Ethical considerations of sales channel selection in the field of entrepreneurship

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Journal of Ethics and Entrepreneurship

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FROM THE DEAN OF THE GODBOLD SCHOOL OF BUSINESS

In 2008, the John and Linda Godbold School of Business Endowment was created at Gardner-Webb University to fund initiatives for education, culture, tradition, faith, scholarship and leadership. Among the projects created was a Center for Ethics and Entrepreneurship. And one of the projects of the Center was to publish a journal that featured scholarly articles about the connection between business ethics and entrepreneurship. Mr. Godbold, an astute and well-respected entrepreneur, had proven that it was possible to create enterprises that were both extremely profitable and uncompromisingly “ethical” at the same time (see his essay on page 5).

It is my pleasure to present the inaugural issue of the Journal of Ethics & Entrepreneurship (JEE). The mission of JEE is to publish high-quality (double-blind, peer reviewed) interdisciplinary scholarly research (conceptual, theoretical, empirical) or teaching cases that connect entrepreneurship and ethics and appeal to both the academic and the practitioner.

With the strong leadership and enthusiasm of Dr. Don Caudill—professor of marketing in the Godbold School of Business, JEE is now a reality. Of course, the adage that “a tree does not make a forest” applies here as well—many people have assisted. We extend our gratitude to Mr. John and Mrs. Linda Godbold for their vision and generous support; to Dr. Frank Bonner, GWU president; to the Senior Staff for their support; to the authors of the six articles featured in this issue; the Associate Editor Jim Littlefield and the distinguished Editorial Review Board. Finally, we extend special thanks to Kathy Martin, assistant director of graphic design at GWU, for her exceptional layout and design work completed under extraordinary time constraints, Matt Renfer, our copy editor; Bob Williams, Ron Thrash and Lynette Camby of BP Solutions Group in Asheville, N.C. for their excellence in printing and binding the journal. We hope you enjoy this inaugural edition.

-Anthony Negbenebor

FROM THE PRESIDENT OF GARDNER-WEBB UNIVERSITY

The nineteenth-century writer and philosopher Thomas Carlyle wrote, “Blessed is he who has found his work; let him ask no other blessedness. He has a work, a life-purpose.”

Whatever life’s work one enters, the most important question is, “What is the real purpose of this work?” And further still, “What is my life’s purpose that I will fulfill in this work?” Too often business people believe that the purpose of their work is to be found in profit. There is nothing whatsoever wrong with profit. It is not profit itself that can go astray but the perspective toward it—seeing profit as an end in itself. Profit is noble when it is seen as a means of making people’s lives better: the customer whose life is made better by the product or service; employees who are able to make a good living and provide for their families; stockholders whose quality of life is enhanced; and retirees who depend upon their retirement investments.

But the life-purpose Carlyle spoke of goes further than even the noble concept of profit. The business leader, as well as the company, must have a broader view, a greater concept of purpose: As a leader in business (one whom Carlyle called a “Captain of Industry”) my life’s purpose is service—in the broadest and finest sense. Yes, I will provide for my own family, and I will prepare for a meaningful, fulfilling and prosperous life of my own, but it is about more than me. I will be a leader of character and integrity, and of a higher purpose, not only in my career but also in my family, my church, and my community. I will seek to make the lives of others better and to make the world a better place than I found it.

This is the kind of leader the Godbold School of Business—and Gardner-Webb University—seeks to develop.

-Frank Bonner
GUEST EDITORIAL

Milton Friedman said, “Business should be solely devoted to increasing profits as long as they engage in open and free competition devoid of fraud.” Capitalism is based on the ability of a business to market goods and services at a profit.

To be a successful business, you have to take care of a number of constituencies. I have learned that a successful business is like the legs on a three-legged stool. All the legs are necessary to keep the stool from toppling over. If there is a weak leg, the stool may stand but it will not be steady. The first leg of the stool represents the investors who provide the funds that allow the business to operate. These investors are taking a risk and should be rewarded through profits. The second leg of the stool involves the employees who should be treated fairly with good work conditions, reasonable pay and benefits. The business should abide by all laws and regulations. The third leg of the stool is the customer. Without the customer, the employees will not have a job and there will be no profits to the investors. Even with the three strong legs of the stool, if you step on the stool on an angle it may turn over. The most important leg is the fourth: including God as a part of the business. With four legs, the stool can withstand much more pressure and weight and is not as apt to topple over.

-John Godbold

FROM THE EDITORS

Both business ethics and entrepreneurship have become recognized as scientific disciplines with specific journals to disseminate the plethora of significant conceptual, theoretical, and empirical research that is being done. However, only a relatively small number of articles have appeared in the academic literature that explicitly address the intersection of business ethics and entrepreneurship. A review of the literature of both fields revealed that, in addition to the comparatively few articles and a number of conference presentations, only one conference (2006) and one special issue of *Journal of Business Venturing* (2009) were specifically devoted to this “connection.”

This issue of *JEE* features six excellent articles. In the lead article, “Ethics and Entrepreneurship,” Harris, Sapienza and Bowie review the research connecting ethics and entrepreneurship and classify the literature into three broad themes. Further, the authors identify and integrate the “key” themes that emerge from this classification and offer suggestions for future research.

Finkle and Mallin, the authors of the second article, “Ethical Considerations of Sales Channel Selection in the Field of Entrepreneurship,” integrate various aspects of ethics and entrepreneurship with sales. The authors present selling channel options relative to two important entrepreneurial considerations (control over resources and costs to implement). Moreover, the authors relate potential ethical considerations of sales channel selection and end with a Ten Point Plan for Emphasizing Ethics in the Sales and Marketing Culture (originated by Turner, 2010).

In the third article, “The Influence of Institutional Environment on CEO Succession: Evidence from Russian Companies,” Shirotov, Knatko and Vega present the results of a study of the factors (including bribes, illegal activities and corrupt relationships) influencing owner-CEOs’ decisions to cede authority over everyday management to hired CEOs in Russian companies. Findings suggest that Russian entrepreneurs may be reluctant to cede control over their businesses due to ethical issues, institutional constraints and lack of economic regulation.
In the fourth article, “Off-shoring in Small Business: Ethical Implications,” Maidment explores the practice of small businesses using outsourcing to accomplish necessary tasks. He focuses on the organizations to which the small businesses have outsourced these activities and examines some of their common off-shoring practices. The ethical considerations of outsourcing, especially with regard to the communication between the client and the consolidator, are examined.

Godfrey, Neureuther and Swicegood, the authors of the fifth article, “The Consistency Factor: A Closer Look at Ethics in Accounting Education,” study the consistency of ethical sensitivity among accounting students. Their empirical results indicate that today’s accounting students exhibit generally high levels of ethical sensitivity, but they are not always consistent with the quality of their ethical decision making.

In the final article, Ranier, Martin and Fowler examine the complex problem of healthcare reform from the philosophical principles of justice and distribution. They conclude that in order to have a healthcare system in the United States that reaches everyone, society must decide what constitutes a minimum level of satisfaction consistent with human dignity and the resources available.

-Don Caudill & Jim Littlefield

To submit a manuscript for consideration for inclusion in the next issue of JEE, please email dcaudill@gardner-webb.edu before September 30, 2011. For questions email either editor.

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Ethics and Entrepreneurship

Jared D. Harris, Harry J. Sapienza and Norman E. Bowie

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 twenty 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.

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The authors thank the Carlson School of Management at the University of Minnesota and the Business Roundtable Institute for Corporate Ethics for financial support. 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.

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 & 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 & 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.

**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 & 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. 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. (See figure 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.

*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 & Ruef, 2004), Buchholz and Rosenthal (2005) argue that the qualities required for successful
entrepreneurship—imagination, creativity, novelty, sensibility are systematically and theoretically crucial to ethical decision-making, suggesting that ethics and entrepreneurship are closely aligned. Similarly, others (Dunham, McVea, & Freeman, 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 & Hisrich, 2001) and exhibit higher levels of moral reasoning (Teal & 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 & Korsgaard, 1996). Such a focus on ethics and fairness on the part of the entrepreneur may bring its own risks, however; others (Goel & Karri, 2006; Karri & Goel, 2008; Sarasvathy & Dew, 2008) have debated whether or not entrepreneurs tend to ‘over-trust,’ making them more vulnerable to others’ opportunism.

On the other hand, additional research finds that entrepreneurs possess a strong ‘action bias’ that may prevent them from adequately considering ethical issues (Bhide, 1996). Longenecker, McKinney, and Moore (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).

**Figure 1. Ethics and Entrepreneurship: Three Themes**

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<td>Empowerment of disenfranchised entrepreneurs</td>
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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 & Goldsbty, 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, Hardy, & Lawrence, 2004). How do stakeholders influence corporate entrepreneurship (Kuratko, Hornsby, & Goldsby, 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, Wilson, & Arnold, 2005:343; see also Warren, 2003)?

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., Solymossy & 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, Breen, & Satyen, 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, Welsh, & Gubman, 2000).

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 & 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 & Siu, 2000). 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 & Starr, 1992). Furthermore, entrepreneurs tend to face ethical dilemmas involving their own values, organizational culture, employee well-being, customer satisfaction, and external accountability (Payne & 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?

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 & 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. 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, Harmeling, & Venkataraman, 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.

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 & Schmidpeter, 2003). There are specific investigations of new ventures and illegal behavior (Fadahunsi & 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, Mitchell and Schminke (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, McKinney, & Moore, 1989b; Schminke, Ambrose, & Neubaum, 2005) finds 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 addition to inquiry about how a healthy ethical ‘infrastructure’ (Tenbrunsel, Smith-Crowe, & Umphress, 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, Payne, & Raiborn, 2002) achieve resilience over time, showing resistance to the buffettings 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.

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 & 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 & MacMillan, 1990); in other words, entrepreneurial stakeholders always have
‘names and faces’ (McVe & 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 & 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, Dickerson, & Festervand, 2000); they have also been shown to have differential approaches to community involvement, and these differing initiatives have heterogeneous effects on organizational performance (Besser & 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, Coles, & Harris, 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?

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.

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, Emerson, & Economy, 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 & 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 & 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, Robinson, & Hockerts, 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 & Gray, 2008). We will not attempt a more comprehensive review of definitional work on social entrepreneurship here; rather, we recommend the thorough treatment in articles that examine social venturing through theoretical and historical lenses (Mair & Marti, 2006; Nicholls & 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, Mair, & Hockerts, 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 & 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 & Hart, 2002), though considerably less has been said about how to actually devise and implement BOP strategies (for notable exceptions, see Hart & Sharma, 2004; Seelos & Mair, 2007; Werhane et al., 2009).

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) 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 incorporate 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 & Elias, 1998). Relatedly, there is increasing interest in the concepts of social return on investment (e.g., Lingane & Olson, 2004; Perrini, 2006b), and double-and triple-bottom-line accounting practices (e.g., Norman & 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.

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, Jackson, & Johnson, 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 versus immigrant populations (c.f. Bogan & Darity, 2008; Fairlie & Meyer, 1996), impacted differentially? What environmental factors (c.f. Aldrich & Martinez, 2001) drive minority entrepreneurship, and what are the attendant ethical considerations?

**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, Stevenson, & Wei-Skillern, 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, influencing 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 expactive way (Dew et al., 2008; Dew, Sarasvathy, & Venkataraman, 2004).

**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.

**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.

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 & 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?

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 & Audretsch, 1992; Birch, 1987; van Praag & Versloot, 2007). Going further, Kirchhoff (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 (Corriente, 1994). Other work (e.g., Acs et al., 2009; Audretsch, Bonte, & Keilbach, 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 & Levesque, 2010). 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, Estrin, & Mickiewicz, 2008; Dore, 2006; Galbraith, 2006; Henrekson, 2005; Minniti, 2008; Phan, Venkataraman, & Velamuri, 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, Ahlstrom, & Obloj, 2008; Harper, 1991; Jarillo, 1989; McMillan & 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 (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?

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 & Schmidpeter, 2003). Entrepreneurial activity is connected with political policies that advance socioeconomic freedom (Bjornskov & 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 & 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 (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 & 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?

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, Sapienza and Villanueva (2007) 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.” 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 & Starr, 1992:103).

In what ways can entrepreneurship be socially unproductive? While entrepreneurship is described as inherently containing a moral imperative (Anderson & Smith, 2007; Carr, 2003), or at the least, being consonant with ethical conduct (Surie & 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 & 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?
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 & 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 & 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.

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.

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Ethical Considerations of Sales Channel Selection in the Field of Entrepreneurship

Todd A. Finkle and Michael L. Mallin

INTRODUCTION

Increased scrutiny of corporate actions in today’s business climate puts pressure on all facets of business to adhere to ethical practices founded on principles that are honest, fair and transparent to the stakeholders (Turner, 2010). The importance of business ethics becomes magnified in the entrepreneurial setting. Consumer word of mouth and viral internet communications are just a few ways that a negative ethical image could ruin a small business. In fact, Rutherford, Buller and Stebbins (2009) point out scholars have yet to investigate the legitimacy of new ventures. Most of the known research that has been compiled by a few entrepreneurship researchers (see Aldrich & Fiol, 1994; Shepherd & Zacharakis, 2003; Suchman, 1995; Williamson, 2000). According to Rutherford, et. al., (2009), entrepreneurs may be tempted to misrepresent the respective newness and smallness of their firms by lying to their respective customers.

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Arguably, the most visible and vulnerable function of a small business is sales. The sales function is a driving force in our economy and should not be left untouched when scrutinizing ethical issues. A premise of this research is that sales should be one of the first places where entrepreneurs build an ethical culture of decision making. This is because the selling function has become the public face of corporations and is often painted by brand identity, marketing messages delivered via various media, and the sales representatives who deal directly with the buying public. With an aligned and sound code of ethics for selling and customer service, organizations should theoretically build consumer confidence and shareholder value (Turner, 2010).

