from the use of the entrepreneur's product (Alberts, Thornburg, & Buttrick, 2016, p. 1125). The moral policy underlying product liability law requires businesses to take precautions to minimize risk associated with the product's use, and to take responsibility for product failures by compensating those who are harmed. Another theory, breach of warranty, provides a remedy when a product does not live up to the consumer's expectations, thus denying him or her the benefit of the bargain. The breach of warranty theory reflects the underlying moral importance of fidelity to promises. Similarly, various consumer fraud statutes and Federal Trade Commission regulations protect consumers from being misled by false advertisements, thereby underscoring the moral obligation to act honestly (Buttrick & Droms, 2016, p. 269).

Employees are another stakeholder group that the law recognizes. Civil rights laws, such as Title VII, the Americans with Disabilities Act, and the Age Discrimination in Employment Act, make it unlawful for employers to discriminate on the basis of immutable characteristics such as race, sex, national origin, religion, disability, and age (Clarkson, Miller, & Cross, 2016, p. 664). Wage and hour laws are designed to ensure that workers are paid a fair wage, and they reflect an effort to remedy the effects of unequal bargaining power between employer and employee. From an ethical perspective, employment laws require entrepreneurs to adhere to basic principles of justice and recognize the dignity of their workers as human beings. Rawls posited that equal opportunity and "free choice of occupation" are markers of a just society: "From the standpoint of distributive justice, it is also essential that there be equality of opportunity in several senses . . . This result is achieved by policing business behavior and by preventing the establishment of barriers and restriction to the desirable positions and markets" (Rawls, 1999, p. 141). Smith drew on notions of equity in his discussion of the fairness of wages: "It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged" (Smith, 2007, p. 83).

Moral obligations are also reflected in the fiduciary obligations that entrepreneurs owe to their business partners and to the business itself. In fact, courts describe the legal fiduciary duty in expressly moral terms (Ames, 2012, p. 187). One court stated the duty as follows: "The fiduciary must deal fairly, honestly, and openly with his corporation and fellow stockholders. He must not be distracted from the performance of his official duties by personal interests" (Hartung v. Architects Hartung/Odle/Burke, Inc., p. 243, 1973). An entrepreneur who fails to do so can be sued by his business partners—or, in the case of a corporation, he or she can be sued by the corporation itself. The moral obligation of honesty and fair dealing also extends to the entrepreneur's legal obligation to be truthful with current and potential investors. State and Federal securities regulations, as well as common law fraud theories, impose the obligation of truthfulness (Reed, Pagnattaro, Cahoy, Shedd, & Morehead, 2013, p. 551). Entrepreneurs must disclose material facts to investors—in other words, they must disclose the type of information a reasonable investor would like to know in order to make an informed investment choice (Reed, et al., 2013, p. 551). In essence, the law requires the entrepreneur to practice Kant's categorical imperative in dealing with investors—the entrepreneur must put himself in the other's shoes and disclose information accordingly.

Entrepreneurs even owe a legal duty to a seemingly unlikely stakeholder group: competitors. The Lanham Act gives a competitor the right to sue a business if it makes misrepresentations about the performance of its own product or the competitor's product, reflecting the law's embodiment of the moral obligation of truth-telling (Buttrick & Droms, 2016, p. 369). Intellectual property laws, such as copyright, patent, and trademark laws, prohibit entrepreneurs from infringing on the creative works, technologies, and branding developed by others (Reed, et al., 2013, p. 322). These laws reflect the moral obligation to respect the property of others.

Finally, environmental law serves the interests of the community at large. (Freeman, 2012, p. 97). State and federal regulations require businesses to assess environmental risk, to prevent environmental harm, and to bear the cost of clean-up when environmental damage occurs. These laws are designed to motivate businesses to minimize risk of harm and assume responsibility when harm occurs (McGowan & Buttrick, 2017, p 53).

Conclusion

In this paper, we discussed ethical issues in entrepreneurial activities and presented ways to persuade students of the relevance of these matters. Entrepreneurship presents a unique set of challenges and ethics should be at the forefront for students who aspire to start their own businesses.

We began with the question of how ethics bears upon entrepreneurship and the various views on the role of ethics on entrepreneurial behavior. We included a discussion of legal issues that pertain to the entrepreneur's ethical dilemmas with some attention to the character of the entrepreneur. We found virtue theory and stakeholder theory connect ethics to entrepreneurship in a way that presents students with a conceptual framework for ethical decision making.

Students that become entrepreneurs will face the dual creative dimension of both creating new products and processes while forming new ventures. It is becoming even more essential to prepare students for ethical dilemmas in this global and technologically advanced economy. In teaching ethics in entrepreneurship courses, it is also important to communicate to students that doing the right thing is often the most profitable thing; ethical entrepreneurial behavior need not be a zero-sum game.

The ethical decision making of the entrepreneur impacts internal and external stakeholders. The entrepreneur is the leader who sets the expectations for employee behavior and the norms and values of the organization. The entrepreneur also looks outward to the law and how decisions may impact consumers, employees, business partners, investors, competitors and the community at large. The character of the entrepreneur becomes the character of the small business. The law motivates the business to minimize risk of harm. If we educate students on the importance making sound ethical decisions as they transition from the classroom to the role of entrepreneur then we may have the platform to clarify to students that amidst the excitement, creativity, and innovation found in entrepreneurial activities, ethics matters.

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