Entrepreneurs have various sales distribution options for channeling their products and services to the public. Whether the choice is to utilize direct selling resources, online contact, telemarketing, or direct response – each channel decision comes with its own set of control, cost, and ethical challenges. Given the importance of sales ethics in an entrepreneurial setting, the purpose of this paper is to assist entrepreneurs with sales channel selection decisions. To do this, we examine the relationship between the risks and costs associated with various selling channel options available to entrepreneurs.

Based on an economic theory of minimizing transaction costs, we present a framework centered on two factors—the cost to implement a sales channel option and control over (e.g., ability to manage) sales channel resources. We discuss that each of these factors will have potential ethical implications to selling efforts. We begin by discussing the background literature on entrepreneurship, ethics, and sales. A brief summary of the economic theory: transaction cost analysis is presented as the basis for setting up a framework for sales channel decisions. The discussion portion of the paper centers on how entrepreneurs might utilize this work to make sales channel decisions with ethical consideration. Finally, a 10-point plan for emphasizing ethics in the sales culture is offered as a way for entrepreneurs to operationalize this research.

**BACKGROUND**

**Entrepreneurship and Ethics**

The definition of entrepreneurship remains broad (Nga, Sud & Shamuganathan, 2010). There are numerous definitions of entrepreneurship; however, we define it as an attitude, a way of thinking and behaving. It is a state of mind; an artful, insightful and innovative mentality rather than business administration. Entrepreneurship is a way of perceiving and exploiting opportunity wherever it may be found (Finkle, 2006; Mallin & Finkle, 2007; 2009). Entrepreneurship can be found in any organization; small or large businesses, franchises, family businesses, government entities, or nonprofits.

There is an extensive and growing literature on ethics and entrepreneurship. For a review, see: Ackoff, 1987; Brenkert, 2002; Buchholz & Rosenthal, 2005; Dees & Starr, 1992; Fassin, 2005; Fisscher, Frenkel, Lurie, & Nijof, 2005; Hannafey, 2003; Harrison, 2002; Hornsby, Kuratko, Naffzinger, LaFollette, & Hodgetts, 1994; Humphreys, Robin, Reidenbach, & Moak, 1993; Longenecker, McKinney, & Moore, 1989; Miles, Munila, & Covin, 2004; Morris, Shindehutte, Walton, & Alien, 2002; Newton, 1997; Teal & Carroll, 1999; Wempe, 2005; and Zakaria, 1999. However, recent studies have found that there is a need for more research in the area of ethical decision making and entrepreneurship (Loc, Ferrell, & Mansfield, 2000; O’Fallon & Butterfield, 2005). Previous research on ethics and entrepreneurs suggests that entrepreneurs
show a “powerful bias for action” which may keep them from fully thinking through ethical considerations (Bhide 1996). It is also thought that ingrained personalities may contribute to questionable actions by entrepreneurs. In addition, their moral values might explain their actions.

Longenecker, McKinney, and Moore (1988) compare the ethical perspectives of entrepreneurs with those of other business persons and suggest that “[e]ntrepreneurial ethics may have their roots in the individualism associated with entrepreneurial behavior.” These authors describe entrepreneurs as autonomous thinkers who demonstrate a strong need for control, are often distrustful of others, and take independent actions in preference to carrying out the directions of others. Longenecker, McKinney and Moore (1988) also found that entrepreneurs are more likely than others to “approve of actions that maximize personal financial rewards” even in situations when these rewards come at the expense of others. If entrepreneurs actually demonstrate different ethical behavior in financial matters, this may be explained by the severe capital and liquidity constraints faced by many new ventures. Startups must often manage very tight cash flows, and this fact may influence an entrepreneur’s moral perceptions and judgments about financial matters.

Dees and Starr (1992) suggest that entrepreneurs encounter various relationship dilemmas which may lead to complex ethical problems. This may be especially true when “roles and relationships change from their preventure to their post venture status.” For example, obtaining a loan from a spouse’s family and then getting a divorce could lead to ethical dilemmas.

Entrepreneurs face complex ethical problems related to basic fairness, personnel and customer relationships, honesty in communications, distribution dilemmas, and other challenges. Because of the nature of startups, many of these ethical problems are often new to the young entrepreneur (Hanafey, 2003). Dees and Starr (1992) note that entrepreneurs frequently encounter “promotor dilemmas” carrying out these tasks. Entrepreneurs must win the consent of customers, investors and bankers, suppliers, employees, and others to support the risks and uncertainties of the new enterprise. While promotor dilemmas can vary considerably, these are often traced to the newness, small size, risks of innovation, and limited availability of resources in startup firms.

Entrepreneurs face difficulties of survival due to lack of brand name recognition, sales and cash flow in order to survive, which may lead to unethical decision making. Inducing possible questionable behavior are the problems confronted by the business in start-up stage (e.g., long hours, decisions made in haste due to time restraints). Furthermore, due to the “wear all hats syndrome” entrepreneurs may be more inclined to put out the fire now and deal with the consequences later. Case in point, Rutherford, et. al., (2009) indicated that entrepreneurs in start-up, for-profit companies were involved in questionable ethical behaviors, including legitimacy lies—intentional misrepresentation of facts. They stated that entrepreneurs in start-up companies must overcome liabilities of newness and smallness (Hannan & Freeman, 1984; Singh, Tucker & House, 1986; Stinchcombe, 1965) in their quest for legitimacy (Williamson, Cable & Aldrich, 2002; Zimmerman & Zietz, 2002).

**Selling and Sales Ethics**

Ethics describes the moral content of behavior. In the domain of sales, this would include how sales people behave when faced with a situation that has moral consequences. For example, when a salesperson represents a product as delivering a specific benefit, they are saying that the consumer can rely or trust that purchasing the product will deliver or provide the promised benefit (Hair, Anderson, Mehta, & Babin, 2009). Potentially unethical selling related behaviors
include: exaggerating performance of a product offered to customers, misleading someone about product shortages in order to stimulate current sales, misrepresenting how frequently a service should be performed or the quantity of a product should be used, and withholding key facts about a product (to mention a few). Although no research exists to support the popular belief that sales people are more unethical than other occupations, there is reason to assert that unethical selling practices may vary based on individual characteristics and sales job function (Roman & Munuera, 2005). The following types of selling job functions are described with regard to potential for unethical sales practice: online (internet) sales, direct (mail) sales, catalogue sales, direct response (advertising), telemarketing (phone) sales, and face-to-face (personal) sales.

**Online (internet) Sales**

Online or internet sales have grown exponentially over the past decade. In fact, according to a survey of 1,000 small and mid-sized businesses, companies remain confident and optimistic about the future of online selling (Finkle, 2006). In fact, the internet has be touted as the best way to reach targeted audiences and the most important marketing and sales tool to come about in the past fifty years (Berry and Wilson, 2004). In the nonprofit segment, online selling is commonly used to solicit pledge money to support a social cause (http://www.livestrong.org).

One of the problems from a consumer’s perspective with buying online is that they don’t know who they are buying from, unless it is an established brand or company. This is an ideal format for entrepreneurs, as they have the ability to market their companies to appear as if they were bigger than they actually are. However, some entrepreneurs may go overboard. A good example of this are people that sell on e-bay. Despite the fact that the online site provides consumer feedback, there are still ways around this. For example, if an item or seller gets negative feedback, the seller can reregister with a new user name and e-mail address to create a new virtual image.

**Direct (mail) Sales**

Direct sales are commonly associated with one-to-one mail communications sent directly to the consumer or business. The first step in the success of a direct mail campaign is to obtain the right list of the target market. The selling process involves sending information about a special offer, product, sale announcement, service reminder, or other type of communication directly to a person or business (Berry & Wilson, 2004). It encompasses a wide variety of sales materials such as brochures, catalogues, postcards, newsletters, and sales letters (Mallin & Finkle, 2007).

The ethical/unethical issues relative to this channel of selling stem from the fact that the target (consumer or business) has little opportunity to engage in two-way communication – limiting the ability to better understand, clarify, or ask questions pertaining to the offer. Such limitations may lead to consumer dissatisfaction with the overall value of any product/service purchased.

**Catalogue Sales**

Catalogue selling has grown over the past 25 years to well over $176 billion (Armstrong & Kotler, 2009). It is most commonly used to feature a variety of products that target the needs of a specific audience with a propensity to order from catalogues (Berry & Wilson, 2004). Entrepreneurs may use catalogues to sell to a small otherwise unreachable market primarily to create initial sales momentum (Debelak, 2005). As the internet becomes more ubiquitous, the role of catalogue selling is diminishing.
Like direct (mail) selling, the communication from the seller to buyer is one-way, static, and provides consumers with limited opportunity to ask about the product. A potential ethical issue relative to this selling channel stems from how the product is displayed or illustrated in the catalogue. For example, the actual product may differ relative to perceived size, texture, color, or quality of material.

**Direct Response Selling**

Direct response selling provides a means for entrepreneurs to measure the cause-and-effect relationship between advertising budget and its result (Williams, 2005). Direct-response selling is any advertising that invites the recipient to contact the seller directly through a website, toll-free number, mailing address, or business reply card (Mallin & Finkle, 2007). It involves communications with consumers through television (commercial or infomercial), radio, magazines, and newspapers (Berry & Wilson, 2004). This sales method is well suited for entrepreneurs who cannot obtain retail shelf space or whose unknown products might languish on the shelves (Gordon, 2002).

The ethical issues most prevalent using this selling channel take the form of product embellishment. Scripted radio ads using professional actors tend to sensationalize the product. Rehearsed television and infomercial ads portray the product in the perfect setting – perfectly accomplishing the desired goal or solving a consumer’s problem/need. Misleading statements about “limited time offers” or “while supplies last” could potentially pressure a consumer to act hastily and/or impulsively.

**Telephone Sales**

Telephone sales or telemarketing uses the telephone to sell directly to consumers. It has become the major direct marketing communication tool accounting for more than 39 percent of all sales expenditures and 36 percent of sales (Armstrong & Kotler, 2009). This selling strategy has grown to the extent that the average household is quite familiar with telemarketing calls (Berry & Wilson, 2004). In fact, The Direct Marketing Association claims that in 2005, telephone calling was the medium with the highest average response rate (DMA, 2005). Successful telemarketing campaigns depend on a few essentials: well trained and rewarded sales people, a good calling list, and an effective script (Berry & Wilson, 2004).

Unsolicited telemarketing calls to consumers are often synonymous with unethical selling practices. This is mainly due to the degree to which a consumer is vulnerable during a telemarketing sales call. Such vulnerability lies in the consumer’s ignorance (e.g., he/she lacks vital product knowledge) and/or lack of experience (e.g., he/she isn’t trained to negotiate terms of a fair deal).

**Face-to-Face Selling**

Face-to-face (personal) selling represents the most costly but effective form of directly connecting a consumer with a company’s products and services. It has been estimated that the average cost of a face-to-face sales call is $170 (Armstrong & Kotler, 2009). However, an in-person sales presentation, entailing an effective verbal presentation and interaction with the prospective buyer, is considered the most powerful selling tool in use today (BusinessTown.com, 2005). Although traditionally, sales people have been characterized as aggressive and manipulative, personal selling has developed into a profession based on relationship building (Weitz, Castleberry, & Tanner, 2004). The focus of successful sales people today is on
understanding customer needs (through questioning) then matching a product or service to meet those needs or solve a business problem (Finkle, 2006).

Two channels of face-to-face selling are available for entrepreneurs. Industrial sales people are hired by and work for the company whose products/services they sell. Typically in this case, sales people are compensated using a combination plan of salary, commission, bonus, and fringe benefits. The rationale for this type of selling representative is that sales people can focus on selling and provide levels of customer service necessary to understand and satisfy customer needs as well as provide post sales follow up and support. The relationship with customers tends toward a partnership whereby both parties benefit from a sales exchange. Manufacturer’s representatives are entrepreneurial and independent sales people who sell products for several noncompeting companies. The benefit for business to use manufacturer’s reps is that the focus is on sales call frequency and sales transactions to customers. Typically, the compensation plan will be straight commission on sales.

There are ethical considerations relative to the type of face-to-face selling channels that entrepreneurs may choose. This mostly stems from the method by which sales people are being compensated. For example, the (mainly) commissioned manufacturer’s representative may opt to sell the product that nets the most/highest commission dollars. Alternatively, the industrial representative who is focused on customer relationship building may propose a different, well-suited product even though the financial rewards may not be maximized. Relative to other channels of selling, face-to-face does offer the customer an opportunity to engage in a live two-way exchange of information—potentially deterring or minimizing the opportunity for unethical selling practices.

**DISCUSSION**

An entrepreneur looking to implement a sales channel selling strategy for his/her business needs to be mindful of many considerations. Arguably, the overarching decision to use a particular selling channel will be to maximize revenue while minimizing economic costs.

Economic theory (Williamson 1985, 1996a, 1996b) provides a transaction cost analysis (TCA) framework for cost-efficient organizational solution decision-making. According to this theory, utilizing in-house resources (i.e., vertical integration) to market and sell the firms’ products/services is more cost-efficient (than outsourcing), mainly when higher levels of environmental uncertainty exists. Uncertainty suggests that there exists a variability of outcomes, the distribution of potential outcomes is unknown, and attainment of certain outcome is uncontrollable (Libby & Fishburn, 1977; Sitkin & Pablo, 1992; Vlek & Stallen, 1980). One type of uncertainty refers to the inability to control (e.g., monitor, evaluate, and manage) the resources necessary to achieve clear objective marketing goals (Anderson & Gatignon, 1986). For an entrepreneur, such resources could include human resources (e.g., workers), knowledge resources (e.g., expertise), and target customer resources (e.g., lead lists). There are ethical implications here: for resources whose risks difficult to control, unethical selling practice could occur and go undetected. Another type of uncertainty pertains to the unpredictability of the external environment (e.g., economic, cultural, legal and regulatory system). Relative to entrepreneurship, such factors will impact bottom line costs to the business owner when choosing to implement a selling channel (e.g., overhead, pricing, advertising, licensing, etc.).

Thus, to assist an entrepreneur in choosing a sales channel implementation strategy, we
classify each of the sales channels (reviewed in the previous section) relative to the internal uncertainty dimension of control over resources and the external uncertainty dimension of cost to implement in a framework of selling channel decisions (see figure 1).

**Figure 1. Framework of Selling Channel Decisions**

<table>
<thead>
<tr>
<th>Control Over Selling Resources</th>
<th>Cost to Implement Sales Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image" alt="Diagram" /></td>
<td><img src="image" alt="Diagram" /></td>
</tr>
</tbody>
</table>

*Note that when control over selling resources is low, the risk of unethical selling behavior should (theoretically) be higher.*

**Ethical Considerations of Selling Channel Decisions**

Each of the selling channel decisions classified (using the framework of figure 1) can (and should) be viewed by entrepreneurs relative to ethical challenges. This becomes an important step when launching a new business since an entrepreneurial venture can be easily undermined by a selling strategy that is ineffective or fails to gain the trust of the consumer. With respect to these issues, we attempt to add additional insight for each of the selling channels.

Catalogue selling provides for a cost-effective sales channel decision as the major expense is the cost of producing and mailing the catalogue and paying customer service representatives (CSR) to assist customers who call in (Debelak, 2005). Control over selling resources may be high or low depending on whether the CSR is “in house” or “outsourced.” The risk of unethical selling behavior is greater in the case where CSR resources are outsourced. Since these personnel may be in remote locations, monitoring and evaluation of the sales process becomes more difficult for the entrepreneur to manage and the risks that CSR resources behave unethically is increased.

Reaching a target market through online (internet) sales is a cost effective solution. Implementation costs are relatively low, mainly requiring up front computing (server, software, connectivity, and website development). Control over online selling resources are relatively high.
since staff needed to maintain the website, fulfill orders, and provide customer service can be directed, monitored, and supervised. To reach targeted consumers, a database of customer information (contact, profile, order history, etc.) needs to be purchased and maintained. Control over an “owned” customer database resource is high in the sense that data can be analyzed, manipulated, and measured to make further online selling decisions. Ethical behavior is more likely utilized in this channel because the entrepreneur can have a direct role in the design and implementation of the message and online content. Furthermore, adherence to “spam” regulations can be managed and enforced.

The high cost of implementing an industrial representative face-to-face personal selling strategy is due to the recruiting, selecting, hiring, training, development, and compensating of selling resources (i.e., salespeople) (Mallin & Finkle, 2007). Such high investment costs in salesperson resources allows for the firm to maintain higher levels of resource control. Such high levels of control allow for training of salespeople, which can emphasize ethical sales practices. Sales managers could reinforce the importance of ethical selling through salesperson observation, coaching, and feedback. If minimizing cost is a concern, an entrepreneur may opt for utilization of manufacturer’s reps; however, with these cost efficiencies comes loss of control over the selling resource. Because these selling resources are independent agents, monitoring and correcting deceptive selling practices becomes problematic and difficult.

Direct response (advertisement) selling costs are relatively high due to the production costs. Radio and print direct response advertisement can be effective depending on the content with costs lower than TV ads. Typically, direct response selling requires outsourcing the development and delivery of message content. For TV and radio, this would involve actors, production, and studio facilities. Newspapers and magazines require copywriters and typesetting. Control over resources required to implement a direct response selling channel would be lower for magazines and newspapers, as this would depend on multiple outlets for distribution (e.g., newsstands, stores, subscriptions, etc.).

Since direct (mail) selling allows one-to-one communication, there is increased certainty that the targeted customer will be reached (Berry and Wilson, 2004; Finkle, 2006). High levels of control over direct selling resources exist as to who sends the message, when it is targeted for delivery, and the number of customers targeted (Lesonsky, 1998). An in-house resource used to design the direct sales piece further increases the level of control over content, design, and direct mail message. Such higher level of control enables the entrepreneur to have a role in ensuring that the product and company message is clear and nondeceptive. The cost to implement a direct mail program is relatively high since it requires duplication of printed material (e.g., outsourcing to a printer) and postage (outgoing and return). Consumers’ tendency to reject “junk mail” results in a relatively low response rate under 2% (Roman, 1998), thus driving up the indirect costs of implementing a direct mail program.

The cost to implement a successful telemarketing sales channel is relatively high. Hiring, training, and compensating telemarketers are costly and compliance with the national “do not call” registry and other legal restrictions increases the uncertainty (e.g., fines for non-compliance) from the external regulatory environment (Geroux, 2003). However, because telemarketing salespeople can be supervised, sales can be measured, and processes can be monitored. Entrepreneurial control over these resources is relatively high if the telemarketing sales resources are “in-house” versus “outsourced.” In this environment, adherence to national “do not call” registry regulations can be managed and enforced. Higher levels of resource control may be preferable as this provides opportunities to develop telemarketers to be ethical in their
selling behavior while thus impacting revenue generation for the firm through high levels of performance.

A Ten Point Plan for Emphasizing Ethics in the Sales and Marketing Organization

As a final point of discussion, we felt it important to leave the readers with some points as to how an entrepreneur might implement a plan that emphasizes ethics in the sales and marketing aspect of the entrepreneurial organization. Exhibit 1 describes how an entrepreneur may mobilize his/her sales and marketing organization centered on sound ethical and selling and business practices. The benefits of doing this should be rewarded with customer loyalty and positive word of mouth about the business and its products and services.

CONCLUSION

The purpose of this article was to integrate various aspects of ethics, sales and entrepreneurship. The crossroad between ethics and sales has increased in importance to entrepreneurs over the last decade given the scrutiny of corporate actions in today's business climate and the emphasis on building long term customer relationships. By presenting selling channel options relative to two important entrepreneurial considerations (control over resources and cost to implement), we were able to relate the potential ethical considerations of sales channel selection.

Further study in this area should be conducted to empirically test some of the suggested conceptual notions of this research. For example, a premise of our framework is the assertion that lower control over selling resources leads to higher propensity for the seller to act unethically. This could be tested by collecting and analyzing salesperson samples from several firms who utilize (in house) industrial reps and (outsourced) manufacturing reps to distribute the company's products and services. Ethical scenarios presented to sample subject with the opportunity to answer questions relative to selling behaviors could measure the degree of ethical behavior intention. Another interesting approach to advancing this research would be to investigate ethical selling perceptions among salespeople and entrepreneurs from different countries and/or global regions.

With the increasing prevalence and importance of entrepreneurial, small, and privately owned businesses, validation of our framework can become a critical tool to help business owners make selling channel selection strategies that minimize economic cost while emphasizing high levels of ethical selling practice.

REFERENCES


EXHIBIT 1: A TEN POINT PLAN FOR EMPHASIZING ETHICS IN THE SALES & MARKETING CULTURE

1. **CREATE A WRITTEN CODE OF ETHICS specific to the sales and marketing department.** If you already have a written code of ethics, be sure it is widely communicated. While some companies have their sales and marketing staff sign their code of ethics, in reality this is only a preliminary step in communicating the value placed on ethics by the organization.

2. **DEFINE THE PARAMETERS FOR MANAGERIAL DECISION MAKING** that will form the acceptable boundaries for managerial actions. According to Hosmer in Ethics of Management (McGraw Hill 2003), there is a balancing act that needs to take into consideration ethics, economics and legal concerns in the managerial decision making process.

3. **DRAFT SALES AND MARKETING SCENARIOS** based on past experiences and use them as a basis for discussion at staff meetings. Discussion of ethical issues without finger pointing will help create a culture of open dialogue and stimulate ideas and valuable thought process.

4. **BRING SALES AND MARKETING PRACTITIONERS TOGETHER** during the planning phase to discuss the pros and cons of marketing campaigns and sales activities from an ethical viewpoint.

5. **REQUIRE MARKETING PROPOSALS AND SALES CAMPAIGN DOCUMENTS** to spell out the ethical considerations of the author(s). Creating transparency begins with the creative process.

6. **IMPLEMENT A PRIVACY POLICY** and publish a privacy statement. Inform your clients and prospects about how you collect their data and what you use it for. Allow prospects and clients to opt-in and never sell or give out their information without their permission.

7. **USE PROFESSIONAL ASSESSMENT TOOLS** to assist in sound hiring decisions. Professional assessment tools are one of the necessary components in the hiring process. Others include using scenario type, ethically based questions during the interview process and conducting thorough background checks.

8. **ESTABLISH DUE PROCESS FOR DEALING WITH ANY VIOLATION** of your code of ethics. Without due process, your code of ethics could be flawed and unenforceable. Spell out in advance how due process would be accomplished and who is responsible for the jurisdiction.

9. **REWARD SOUND JUDGMENT AND RECOGNIZE ETHICAL BEHAVIOR** that exemplifies the culture you wish to create. As with any type of reward and recognition, the best reinforcement of desired behavior is timely and applicable to the moment. Personal one-to-one acknowledgement by management is very important. Public recognition within your organization in newsletters and at staff meetings in equally important.

10. **PRACTICE EXEMPLARY LEADERSHIP.** Leadership by example is one of the most powerful and proven methods of building a team that lives by a code. The price of exemplary leadership is high, but affordable, and the investment you make as a leader pays rewards that are immeasurable.

The Influence of Institutional Environment on CEO Succession:
Evidence From Russian Companies

Galina Shirokova, Dmitri Knatko and Gina Vega

EXECUTIVE SUMMARY

This paper presents results of a study on factors influencing owner-CEOs’ decisions to cede authority over everyday management to hired CEOs in Russian companies. Using case studies and existing literature, the article proposes hypotheses about variables affecting management succession (management transfer): negative perception of the institutional environment, and compliance of business with legal rules. These hypotheses were tested with data from 500 Russian companies in three industries: HoReCa (hotels, restaurants and cafes), IT-industry, and wholesale and retail trade. The analysis reveals that owner-CEOs’ decisions to pass on management to a hired-CEO are affected by such factors as security of property rights, security of contract rights, compliance of firm’s practices with legal business rules, and conformity with the hidden economy. Owner-CEOs should consider both the security of their interests as owners and the compliance of current business activities with institutional norms when making the decision to transfer managerial responsibilities.

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Editor’s Note: This paper won the Journal of Ethics and Entrepreneurship Best Paper in Ethics and Entrepreneurship Award at the 2011 United States Association for Small Business and Entrepreneurship (USASBE) Conference in Hilton Head, SC.
INTRODUCTION

In 2010 a considerable number of Russian companies use an ownership/management model in which one dominant owner or a group of owners has direct control over business operations (Dolgopyatova, 2010). Recent research provides evidence that a negative institutional environment in Russia characterized by widespread corruption and informal relationships between business practitioners and key government officials hinders the separation of ownership and management (Yakovlev & Daniilov, 2007; Dolgopyatova, 2007), making it increasingly difficult to professionalize management. Some authors suppose that such environmental factors create so-called “Russian succession paradoxes” (Kets de Vries & Shekshnya, 2008; Peng, 2003) in which founders pass the business to a hired CEO while retaining all of the power.

The purpose of this paper is to identify institutional factors and barriers that influence owner-CEOs’ decisions about management succession to hired-CEO for entrepreneurial firms operating in Russia.

The twin notions of “hired CEO” and “owner-CEO” describe the logical framework of principal–agent relations between the owner and hired outsider. Regardless of who is running the firm the “hired CEO” or “owner-CEO”–both are expected to be strategic decision makers and administrators. In the event that the “hired-CEO” succeeds the “owner-CEO,” he becomes the executive who determines further growth patterns of the firm.

THE RUSSIAN BUSINESS ENVIRONMENT

Russia is one of the largest economies among a dispersed group of developing countries in terms of market size, and it enjoys the relative macroeconomic stability granted by oil revenues (Sala-i-Martin, 2009). In recent years, the Russian government has issued a number of different laws that address corruption, economic development and human rights protection (Latuhina, 2010). However, apart from these official formalities, independent research paints a different picture (PriceWaterhouseCoopers, 2009; Riaño, Hodess, & Evans, 2008; 2009; Sala-i-Martin, 2009).

Both corruption and significant participation in the “shadow economy” (Williams and Round, 2009; Williams, 2009) play important roles in the performance of the Russian economy. According to the Annual Global Competitiveness Research (GCR) (Sala-i-Martin, 2009) conducted by the World Economic Forum, Russia experienced a decline in performance in comparison with other BRIC countries (Brazil, Russia, India, China). GCR has stressed corruption as the most severe economic problem in Russia. Another global research project conducted by the international civil society organization Transparency International positions Russia in a hostile environment (Riaño, Hodess, & Evans, 2009), along with the least developed companies of Africa and Middle East. According to the Global Corruption Barometer (2009), corruption is seriously widespread in Russia. Indicators showed public officials and civil servants as “most corrupt” at 4.5 out of 5 (5 signified “extremely corrupt”).

Research conducted by PriceWaterhouseCoopers (2009) showed an even more drastic view of how the Russian market behaves. According to their 5th Global economic crime survey, 71 percent of respondents had experienced some form of economic crime, and 86 percent of respondents indicated they feel heightened incentive or pressure to commit fraud. These responses suggest that corruption and illegal behavior have become a market-wide feature. Companies encountered bribery, corruption, and misappropriation within their staff, leading to poor employee credibility and making troublesome the possibility of delegating authority. According to the PWC 2009 report, 96 percent of respondents mentioned fraud either among
their employees and outside criminals or within the company. These institutional factors create a model of “informal impediments” to a normal way of doing business, creating instead an opposite, “Russian way” of doing business. Aidis & Adachi (2006) explained that these behaviors are informal impediments to creating new business, to continued firm survival, and even to entrepreneurial exit as a reaction to “the lack of rule of law, inconsistent enforcement of regulations, regional autonomy and pervasive corruption” (pp. 31-33).

In order to understand the source of such environment characteristics, it is necessary to look beyond a black and white image of transitional lawless markets. According to Williams and Round (2009), the effect of the informal economy is not limited to the “criminal activities” of opportunity-driven and ill-minded entrepreneurs. Instead, their research shows that the majority of activities within the shadow economy involve merely offering goods/services without declaring them to state tax officials or social security officials. In further research, Williams (2009) claims that his own empirical findings show a huge difference in the extent of informal entrepreneurship in Russia (100 percent of studied entrepreneurs in Russia are informal entrepreneurs versus 73 percent in the UK). Williams and Round (2009) describe a complicated dynamic motivation model of entrepreneurs acting in such an environment. They posit that it is the motives of entrepreneurs’ actions that should be thoroughly studied, since a straight approach to eradicating informal necessity-driven entrepreneurship (rather than formal, opportunity-driven entrepreneurship) may cause serious penalties to a growing entrepreneurship culture (Williams, Round, 2004, pp.103-104).

This suggests that observed behavior patterns of entrepreneurs in transition countries such as Russia may be the result not only of exogenic factors such as flawed laws and corruption, but also of a complicated endogenic behavior model. The current research is based on a pattern of business owner reactions of to a specific exogenic environment, which leads to a specific method of separation of ownership and management. It is specifically the motives and perceptions of business owners and business practitioners that create the unique model of CEO-succession in Russia.

**MANAGEMENT SUCCESSION**

“Maturation” of management means establishing formal methods of administration. As the number of employees and sales volume grow and overall company development moves forward, the need for a transition to professional management arises (Hofer & Charan, 1984; Greiner, 1972). There has been identified no “standard measures” for determining a “threshold moment” at which the necessity for such change arises. Researchers identify this point by tracing moments when, after a period of sustained organizational growth and increase in the number of employees, the entrepreneur becomes incapable of promoting further growth in efficiency by means of his or her own actions and decisions (Greiner, 1972). According to several studies, economic, legal, and social institutions shape the framework for organizational decision-making and shape the trajectory of an organization’s strategic choices (Cyert & March, 1963; March & Simon, 1958; Young, Peng, Ahlstrom, Bruton, & Yiang, 2008; Peng, 2003; Peng, Lee, & Wang, 2008; Powell, 1996; Thornton & Ocasio, 1999). Institutions create limitations for organizational actions, which in turn affect performance (He, 2008; Young, Peng, Ahlstrom, Bruton, & Yiang, 2008). As formal institutions are unstable in developing countries, they do not always provide mutually beneficial exchanges between economic agents (North, 1994; North, 1990). As a result, many firms tend to use informal institutions in emerging markets (Peng & Heath, 1996). A new entrepreneurial culture may be formed via the informal economy.
This is apparent when studying an entrepreneur’s business motivation (Williams, Round, 2009). Even such a basic issue of stable economic interaction as trust may play different roles in various environmental conditions (Welter et al, 2004). Trust can determine how entrepreneurship and business behavior are conducted. However, Welter et al’s findings (2004) allow us to assume that in more stable institutional conditions (for example in Germany) trust remains a complementary asset when doing business—while working in those conditions where institutional framework is unstable (for example peripheral regions of Russia), personal, informal trust may become more important than formal institutions. This allows one to assume that in countries like Russia there must be a mechanism of substitution of informal solutions when the formal framework is unacceptable by economic agents and when their informal mechanisms, which seem to be more efficient, are present.

The owner’s decision about management succession is linked to the separation of the entrepreneur’s ownership from his personal control over the firm. In turn, separation of ownership from control is closely related to the development of institutions of law and the quality of enforcement of laws that protect property rights. Property rights are the foundation for business: entrepreneurs will not invest in business if they cannot secure returns on investments (Dolgopyatova, 2007; Ben-Amar & André, 2006; Commander, Svejnar, & Tinn, 2008). In countries with less secure property rights, investment in business is lower and the speed of economic growth is slower (McMillan & Woodruff, 2002).

All observable violations of formal institutions and insecurity of property rights force owners to weigh the need for succession to a hired-CEO against the probability of adverse risks associated with such action. Even in a hostile institutional environment, the hired-CEO does not face the same possible losses in terms of property as does the owner-CEO. For this reason, we anticipate that owner-CEOs will evaluate such institutional environments more negatively than hired-CEOs. Thus, some owner-CEOs prefer to retain full control: the more the owner-CEO perceives the institutional environment as creating serious risks to property rights, the more likely he or she will continue to manage the company.

To determine whether this theory is valid, we examine the following hypotheses:

**Hypothesis H1.1.** The more hostile the owner-CEO perceives regulating authorities and officials, the greater the likelihood the owner-CEO will retain managerial responsibilities.

**Hypothesis H1.2.** The less secure the owner-CEO perceives property rights, the greater the likelihood the owner-CEO will retain managerial responsibilities.

**Hypothesis H1.3.** The less secure the owner-CEO perceives defense of contract law, the greater the likelihood the owner-CEO will retain managerial responsibilities.

The dependence of business operations on illegal schemes such as tax evasion, bribery, and other corrupt methods for the sake of survival or growth (Aidis & Adachi, 2006), in a regular violation of existing rules, creates a legitimate threat to a business and its owner, but also increases the likelihood that authorities themselves will engage in semi-legal or illegal predatory behavior. In the case of conflict between an owner and hired-CEO in such a context, the awareness of such practice would pose significant risks of blackmailing and other threats for anyone who gets himself in a vulnerable position—both hired-CEO and owner. If a hired-CEO carries out illegal activities, it becomes difficult for the owner to control him/her and organizational activities. At the same time, if the owner gets caught doing something illegal in front of his/her employees and they argue about it informally, the possibility arises that the
employees may act against the owner. Under such circumstances, owners whose businesses are most exposed to risks of illegal conduct (i.e. a high proportion of cash settlements with customers and suppliers) will avoid delegating authority and will try to avoid sharing sensitive information with subordinates as much as possible. In cases where such risks are lower, it is more likely that managerial responsibilities will be transferred eventually to a hired-CEO. In this case, "business compliance with legal standards" is the main risk indicator: the less a firm complies with institutional rules, the greater the likelihood that the owner-CEO will continue to manage the company. Thus we suggest the following hypotheses regarding institutional norms:

**Hypothesis H2.1.** The less a company complies with existing regulatory rules and safety regulations, the greater the likelihood that the owner-CEO will retain managerial responsibilities.

**Hypothesis H2.2.** The more frequently a company uses corrupt payments, the more likely it is that the owner-CEO will retain managerial responsibilities.

**Hypothesis H2.3.** The higher the owner-CEO perceives the business’ dependence on corrupt relationships, the greater the likelihood that the owner-CEO will retain managerial responsibilities.

Institutional weaknesses or barriers in developing countries mean that many companies do not have access to a broader strategic arsenal available to Western companies. This impedes managerial succession from owner-CEO to hired-CEO in developing countries and raises the issue of assessing the potential impact of such barriers on company performance and its subsequent relationship to managerial succession.

**Methods**

In order to overcome the limitations of studying hidden behavior and the reasoning patterns of business owners, the authors used mixed research methods, studying Russian companies in St. Petersburg and Moscow. Four case studies were aimed at getting a comprehensive view of business owners and how they perceive the possibility of hired CEO-succession, followed by data from a large cross-sectional survey. This multi-strategy research was designed with an approach similar to Tashakkori and Teddlie (2003), where the aim was to use two different method—quantitative and qualitative in an integrated way, in which a sequence of case studies and larger-scale research was done. The overall purpose of the case-study research was connected with exploratory aims, whereas the quantitative approach was used to address previously formulated hypotheses. Because case studies are usually considered descriptive rather than good basic sources (at least beyond context where they were taken), the main purpose of using cases was as illustrations of the specific behavior pattern of Russian business owners regarding the necessity of transferring management to hired CEOs.

Grounded in the recognition that the necessity of such transfer from owner-CEO to hired CEO has a linear connection with the firm's stage of growth (Adizes, 1999; Greiner, 1973), no specific industry/place limitations were set for this study. Using an approach similar to data triangulation (Denzin, Lincoln, 1998) the following criteria for sampling case studies was used: companies were selected on the basis of their interest in acquiring consulting services from St. Petersburg State University Graduate School of Management professors during the period between June 2008 and June 2009. Out of 15 companies that planned consulting and training sessions, four were selected based on preliminary interviews with the company owner regarding their need to deal with the growth issues in their companies. Although this approach to
sampling does not provide a wholly-representative sample, the authors intend to use the obtained data as a source for further data exploration.

**DATA.** We conducted both a survey of Russian companies in 2008-2009, using semi-closed questionnaires and personal interviews with companies’ CEOs or other key top managers. During our interviews with owners and managers, we investigated how owner-CEOs considered the possibility of delegation of authority, their experiences, and how they felt about their future business prospects. Data were collected through semi-structured interviews with key senior

### TABLE 1. Company Data

<table>
<thead>
<tr>
<th>Company</th>
<th>Founded</th>
<th>No. of Employees</th>
<th>Industry</th>
<th>Factors Influencing Transfer of Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1999</td>
<td>50</td>
<td>Real estate</td>
<td>1. Owner-CEO is concerned about potential “hijacking” of the business, which he protects with his attorney license;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Owner-CEO considers trust more important than competence in building the organization.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3. Business success heavily depends on the owner’s personal, informal relations with customers and officials.</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>4. Even after formal management succession, the owner’s real involvement in all operations and business control remain.</td>
</tr>
<tr>
<td>2</td>
<td>2002</td>
<td>200</td>
<td>Industrial equipment</td>
<td>1. The majority shareholder emphasized the significance of the owner’s informal contacts with clients, agents, and officials.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. The high concentration of ownership in one person kept minority shareholders from exercising activities that would enhance their personal interest (possibly through unmonitored activities since they had informal power over their subordinates) and would bear potential detriment of the firm.</td>
</tr>
<tr>
<td>3</td>
<td>1992</td>
<td>250</td>
<td>Cosmetics</td>
<td>1. Even though the owner had plenty of reasons to delegate authority, he was afraid of jeopardizing current assets due to the potentially inappropriate behavior of a hired-CEO.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Because of a negative experience with previous managerial succession, the owner was primarily interested in trustworthy employees, as opposed to skillful or efficient professionals.</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3. The owner distrusted contract law since most formal contracts between principals and agents cannot protect the principal from the aggressive, negative behavior of the hired agent.</td>
</tr>
<tr>
<td>4</td>
<td>1999</td>
<td>300</td>
<td>Office supplies</td>
<td>1. Serious distrust by the owner of the personal and professional competencies of a potential hired-CEO.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2. Fear of misappropriation by employees was explained by difficulties in monitoring activities.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3. Acceptance of certain organizational issues (formalization, structuring) as not important and not relevant.</td>
</tr>
</tbody>
</table>
managers and employees. We have selected four companies in which owner-CEOs raised issues of managerial succession (see table 1). The owner-CEOs described their business situation as if they were close to some “threshold state” at which the transition to professional management was needed.

**Company 1**

Company 1 had undertaken a formal managerial succession from owner-CEO to hired-CEO. During the interview, the owner recognized the need to step down, but he also noted that the fate of the business depended heavily on his own personal relationships with clients, city officials and some company executives. The owner noted that he had an education and an active attorney license which would help the company in the event that some officials or competitors undertook aggressive actions towards the company (such as hostile takeover through corrupt legal action in court). The owner emphasized the latter as an important advantage in a dangerous and hostile environment.

The owner claimed that before he became sole owner, previous owners had experienced difficulties in coming to agreement on such topics as strategy and future development. Since there existed no legal governance mechanisms for decision-making by a number of shareholders and to avoid potential minority unrest, the current owner actually bought the business, protecting his vision of the company from other shareholders. Despite possible losses of other funding sources, the owner built the company according to his own vision and using his own money.

Later, the owner hired a CEO whom he had known for some time through the Association of Russian Realtors. Despite the formal appointment of the new CEO, the owner continued to appear at the office daily. The owner’s and hired-CEO’s desks were situated next to each other. The employees continued to discuss financial issues directly with the owner, bypassing the CEO, although the owner was no longer formally in charge of day-to-day operations. The owner remained involved in promoting the company’s services; he also controlled setting the business goals for the hired-CEO. The hired-CEO admitted that on many issues he “consulted” with the owner, recognizing the owner’s authority. Other employees made it clear that the owner resolves all key issues at the company, including operational questions. This situation corresponds to the characteristics of the previously mentioned “Russian paradox” in management succession (Kets de Vries & Shekshnya, 2008). The owner mentioned that when choosing a candidate for a hired-CEO, the first thing he paid attention to were “relational” factors, as well as candidate’s decency, before evaluating his or her competency. In personal communication with the owner, it became apparent that, being a strong leader, he was satisfied with a soft administrator who would not threaten the structure and management style already established at the company, while the choice for decency instead for just competency was owner’s attempt to remain in the “trust” zone (see Welter et al, 2004).

**Company 2**

In 2008, the majority shareholder still held managerial responsibilities, but he planned to transfer them within the company both to promote business growth and because of his own prospects of becoming a state official in a relevant ministry. A series of interviews with key employees revealed that there existed a risk of misunderstanding between minority shareholders (who were also heads of departments) and the CEO (the major shareholder) which, if the current CEO were replaced with a hired one, would result in minority shareholders “grabbing
the biggest piece of the pie” and trying to govern business for their personal interests. The ownership group did not agree either on management or reporting structures.

The majority shareholder planned to transfer managerial responsibilities to a competent specialist, but he admitted that he would not be able to achieve complete separation of ownership and management because of the lack of protection for his ownership interest and the importance of his personal contacts with officials. Within six months after transferring management responsibilities to a hired-CEO, performance started to decline and the number of internal conflicts began to increase. The major shareholder was forced to return to the company and take over managerial responsibilities from the hired-CEO to right the company again.

Company 3

Sales growth was 15-20 percent per year, but the founder was not satisfied with company performance and was willing to transfer managerial responsibilities to a hired-CEO. Due to growth in the market power of retail chain operators, the market demanded a more formal and formalized approach to business than the more informal approach that he himself preferred. Under these conditions, the owner was losing interest in managing the business.

He suggested that it made sense for an owner to manage a company until it no longer brought financial and psychological satisfaction; when expectations ceased to be met, the owner should leave the company and search for new opportunities, replacing himself with the “right” person. This owner had a negative experience with succession through a prior dishonest manager who created numerous direct property damage risks and reduced real company performance through his attempts to maximize his own profits. The owner said that when looking for a CEO he was primarily seeking an individual with good moral and human values whom he could trust and whose first priority was respect for employees.

Company 4

The owner noted that in his company there was a low level of managerial formalization and that he had no time to introduce professional procedures, rules, and regulations. There was a hired-CEO who handled most “current issues” but the owner retained all real managerial authority for several reasons. First, the owner stated that it was impossible to find a skilled hired-CEO for a reasonable salary. Second, ineffective formal mechanisms of control would make it difficult or impossible to monitor a hired-CEO and prevent the risk of misappropriation. The owner-CEO explained: “Our business does not bring in enough profit for me to set a salary such that a hired-CEO would not steal from me.” During our interview, his style of responses and a sharp unwillingness to answer questions concerning bribes, financial performance and corruption suggested that we were touching on some sensitive information. High ownership concentration and the fact that there was no need to negotiate decisions with other owners or key employees made the owner the only manager and the executive decision maker in the company.

All four cases reflect the complexity of managerial succession in the Russian context. All owners noted that certain institutional environment pressures demanded caution with hired-CEOs. Personal mistrust and poor confidence in contract law forced most of the owners to intervene in most business operations. In all cases when transferring managerial responsibilities, the owners emphasized the risks of losing their assets because of illegal actions by hired-CEOs. All these factors led to a situation where owners preferred their personal traits and the possibility of building trust in the hired-CEO over professionalism and skills. As a result, the
hired-CEOs often did not improve business performance and merely fulfilled a narrow group of administrative functions. As a rule, the owner or dominant shareholder set the course of business development and de facto acted as the top manager.

**Quantitative Data**

The quantitative survey sample included 500 companies with three to 500 employees from Moscow and St. Petersburg. These companies represented three of the most rapidly developing sectors in the Russian economy of the pre-crisis period: wholesale and retail trade, catering and hotel industry (HoReCa), and the IT industry (information technology and telecommunications, digital television, software, etc.). Respondents’ answers describe relevant company performance in 2005-2007.

Since this paper is based on a survey originally designed to analyze firm growth, the survey sample was dedicated to Russia’s most entrepreneurially active regions. Moscow and St. Petersburg were chosen due to high entrepreneurial activities indices in 2007-2009 (www.corpgov.ru/upload/file/20061117%20-%20Pressa%20INVEST), and because more than 50 percent of all SME’s in 2004-2006 were registered there. (www.giac.ru/content/file.asp?r=%7B470C4969-0B5B-4D51-88DB-970DF197F654%7D). The total number of SME’s in Russia at the beginning of 2009 was 282,700 firms. Due to sample size restrictions, it is not possible to evaluate fixed effects; however, we can describe general tendencies. We used the same approach for industry selection: IT, retail trade and HoReCa are the fastest growing industries (http://www.gks.ru/bgd/free/b01_19/1sWWW.exe/Stg/d000/i000510r.htm). Issues of growth are crucial for this study, since the problem of ‘threshold firms’ is directly connected with the rate of firm growth.

To ensure external validity of the study we used proportional random sampling. After having chosen the sample aforementioned traits, we identified two subgroups of the general population (all private firms with up to 500 employees from three industries registered in St. Petersburg and Moscow). Then we randomly extracted firms from the general population proportionally with region, industry, and size of firms. This process predetermined the sizes of subgroups in the sample. Due to the risk of multicollinearity, we built three models that include different control binary variables corresponding to each industry. All three constructed models were statistically significant ($\chi^2 < 0.001$), and the pseudo R2 coefficient was relatively low (0.075-0.088); the number of observations is 301.

**Variables.** Independent variables include: hostility of officials, security of property, security of contractual rights, compliance with regulatory climate, bribes, and corruption. We determined dependent and independent variables as described below.

**Dependent Variable.** The dependent variable *participation of the owner in managerial processes* is a binary variable, obtained from the answer to the question, "Who runs the company, the owner-CEO or a hired-CEO?" While this variable does not respond directly to managerial succession, the sample involved only private firms headed by individual entrepreneurs. Thus, we can assume that the owner-CEO who created the company either fulfilled managerial responsibilities at the time of the interview, or had transferred such authority at some point. Factors later included in the model explain the likelihood of managerial succession. In 36.2 percent of companies in our sample, the owner did not occupy the position of CEO, and according to our assumption managerial succession had occurred.
INDEPENDENT VARIABLES. The variable hostility of regulating authorities and officials (“hostility of officials”) was obtained when respondents were given this definition: “Environmental hostility is determined by price, product, technological competition and severe regulatory restrictions, shortages of labor or raw materials, and unfavorable demographic trends.” Based on this definition, they were asked to rate on a five-point scale the level of aggressiveness in the behavior of regulating authorities and officials in their business field. Only 31.4 percent of respondents described the external influence of regulatory bodies and agencies as non-aggressive or weak.

The variable security of property rights and quality of enforcement (“security of ownership”) was obtained when respondents were asked to rate the level of protection of property rights of key market players in their business field. For our sample, 34.2 percent of respondents reported a medium, low, or extremely low level of security.

The variable security of contract rights and quality of enforcement (“security of contract rights”) was obtained when respondents were asked to rate the level of protection of contract rights (security of executing contracts) in their business field. In our sample, 37.2 percent of respondents reported a medium, low, or extremely low level of support for contracts.

The variable compliance of business with the general regulatory environment (“compliance with regulatory climate”) was obtained when respondents were asked to assess the actual compliance of companies like theirs with current legislation in terms of regulatory standards (fire regulations, health regulations, etc.). In our sample, 20.9 percent of respondents reported that companies like theirs show medium, low, or extremely low regulatory compliance.

The variable bribes to officials as normal business practice (“bribes”) was obtained when respondents were asked whether in companies like theirs, it is normal business practice to bribe officials in the interests of business. In our sample, 11 percent of respondents gave a positive answer, 81.6 percent gave a negative answer, and 7.2 percent had difficulty replying.

The variable dependence of business on corruption (“corruption”) was obtained from respondents’ answers to assessing the dependence of business on ‘relations’ with government officials regulating authorities. 37.3 percent of respondents reported weak dependence of business on “relations” with government officials.

CONTROL variable. Industry. We added three binary variables to control for industrial background: variable “Industry 1: Trade,” variable “Industry 2: HoReCa,” and variable “Industry 3: IT and Communications.”

Description of Model 1. To estimate the impact of factors on the likelihood that the owner retains managerial responsibilities, we used a logistic regression model.

ANALYSIS OF DESCRIPTIVE STATISTICS AND CORRELATION COEFFICIENTS

Table 2 presents descriptive statistics and correlation coefficients for the entire sample. We observed a negative and statistically significant correlation between variables “The owner’s participation in business management” and the measure of company size “logarithm of the quantity.” A correlation analysis suggests a negative relationship between the size of the company and the owner managing day-to-day operations. We found a negative and statistically significant relationship between the variables “hostility of officials” and “compliance with regulatory climate;” we also observed a positive correlation with the variable “corruption.” This could mean that the higher the respondent evaluates officials’ hostility, the less the company complies with safety and similar regulations, and the more significant the impact of corruption on business.
Also, the correlation table revealed a high and significant correlation between variables. To avoid the risk of multicollinearity in the logistic regression model, we suggest building three logit models, which differ with respect to the variable indicating the particular industry.

In other respects, the identified correlations between variables reflect the logic of the questions themselves and partially confirm the correct nature of the wording and questions. In this sense, the model's results are not surprising and confirm the expected results.

<table>
<thead>
<tr>
<th>VARIABLE</th>
<th>MEAN</th>
<th>STANDARD DEVIATION</th>
<th>MIN</th>
<th>MAX</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
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</thead>
<tbody>
<tr>
<td>Owner’s participation in business management</td>
<td>0.64</td>
<td>0.48</td>
<td>0</td>
<td>1</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Monthly officials</td>
<td>2.90</td>
<td>1.13</td>
<td>1</td>
<td>5</td>
<td>-0.0175</td>
<td>1.0000</td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Security of ownership</td>
<td>3.66</td>
<td>1.04</td>
<td>1</td>
<td>5</td>
<td>-0.0167</td>
<td>-0.2274*</td>
<td>1.0000</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Security of contractual rights</td>
<td>3.67</td>
<td>1.03</td>
<td>1</td>
<td>5</td>
<td>0.0267</td>
<td>-0.2419*</td>
<td>0.7158</td>
<td>1.0000</td>
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<td></td>
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<td></td>
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<tr>
<td>Compliance with departmental rules</td>
<td>4.22</td>
<td>9.13</td>
<td>1</td>
<td>5</td>
<td>-0.0381</td>
<td>-0.2678*</td>
<td>0.3032*</td>
<td>0.3668*</td>
<td>1.0000</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Bribe</td>
<td>0.11</td>
<td>0.325</td>
<td>0</td>
<td>1</td>
<td>-0.0770</td>
<td>0.2110*</td>
<td>-0.3006*</td>
<td>-0.2475*</td>
<td>-0.2017*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corruption</td>
<td>2.86</td>
<td>1.24</td>
<td>1</td>
<td>5</td>
<td>-0.0344</td>
<td>0.3682*</td>
<td>-0.2219*</td>
<td>-0.2102*</td>
<td>0.2038*</td>
<td>0.2954*</td>
<td>1.0000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Logarithm of quantity</td>
<td>3.45</td>
<td>1.44</td>
<td>0</td>
<td>6.407</td>
<td>-0.2268*</td>
<td>0.1198*</td>
<td>-0.0206</td>
<td>-0.0359</td>
<td>-0.1410*</td>
<td>-0.0381</td>
<td>0.0054</td>
<td>1.0000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Company age</td>
<td>10.47</td>
<td>8.31</td>
<td>1</td>
<td>90</td>
<td>-0.0622</td>
<td>0.0366</td>
<td>0.0000</td>
<td>0.0690</td>
<td>0.0126</td>
<td>-0.0069</td>
<td>0.0685</td>
<td>0.2846*</td>
<td>1.0000</td>
<td></td>
</tr>
<tr>
<td>Industry 1: Trade</td>
<td>0.718</td>
<td>0.45</td>
<td>0</td>
<td>1</td>
<td>0.1383*</td>
<td>-0.0387</td>
<td>0.2103*</td>
<td>0.2822*</td>
<td>0.2116*</td>
<td>-0.2453*</td>
<td>-0.1291*</td>
<td>0.0520</td>
<td>-0.0889*</td>
<td>1.0000</td>
</tr>
<tr>
<td>Industry 2: HoReCa</td>
<td>0.15</td>
<td>0.357</td>
<td>0</td>
<td>1</td>
<td>-0.1964*</td>
<td>0.0813</td>
<td>-0.1163*</td>
<td>-0.1428*</td>
<td>-0.2051*</td>
<td>0.2854*</td>
<td>0.1339*</td>
<td>0.1103*</td>
<td>0.1271*</td>
<td>-0.6705*</td>
</tr>
<tr>
<td>Industry 3: IT and Communications</td>
<td>0.32</td>
<td>0.338</td>
<td>0</td>
<td>1</td>
<td>0.0213</td>
<td>-0.0343</td>
<td>-0.1569*</td>
<td>0.2245*</td>
<td>-0.0594</td>
<td>0.0250</td>
<td>0.0254</td>
<td>-0.0519</td>
<td>-0.0158</td>
<td>-0.6222</td>
</tr>
</tbody>
</table>

TABLE 2. Descriptive Statistics and Correlation Coefficients
responses obtained (e.g. negative relationship between variables “Hostility of officials” and variables “Security of contract rights” and “Security of ownership,” which reflect institutional security).

**ANALYSIS**

Table 3 shows the computation results of logistic regression models to estimate how the independent variables influence the likelihood that the owner manages the company. In the table we present coefficients obtained by a maximum likelihood method and indicate which are statistically significant. Due to the risk of multicollinearity, we built three models that include different control binary variables corresponding with each industry. All three constructed models were statistically significant (χ² < 0.001), and the pseudo R² coefficient is relatively low (0.075-0.088); the number of observations is 301.

In all models, the variable "security of ownership" has negative coefficients (-0.425, -0.455, -0.443) at a significance level of p < 0.05). Regardless of industry control variables, the higher the respondent estimated security of property rights, the less likely the company is managed by the owner. (With higher values of the independent variable, we observe a decrease in the probability for which variable "The owner’s participation in business management" takes the value “1.”) This supports hypothesis H1.2. When the owner-CEO is confident in the security of property rights, he/she will seek to transfer managerial responsibilities to a hired-CEO.

The variable “security of contract law” has positive coefficients (0.443, 0.473, 0.484) at a significance level of p < 0.05 for all models. This contradicts hypothesis H1.3. This means that higher evaluations of the security of contract corresponds to a greater likelihood that the owner-CEO retains managerial responsibilities. A possible reason for this is that owner-CEOs have less complete knowledge of the quality of legal support for contracts; or we can assume that many owners rely on “relationships” or other solutions to disputes (as was the case for the owner of company 1).

The variable "hostility of officials" is not statistically significant. This does not allow us to accept or refute hypothesis H1.1 in any model.

The test of hypothesis H2.1 shows that when using industry variables “Trade” and “HoReCa,” estimates of coefficient of variable “compliance with regulatory climate” were statistically significant. Negative results (-0.284, -0.293) and p < 0.05 support hypothesis H2.1: the lower the respondent estimates the compliance of the firm with existing safety and other regulations, the greater the likelihood that the owner-CEO will retain managerial responsibilities. In the case of the third model (industry variable “IT and Communications”), the respective coefficient is not statistically significant, although the estimated value is close to those in the other two models.

**DISCUSSION**

In our empirical study we conducted two rounds of calculations using logistic regression models and a two-sample paired t-test. Table 4 presents results of tests of hypotheses. The first three logistic regression models were designed to test hypotheses H1.1, H1.2, H1.3, H2.1, H2.2, and H2.3 and to identify factors that influence the likelihood that an owner-CEO will transfer managerial responsibilities to a hired CEO. The quality of the models is relatively high: they are statistically significant at 0.05, with Pseudo R² > 0.05. However, the high statistically significant estimate of the constant suggests that the model needs to be complemented with other explanatory variables. As this model was used to examine a specific issue on management succession in the Russian context, the quality of this model may be sufficient for meeting our particular goals.
### Table 3. Results of Analysis of Logit Regression Models

<table>
<thead>
<tr>
<th><strong>Variable</strong></th>
<th><strong>Model 1</strong></th>
<th><strong>Model 2</strong></th>
<th><strong>Model 3</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Model</strong></td>
<td>Trade</td>
<td>HoReCa</td>
<td>IT &amp; Communications</td>
</tr>
<tr>
<td><strong>Constant</strong></td>
<td>3.2 ***</td>
<td>3.69 **</td>
<td>3.15 **</td>
</tr>
<tr>
<td><strong>Hostility of officials</strong></td>
<td>-.039</td>
<td>-.029</td>
<td>-.019</td>
</tr>
<tr>
<td><strong>Security of ownership</strong></td>
<td>-.425 **</td>
<td>-.455 **</td>
<td>-.443 **</td>
</tr>
<tr>
<td><strong>Security of contract law</strong></td>
<td>.443 **</td>
<td>.473 **</td>
<td>.484 **</td>
</tr>
<tr>
<td><strong>Compliance with departmental rules</strong></td>
<td>-.284 *</td>
<td>-.293 *</td>
<td>-.213</td>
</tr>
<tr>
<td><strong>Bribes</strong></td>
<td>-.628</td>
<td>-.580</td>
<td>-.759</td>
</tr>
<tr>
<td><strong>Corruption</strong></td>
<td>-.019</td>
<td>-.012</td>
<td>-.018</td>
</tr>
<tr>
<td><strong>Logarithm of quantity</strong></td>
<td>-.396 ***</td>
<td>-.392 ***</td>
<td>-.383 ***</td>
</tr>
<tr>
<td><strong>Company age</strong></td>
<td>-.011</td>
<td>-.008</td>
<td>-.01</td>
</tr>
<tr>
<td><strong>Industry</strong></td>
<td>.544 *</td>
<td>-.818 **</td>
<td>.225</td>
</tr>
<tr>
<td><strong>LR x2</strong></td>
<td>32.21</td>
<td>34.57</td>
<td>29.33</td>
</tr>
<tr>
<td><strong>Prob &gt; x2</strong></td>
<td>0.0002</td>
<td>0.0001</td>
<td>0.0006</td>
</tr>
<tr>
<td><strong>Pseudo R2</strong></td>
<td>0.0825</td>
<td>0.0885</td>
<td>0.0751</td>
</tr>
<tr>
<td><strong>N</strong></td>
<td>301</td>
<td>301</td>
<td>301</td>
</tr>
</tbody>
</table>

* p<0.1; ** p<0.05; *** p<0.01
RESULTS OF HYPOTHESIS TESTING

Hypothesis H1.1—a hostile environment has a negative impact on the likelihood of handing over management—could not be refuted or accepted. This can be explained by the fact that in practice, hostile environments equally affect both parties in the dilemma of separating ownership and management (owner-CEO and hired CEO). We cannot say the hostile influence of officials forces the owner-CEO to retain control. Hypothesis H1.2, “security of ownership,” obtained statistically significant support. We can assume that insecurity of property rights is one of the most important obstacles to managerial succession from owner-CEO to hired CEO. The owner-CEO is concerned above all with his/her own interests, and if the owner cannot be sure that his/her interests will be protected after the separation of ownership and management, he/she will not hire a CEO. The risk of property loss is higher than the risk of performance failure and the dependence of the business on the owner’s competence. Hypothesis H1.3 was refuted, likely by the owner’s application of other “non-market” instruments to protect contract. The case of company 1 serves as an example: the owner received a law degree partly to defend his assets in legal proceedings, including contractual disputes. The more actively the owner participates in business management and the more pronounced his/her role in contract defense, the higher his/her confidence will be. Such decisions can complement the owner’s confidence in security of contract rights. Meanwhile, the hired CEO will not receive such an opportunity, as the owner will monitor and control him through all possible methods.

That hypothesis H2.1 was supported suggests that violations of formal regulatory codes are common for owner-CEOs and hinder the possibilities of managerial succession, as a hired CEO might find such deviations unacceptable; compliance would bring increasing costs, reducing the owner’s income. Such decisions by owner-CEO may have practical profit oriented reasons—since the process for tuning a company to compliance with formal regulations may be just too costly for an owner. Solving these problems may require moving an office to another more expensive territory with safer employee conditions, installing expensive air conditioning or a fire extinguishing system. These initiatives would mean some additional expenses for an owner. For a profit oriented and environmentally-driven economic agent, it might be easier for owners to bribe fire and other services regularly, rather than invest in compliance with large-scale safety procedures, just as an owner of company 4 mentioned some important things may seem “optional” to the owner, especially when there is an opportunity to conveniently solve this problem with corrupt officials. Such short term oriented ideology may be tied to owners’ fears of losing their assets, their feeling of ownership and overall insecurity. It is worth noting the difficulties in testing hypotheses H2.2 and H2.3. Researchers are faced with the respondent’s reluctance to disclose information on violations that might be detrimental to decision-makers. According to A. Surinov, head of the Federal State Statistics Service, about 20 percent of the Russian economy is unobservable or “shadow” (Smolyakova, 2010). This means that at least every fifth entrepreneur operates in the illegal sector and practices tax evasion. This is inconsistent with findings obtained in this study, where only 11 percent of respondents have cited considering bribes a “normal business practice.” These results suggest that respondents are reluctant to share the real story, and so they provide false answers. This also applies to hypothesis H2.2. According to Y. Shkolova, Deputy Minister of Home Affairs of Russian Federation, small and medium businesses are the main “bribers,” and the amount of bribes to officials grows annually (the amount of bribes in 2009 tripled over that in 2008) (Arsyukhin, 2010). Therefore, we can assume some differentiation in “hidden” responses connected with the distribution of responses to such questions as “corruption” and “hostility of officials.” For example, more than
### TABLE 4. Hypotheses Results

<table>
<thead>
<tr>
<th>Hypotheses</th>
<th>Variables</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hypothesis H1.1.</strong> The more hostile the owner-CEO perceives regulating authorities and officials, the greater the likelihood the owner-CEO will retain managerial responsibilities.</td>
<td>Hostility of officials</td>
<td>Hypothesis is not accepted</td>
</tr>
<tr>
<td><strong>Hypothesis H1.2.</strong> The less secure the owner-CEO perceives property rights, the greater the likelihood the owner-CEO will retain managerial responsibilities.</td>
<td>Security of property</td>
<td>Hypothesis is accepted</td>
</tr>
<tr>
<td><strong>Hypothesis H1.3.</strong> The less secure the owner-CEO perceives defense of contract law, the greater the likelihood the owner-CEO will retain managerial responsibilities.</td>
<td>Security of contractual rights</td>
<td>Hypothesis is refuted</td>
</tr>
<tr>
<td><strong>Hypothesis H2.1.</strong> The less an entrepreneurial firm complies with existing regulatory rules and safety regulations, the greater is likelihood the owner-CEO will retain managerial responsibilities.</td>
<td>Compliance with regulatory rules</td>
<td>Hypothesis is accepted</td>
</tr>
<tr>
<td><strong>Hypothesis H2.2.</strong> If the company uses corrupt payments frequently, it increases the likelihood that the owner-CEO will retain managerial responsibilities.</td>
<td>Bribes</td>
<td>Hypothesis is not accepted</td>
</tr>
<tr>
<td><strong>Hypothesis H2.3.</strong> The higher the owner-CEO perceives the business’ dependence on corrupt relationships, the greater the likelihood that the owner-CEO will retain managerial responsibilities.</td>
<td>Corruption</td>
<td>Hypothesis is not accepted</td>
</tr>
</tbody>
</table>

70 percent of respondents have stated that the behavior of controlling officials (including police) can be considered “aggressive.” Under such conditions, even if external surveys show that every third businessman in Russia pays bribes, anyone who would confess to such behavior would be at risk of scrutiny from other aggressive and bribe-seeking officials. As for “corruption” responses—since more than 28 percent of firms in the sample have considerable level of dependence on corruption—responses about bribes are also likely to be hidden in at least 8 percent of “difficult to say” responses, leaving us with at least 20 percent of firms considering bribes normal business practice. It is also possible to assume that there are several different groups of respondents: (1) those who responded positively to “bribes is a normal business practice,” (2) those who were afraid to confess that “bribes is a normal business practice” even though they agree that “corruption is a normal practice which puts influence on business success” and whose business is not “compliant” with legal rules; and (3) those respondents who rarely meet with “bribes” and “corruption” at all. For the purpose of the present research, the responses from group (1) allow us to test the posed hypotheses, however, the vast range of opinions from group (2) is something that needs a further, more thorough and probably qualitative analysis.
In sum, hypothesis H1.2 (security of property rights), hypothesis H2.1 (impact of non-compliance with regulatory codes), and hypothesis H3 (higher concentration of ownership in companies managed by owner-CEOs) are supported. Hypothesis H1.3 was refuted, and hypothesis H1.1, H1.3, H2.2 and H2.3 could not be tested. These results indicate that, among numerous institutional factors, some act as barriers to managerial succession and the professionalization of business. At the same time, companies that managed the transition showed better performance. Among external factors, insecurity of property rights or forced circumvention of regulatory codes can impede management succession. As mentioned, owners convinced of the high risk of property loss would not pursue the separation of ownership and control. Partial support for hypothesis H2, concerning regulatory codes, suggests this issue requires further investigation, but through case-study analysis and not quantitative studies, as respondents are likely to give false answers to the questionnaires. It is also important to identify the influence of the time factor on implementation of business strategies.

**CONCLUSION**

The main goal of this study was to identify factors in the Russian context that influence the transfer of managerial responsibilities. Previous studies emphasized the need to explore how the institutional environment of developing countries shapes the owner’s participation in managing everyday business. However, such studies have not been conducted using Russian field data. Moreover, there are no firm conclusions about the factors that affect the transfer of authority, how they do so, and how they might impede or contribute to business professionalization. We used a combined research method for empirical testing of hypotheses. In the first stage, four case studies were conducted, which made it possible to develop and test our theoretical assumptions. In the second stage, we carried out a quantitative analysis using a logistic regression model and t-test using a sample of 500 companies. Findings suggest that weak property rights and non-compliance with regulatory codes impede managerial succession to a hired CEO. The owner-CEO tends to preserve the security of his/her assets by finding more trustworthy rather than more efficient workers, as we saw in the environment profile and in four case study analyses. The current study was aimed at showing that the problem of separation of ownership and control is significant and relevant.

This study has several limitations. Because the study was cross-sectional, we could not identify a causal link between performance and succession. In order to do so, new case studies and a second wave of panel study is needed. The latter will allow us to see what results hired CEO’s got over the period of functioning as executive versus owner-CEO. Also, findings derived from applying analytical models emphasized the difficulty of measuring such factors as “corruption,” “bribes,” etc. High personal risks borne by respondents who give honest answers make it unsuitable to conduct such surveys and require the use of more indirect methods. Also, to overcome limitations, one could conduct longitudinal research and use panel data. As an extension of this study, we also suggest conducting in-depth interviews with owners on issues that could not be addressed through a quantitative study (bribery, corruption, etc.). A possible alternative to such qualitative research could be the successful research design used by Williams (2009). In order to overcome respondents’ concerns related to talking about sensitive matters such as their illegal business activities, Williams used a three-stage data collection approach, with each stage moving gradually towards addressing sensitive topics. This study’s findings can be useful to researchers addressing managerial succession in other developing countries, the
influence of institutional factors on strategies, and other broad issues of Russian business. Also, these results will interest owner-CEOs considering whether to step aside. We can give this advice to owner-CEOs: while making the decision to transfer managerial responsibilities, consider both the security of your interests as owner and the compliance of current business activities with institutional norms.

ENDNOTES

This question was formulated similar to the questionnaire design of BUSINESS ENVIRONMENT AND ENTERPRISE PERFORMANCE SURVEY (BEEPS) by the World Bank Survey, 2003: “It is common for firms in my line of business to have to pay some irregular ‘additional payments/gifts’ to get things done” with regard to customs, taxes, licenses, regulations, services etc.”

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Off-shoring in Small Business: Ethical Implications

Fred Maidment

INTRODUCTION

When people think of off-shoring, they tend to think of large corporations sending jobs either to other companies for less money and/or more efficiently than they can do the jobs themselves. In off-shoring, the jobs are sent to a location outside of the country either to a facility that is owned by the corporation or that is owned by another company.

Off-shoring is often thought of as the province of the large corporations and is a growing practice among these organizations. Some estimate the market grew to $1.43 billion by the end of 2009 (PR Newswire, 2007), while others estimate that the worldwide information technology (IT) off-shore/outourcing sector alone is already worth $10 billion and will further grow by 20 percent. These same people predict that the average enterprisewould off-shore sixty percent of IT application work by 2009 (Yirrell, 2006). This, however, only scratches the surface. The Hackett Group has found that the Fortune 500 could potentially save the U.S. $58 Billion annually, or more than U.S. $116 million on average, per company, by off-shoring many of their back office activities (Purchasing, 2006).
As the economy becomes more global and the economies and advantages of the global workforce and technology become more widely available, more organizations will be able to benefit from the advantages of off-shoring and size will not necessarily be a predictor of the ability to off-shore.

**WHAT IS OFF-SHORING?**

According to the Department of Labor of the Federal Government of the United States, “No commonly accepted definition of off-shoring currently exists and the term has been used in the literature to describe a wide range of business activities,” (United States Department of Labor, 2004).

Stack and Downing (2005) identified three different types of outsourcing and off-shoring:

1. **Outsourcing**: A job that has been “Outsourced” is one that has traditionally been done “in-house,” but is now contracted out.
2. **Off-shoring/Outsourcing**: A job that has been “Off-shored/Outsourced” is when a firm takes a domestic-based job and contracts it out to a firm in another country.
3. **Off-shoring**: “Off-shoring” is when a firm moves an existing domestic-based job to a corporately-owned facility in another country.

Off-shoring and outsourcing do not occur when organizations are forced to downsize due to economic conditions such as a recession. They are not done because the organization’s business is suffering. Rather, outsourcing and off-shoring are planned strategic moves on the part of the management of the organization to remain competitive in an increasingly competitive global environment. Outsourcing and off-shoring are attempts on the part of management to reduce costs, access additional talent, enhance profitability and increase global presence in an expanding international economy.

Outsourcing and off-shoring are the natural result of enhanced transportation, communication and financial technologies that have developed since the 1990s. Off-shoring, in particular, is the result of the liberation of approximately one-billion people who are now participating in the global economy since the end of the Cold War. These people’s ambitions are no longer being constricted by the dictates of government and they are seeking the rewards that the global economy is promising them. These developments have more than doubled the labor force that was available to industry before 1990. Many of the new entrants into the global marketplace for labor are highly qualified for these jobs and are hungry for the rewards the new global economy is likely to bring them (Maidment, 2009).

There is a fourth type of outsourcing and off-shoring in addition to the ones identified by Stack and Downing (2005) that could be called: “Outsourced/Off-shored.”

“The work (job) is initially outsourced to an organization that, in turn, sends the work to a location off-shore, either owned or contracted by the organization that received the outsourced work.”

In this type of operation, the organization receiving the work from the original company that wants the work completed acts as consolidator, an intermediary, or, perhaps, a broker, of work from a variety of sources. The consolidator may or may not do some of the work in-house depending upon the nature of the work and the demands of the customer. This intermediary takes the work from a variety of small firms, sends it off-shore to be processed, much the same way large corporations do, using the internet and/or other available technologies just like a large corporation. This consolidation gives the third party the necessary economies of scale to make off-shoring a reasonable and profitable business proposition. While this could be applied to manufacturing, it could most easily be applied to backroom and office functions.
Some might say that this is simply a form of off-shoring or off-shoring/outsourcing as defined by Stack and Downing (2005). But, there is an important difference in that a third party intermediary has been injected into the process. This allows work from organizations that would not normally be off-shoring work to do so because they can now consolidate their work with others through the use of the third party and take advantage of the economies of scale that make off-shoring practical. Small businesses have been outsourcing a variety of tasks for generations; it was often not thought of as outsourcing. The use of manufacturer’s representatives to do sales and marketing; service bureaus to do payroll and other accounting functions; accountants to complete tax forms; attorneys to address legal requirements; and subcontractors to provide various parts assemblies for manufacture are just some of the forms of outsourcing that have been practiced by small businesses for decades. Today, those same accountants, lawyers, service bureaus and the rest, as well as others, are sending the work that they used to do in-house to locations outside the home country to be performed.

The work has already been outsourced once and is now off-shored either to a facility owned by the consolidator or to one contracted to do the work. The originator of the work has lost some control over the work, the location where it will be done and the quality of the work. These are important considerations when dealing with security issues, quality control and the confidentiality of employees, customers, and suppliers.

**THE GROWING PRACTICE OF OUTSOURCED/OFF-SHORED**

Much of the literature dealing with off-shoring has dealt with the IT sector (Matloff, 2004; Dieterich, 2002; Vowler, 1992), logistics (Cha, Pingy, and Thatcher, 2008; Tsai, Wen, and Chen, 2007) and more recently pharmaceuticals (Miller, 2008; Sinha, 2004). There has been research addressing the changes in the global economy (Binder, 2005; Brand, 1995; Brown, 1998, Demers, 2001; Evans, 2000; Friedman, 2004; Industry Week, 1992; Marber, 2004/2005) and the development of public policy as a result of the evolution of the global labor market (Business Week, 1992; Hira and Hira, 2005; Maidment, 2003/2004;). Responses on the part of labor, in both the union and unorganized segments, have also been chronicled in the literature (Anburst, 2002; Economist, 2005; Fox, 2003; Maidment, 2002) as well as the plans of industry to utilize off-shoring and outsourcing as strategic tools to take advantage of the new global marketplace (Business News, 2005; Gallagher, 2002). But little has been done to address the off-shoring and outsourcing by small business to enhance its productivity and competitiveness in the global marketplace.

**SOME EXAMPLES OF SMALL BUSINESS OFF-SHORING**

**Accounting**

One of the primary examples of the off-shoring of the work of small businesses would be in the accounting profession (Perry 2004). Accountants will take the work from their clients and then, using the internet, off-shore the work to a location outside the country, often India, to be processed. This is frequently done with tax returns during tax season as accountants are frequently overburdened with work at that time. The practice has seen mixed success because the returns need to be reviewed by the domestic staff to be certain that they have been completed correctly and this process often takes as much time as was saved by off-shoring the
returns in the first place, especially if errors are found. Perry (2004) says the practice is expanding both among large, medium and smaller accounting firms because it does not mean a breakdown in client service all owning the firms to continue to meet their client’s needs. In addition, accountants may not want to inform their clients that their tax returns were completed off-shore, as this is a politically controversial situation and the clients may object or want to have plausible deniability.

**Attorneys**

Attorneys are faced with much the same situation as accountants. They have increased demand for their services, especially in the corporate sector while at the same time trying to hold down costs and offering the same or higher levels of service than they have in the past. As a result, many have turned to off-shoring as a way to offer services to their clients (Business Line, 2005; PR Newswire, 2004). For the most part, off-shore work has consisted of legal research and much of it has been done in India as the legal system in India is based on English Common Law, as is the system in the United States, so the people working in this area in India have a basic understanding of how the American Legal System works. But, more recently, some more advanced work is now being done outside the United States including simple contracts and wills. This is typical of the progression in off-shoring. It starts with the most simple tasks and, as the people involved in the production of whatever work is done become more sophisticated in what they are doing, the work begins to increase and become more complicated as the competency of the workforce grows.

**Human Resources**

A growing sector of outsourcing is the human resources area. Some organizations have actually outsourced their entire human resources function to companies that perform the tasks for these companies on an as needed basis. Part of the reason for this is that HR has become so complex that small and medium size organizations sometimes feel that they cannot afford to keep on staff the necessary expertise for the human resources function. To address this need, companies have been organized to perform this service for a number of firms at once. A company that would only need a benefits person one day a week effectively shares that person with four other companies with the same requirements (Gidner, and Cook, 2006). If a function can be outsourced then it probably can be off-shored and that is the case with many of the HR functions. This is especially true of the e-learning functions that many businesses are engaged in (Majajan, 2006). While e-learning is not something that most small businesses might directly produce for themselves, they are likely to engage in it and the product that they may be using in the future is likely to be developed off-shore.

**Service Bureaus**

Payroll, certainly a human resource as well as an accounting function, Accounts Receivable, Accounts Payable and the Balance Sheet have all been the subject of outsourcing to service bureaus for decades. These are prime items to be off-shored (Valanju, 2005). Small businesses need to take advantage of the opportunities that off-shoring presents in this area to remain competitive in the global marketplace. As Valanju (2005) discusses, the way to do that is through outsourcing/off-shoring, although he does not refer to it as such. Valanju just calls for a third party to take advantage of the economies of scale that bringing together the work of small businesses, and packaging that work to make the use of off-shoring by small businesses in a
reasonable and profitable business arrangement. To Valanju, off-shoring of the basic accounting functions of business makes perfect sense. It does not matter where the work gets done in this world of instantaneous global communication. What matters is that it is done correctly, efficiently, and cost-effectively.

**Medicine**

Famously, the medical field has not been left out of the trend toward off-shoring. Perhaps the most well-known example has been in radiology (Stack, Garland and Keane, 2007). X-rays are taken, digitized, and sent off-shore to be read. The results are then sent back to the radiologist who informs the primary physician, who tells the patient. For the most part, while the doctors may not like to admit it, they are all small businesspeople in a professional practice. Off-shoring is common and these x-rays are read all over the world from Israel to India to Thailand. What is usually required is competent, mostly American or European trained physicians, in time zones that will allow them to read the x-rays overnight and have the information on the doctor’s desk the next morning. This is now possible because of the internet and other communication technologies. It was not possible 20 years ago. For smaller practices, the x-rays can be collected on either side of the ocean and transmitted to the doctor who will read them and then transmit them back. In fact, this could be a multistep outsourcing/off-shoring process. The primary physician group outsources the radiology function to a local radiology group. The local radiology group takes the x-ray and transmits it to an organization off-shore. The organization off-shore transmits it to an independent contractor, perhaps in a third country, who reads the x-ray, writes the report and transmits it back to the off-shore contractor. The off-shore contractor transmits the report to the radiology group who gives it to the physician, who then performs the diagnosis and tells the patient. Things can get very complicated once any product leaves the country, and quality control begins to become an issue. Just ask the American toy companies about the lead content in the paint on the toys they were importing from China.

**THE ETHICS OF OUTSOURCING/OFF-SHIRING**

Outsourcing is somewhat controversial and off-shoring is very controversial. When a small business outsources a function it is generally fairly well known, at least to the business, the employees and the customers. It is also a widely accepted business practice. Off-shoring, on the other hand, is a more recent development and is far more controversial.

Once the work leaves the originator, the originator has little control over where the work goes to be completed. Given the nature of the global economy, and the nature of the work, it might go almost anywhere. When a small business gives work to a service bureau, accountant, attorney or any other consolidator, they are concerned that the work will be performed in a timely, accurate, and cost-effective manner. Little attention is usually paid to where the work will be performed.

For the consolidator, they are attempting to meet their client’s needs in the most cost-efficient manner possible, and that often can mean off-shoring the work. But, in today’s climate, off-shoring that work can be very unpopular and can endanger the relationship with the client. So the question is, “What are the ethics of Off-shoring?” When should a consolidator tell a client that they are off-shoring the work? Should they tell the client? Or, is it better for the client to maintain “plausible deniability” should the issue ever appear?
Research reveals that many firms only tell their clients work was off-shored if they ask. Otherwise, it is simply not discussed. Perry’s (2004) observations are particularly useful because most organizations do not like to discuss their off-shoring operations as they are a lightening rod for critics and often draw unwanted attention to the organization. For many, a kind of “Don’t ask, don’t tell,” situation has evolved in the outsourcing/off-shoring industry. The client does not really want to know that the work is being off-shored and the consolidator does not really want to tell the client. It is a kind of moral ambiguity that suits both parties well.

**CONCLUSION**

Off-shoring will continue to be a growing segment of industry. More work is going to be done on a global basis as organizations seek to become more competitive in the new, international economy. This means that workers in developed societies are going to have to compete with workers all over the world for jobs that are available. It also means that when the global economy begins to recover from the current recession, jobs will not necessarily return where they were lost. Jobs will return, but they will go where they will be most cost-effective from the perspective of the employer. That location does not have to be where the jobs were lost.

It also means that to remain competitive, small businesses are going to have to take advantage of off-shoring so that they will be competitive with larger corporations. Small businesses need to take advantage of the cost advantages, the access to talent, and the exposure to foreign markets that off-shoring will be able to give them, and outsourced/off-shoring will provide a step in that direction.

Many small businesses are already outsourcing/off-shoring, but they do not realize it. Some do not know it because their service bureau/accountant/lawyer/or whatever vendor they may be using as a part of their outsourcing strategy is engaged in off-shoring and they do not know it or, in some cases, simply do not want to know it as this is a politically sensitive issue. However, certain tasks lend themselves to being off-shored for small businesses just like they lend themselves for large companies. The question is really a matter of economies of scale. Outsourcing/off-shoring allows small businesses to take advantage of many of the same kinds of competitive tools that are available to giant multinational corporations which allows small businesses to be competitive with the giant firms in the international marketplace.

In the global economy, where organizations are under constant pressure to keep costs down and drive quality and service up, outsourcing/off-shoring offers small businesses a competitive advantage. It gives the small organization access to the same tools that are used by large multinational corporations by creating the necessary economies of scale.

The moral ambiguity of the de facto “Don’t ask, don’t tell” arrangement that has developed between many consolidators of work and their clients is one that is serving both well, but has serious moral and ethical implications. While the client may claim she did not know the work was being off-shored, the obvious question is, “In these days of global competition, why didn’t you ask?” Conversely, the consolidator can be asked, “Why didn’t you tell your client you were off-shoring the work?” Sunlight is the great disinfectant, and when these arrangements come to light, both parties will be appropriately embarrassed by their duplicity and lack of ethical standards.

Finally, small business entrepreneurs need to recognize that they are in a global economy from the start. This not only includes their markets, but their vendors. As they continue to grow and seek outside vendors to do the tasks necessary for their businesses, they should not limit
themselves to simply looking to the local community. In an era of instantaneous communication, there are many ways to take advantage of the global marketplace and outsourcing off-shoring can provide small businesses with the ability to create a competitive advantage that will allow them to compete with multinational corporations using many of the same tools the giant organizations have at their disposal, but to do so in the clear knowledge and light of day of what they are doing.

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The Consistency Factor: 
A Closer Look at Ethics 
in Accounting Education

Earl Godfrey, Brian Neureuther and Philip Swicegood

INTRODUCTION

Ethics education in accounting is important and necessary because of the growing reliance on self-regulation by government and the public. In the wake of recent financial scandals that question the value of the audit and the veracity of financial statements, increased attention has been paid to educational structures which might increase the ethical dimension of accounting programs. Although accounting has traditionally enjoyed a protected reputation through the creation of codes of professional conduct and attention to ethical issues, its propensity to propagate unethical decisions is not new and no different from other professions. Fogarty (1992) cites systematic limitations of past ethics studies of accounting as well as other professional groups in business, leading to the search for more effective measures.

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The authors would like to express appreciation for helpful comments from participants of the 13th International Symposium on Ethics, Business, and Society at IESE.
Business ethics is not a new concern to business and academic communities. Business Week (1976) referred to the 1970s as a period of ethical crisis marked by political payoffs, foreign corruption, and price-fixing. Johns and Strand (2000) reported findings from a survey conducted in 1999 by the Wall Street Journal and NBC that indicated moral problems concerned the nation more than economic problems. They cited two-thirds of respondents felt that the country’s moral and cultural values had declined since the 1960s. In a survey of over 1600 students, Glenn and Van Loo (1993) found that students were making less ethical choices in the 1980s than in the 1960s and less ethical decisions than practitioners. In 2003, Farnsworth and Kleiner reported that “Disaffection toward the workplace has increased, while employee mistrust, doubt, and resentment of senior management have deepened (130).” It seems that ethical standards have been in a steady state of decline for several decades. Consequently, national concern over ethical issues continues to be a prominent issue.

The business community has indicated an interest in ethics training. Wynd and Mager (1989) characterized ethics training as a social priority. Academic institutions have responded by including ethics as a part of standard business curricula. The presumption among accredited schools of business is that ethics training included within standard business courses has a measured effect on the development of student’s ethical values. But is it possible for business courses to change student’s ethical values formed over long periods of time? Scarce resources might be allocated to more productive efforts if ethics is found to be difficult to teach, and business advised to look for better screening devices or to take up ethics training as a part of employee development. The business world continues to rely on the academic environment to accomplish the task of affecting behavioral changes in ethics.

Academic environments have responded by continuing to study predictors of unethical behavior and crafting educational approaches to improving ethical perceptions and decisions of students, leading to better behavior by business professionals in the future. Efforts to identify predictors would include a 2009 study of student perceptions of business ethics by Smyth, Davis, and Krones, which investigated cheating as a future indicator of unethical behavior. Educational approaches include determination of the effectiveness of ethics training in a single course or, alternatively, across the business curriculum.

At first glance, statistics indicating increased coverage of ethics across courses are comforting until the nature of the coverage is investigated. Bracken and Urbancic (1999) referenced the 1992 Accounting Education Change Commission (AECC) Position Statement Number 2, “The First Course in Accounting” and studied the degree to which ethical training was incorporated into introductory accounting courses. They researched the frequency with which ethical issues were addressed in accounting texts and found that 3.40% of text pages addressed ethics discussion and 3.29% of text pages contained ethics assignments. This coverage of ethics content might be viewed by some as cosmetic, in keeping with Fogarty’s (1995) argument and wholly insufficient to affect any real behavioral change.

The purpose of this paper is to add to the process of redefining the treatment of ethics in academic programs, and more specifically within the accounting profession. Our intention is to demonstrate that in some areas accounting students exhibit a propensity for unethical decision making when measured in the aggregate, across sampled accounting classes on both the undergraduate and graduate level. By identifying propensities of unethical behavior in accounting students, we hope to demonstrate the need for behavioral and perceptual intervention at the program level. This research helps accounting educators become aware of
some of their students’ potential ethical “weak spots,” and thus give special pedagogical attention to those areas by helping students think through the issues and choices involved.

**Research Questions and Hypotheses**

In this study, we examine whether accounting students are sensitive to the existence of an ethical accounting dilemma. We are also interested in whether the level of the students’ ethical sensitivity was affected by:

1. whether the students were viewing the dilemma from a personal perspective or from the perspective of the business entity;
2. the students’ work experience, religious involvement, gender, or class level;
3. domestic versus international business activity;
4. whether the ends justify the means;
5. the presence of circumstantial ethics.

Our research hypotheses are:

H1. There is no difference between the perceptions of ethical situations when viewed from a student’s personal perspective and when viewed from a business entity perspective.

H1(a). Experience, religion, gender, and class level have no effect on one’s tendency to differentiate between the personal and the business entity perspective in viewing ethical issues.

H2. Students’ personal characteristics have no effect on ethical sensitivity.

H2(a). A student’s work experience has no effect on the level of one’s overall ethical sensitivity.

H2(b). A student’s religious commitment has no effect on the level of one’s overall ethical sensitivity.

H2(c). A student’s gender has no effect on the level of one’s overall ethical sensitivity.

H2(d). A student’s class level has no effect on the level of one’s overall ethical sensitivity.

H3. There is no difference in ethical standards for doing business domestically versus internationally.

H4. Ethical standards are not subject to the ends justifying the means.

H5. There is no difference in ethical sensitivity between situations where bad results are known and where no bad results are known.

**Research Methodology**

Beck, Lazer, and Schmidgall (2010) used a situational approach to study perceptions and decisions of sales and marketing executives by presenting vignettes embodying ethical choices. In this study we employed a similar structure and presented a sample of business school students, who were studying accounting at various levels, with eight different case situations that involved actual ethical problems faced in the business world. The questionnaire (see Appendix) was administered to 151 students at two universities, one a large public university and the other a smaller private university. The students were asked to express their opinion as to the ethical nature of the action taken in each scenario by rating the action taken on a five point Likert scale from highly unethical to highly ethical. The students were also asked to provide information about the extent of their work experience, the level of their religious involvement, their gender, and their class level in college.
The study examined the primary hypothesis by comparing the responses students made to the eight cases when they were asked to respond “from the standpoint of your own ethical standards,” with the responses that the same students made to the eight cases when they were asked to respond “from the standpoint of the Board of Directors.” The statistical significance of differences indicated within the test of the primary hypothesis was determined by applying a t-test procedure to compare the responses given to the eight scenarios from a personal perspective with responses given from a business entity perspective.

For purposes of determining the statistical significance of the differences in the second hypothesis, responses were analyzed using a multiple regression model in which the dependant variable was student mean score on the 16 scenario questions. The independent variables included the students’ reported work experience, extent of religious involvement, gender, and collegiate class level. The third, fourth and fifth hypotheses were evaluated by applying a t-test procedure to compare student responses to paired scenarios. The difference in ethical standards for domestic versus international business used questions 13 and 14 for domestic ethics and questions 15 and 16 for foreign ethics. The difference in ethical standards for ends justifying the means used questions 1 and 2 for pre-results ethics and questions 3 and 4 for post-results ethics. The difference in ethical sensitivity in situations of known versus unknown negative effects used questions 9 and 10 for unknown negative effects and questions 11 and 12 for known negative effects.

**RESULTS**

**For Hypothesis 1**, the t-test results were as follows:

P-value: 0.3937  
Means: Personal: 14.96  
Business: 14.455

These results indicate that there is no significant difference between individuals’ personal ethical behavior and their business behavior. Accounting students do not change their ethical sensitivity when changing perspective from personal to that of a business manager.

**For Hypothesis 1(a)** the t-test results were as follows:

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<tr>
<th></th>
<th>Fr./So.</th>
<th>Jr./Sr.</th>
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<tbody>
<tr>
<td>P-value</td>
<td>0.4424</td>
<td>0.0628</td>
</tr>
<tr>
<td>Means:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal:</td>
<td>13.783</td>
<td>3.6773</td>
</tr>
<tr>
<td>Business:</td>
<td>14.468</td>
<td>4.2744</td>
</tr>
</tbody>
</table>

In the general hypothesis, we concluded that there was no significant difference between personal and business ethical standards. Breaking this down by experience, religion, gender and class level, we can make two additional observations. First, experience, religion, and gender have no significant effect on one's tendency to differentiate between ethical standards from a personal versus a business perspective. Second, junior- and senior-level accounting students are significantly more ethical from a personal perspective than from a business perspective. This result could suggest a challenge for accounting educators, if it is interpreted as indicating that as students advance through the business school, they develop a perception that it is justifiable to be less ethical in a business setting than in personal activity.

The results of the multiple regression analysis performed to test Hypothesis 2 were as follows:

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<tr>
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<th>P-values</th>
<th>Slopes</th>
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<tr>
<td>Experience</td>
<td>0.5782</td>
<td>1.00</td>
</tr>
<tr>
<td>Religion</td>
<td>0.0296</td>
<td>-3.90</td>
</tr>
<tr>
<td>Gender</td>
<td>0.0115</td>
<td>-4.49</td>
</tr>
<tr>
<td>Class</td>
<td>0.6162</td>
<td>-0.98</td>
</tr>
</tbody>
</table>

These findings indicate that religion and gender contribute significantly to students’ ethical sensitivity, but work experience and class level do not. We can infer that female students are more ethically sensitive than males. We can also infer that the more involved students are with religious activities, the more ethically sensitive they are. This supports findings in prior ethics research studies by Neureuther, Swicegood, and Williams (2004) and others.

Class level comparisons between early college and late college were highly insignificant as were work experience comparisons. We may infer from these findings that collegiate ethics training, which generally is emphasized in the upper level courses, is not particularly effective in changing ethical sensitivity of students. This confirms earlier findings of Arlow and Ulrich (1985).

The results of the t-test performed for Hypothesis 3 are as follows:

P-value: 0.6087  
Means:  
Domestic: 3.3687  
International: 3.4805
These results indicate that there is no significant difference in how students view ethical standards related to international transactions from those related to domestic transactions. This contrasts with prior research findings on MBA students’ international ethical sensitivity by Swicegood and Neureuther (2003).

The t-test for Hypothesis 4 produced the following results:
- P-value: 0.0780
- Means: Unknown result: 3.737
- Known good results: 4.131

From these results we can conclude that students’ ethical standards are subject to “the ends justifying the means.” When students knew that an action produced good results, they were more likely to consider that action to be ethical than when an identical action was taken with the outcome unknown. These findings should be of special concern to accounting educators, providing specific direction in how accounting ethics education needs to be focused due to students’ ethical propensities.

The t-test for Hypothesis 5 provided the following results:
- P-value: 0.030
- Means: Unknown: 3.5454
- Known Bad: 2.8847

There is a significant difference in students’ ethical perceptions where bad results are known and where no bad results are known. Failure to report violations on internal control procedures was deemed more serious if it was also associated with actual known theft as compared to unknown results. Thus accounting students are less likely to cite audit violations if they do not see immediate negative consequences. These results also beg special attention from accounting educators seeking to instill high ethical standards in their accounting graduates.

CONCLUSIONS

Students did not generally differ in their ethical views when applied on a personal perspective as opposed to a business entity perspective. The one disconcerting exception to this was where upper-level accounting students seem to develop a perception that it is justifiable to be less ethical at the corporate level than at the personal level.

The demographic analysis indicated that females were more sensitive to ethical issues than males, and that greater involvement in religious activities leads to greater sensitivity to ethical issues. Work experience and class level did not have a great effect on ethical issues in general. These demographic results suggest that employers who strongly value ethics among their accounting hires should give special recruiting consideration to academic institutions that encourage gender equality and faith integration.

The results also indicate that accounting students did not view ethical behavior as being different in domestic activities from those in international activities. Students’ ethical positions were influenced by knowledge about the outcomes of the questionable behavior. An activity that produced a known positive result was viewed as more ethical than one for which the result was unknown. This seems to support the “ends justify the means” concept. Negative outcomes also influenced their judgments. An activity that produced a known negative outcome
was viewed as being less ethical than one for which the outcome was unknown. This seems to support the concept that “bad results are more unethical.” These findings are problematic for accounting educators and employers. Additional ethics training may be warranted in this area.

APPENDIX
ETHICS QUESTIONNAIRE

Please take a few minutes to complete this ethics questionnaire as completely as possible. We are seeking to understand better the ethical attitudes and opinions of our students. All responses are confidential. Please do not provide your name or other unique information. Thank you for your participation!

Joey Debit is the Chief Accountant for the Universal Spanner Corp. (USC). Joey visits with USC’s President and explains that company earnings will not meet previously released earnings projections for the current quarter. Joey explains that the decrease is due to the fact that a number of the company’s new customers are not paying their bills on time, resulting in increased bad debt expense and lower net income. The president says, “Failure to meet projected earnings will cause the market price of the stock to go down.” The president talks Joey into postponing recognition of the bad debt expense on the books of USC, saying, “After all, they will probably pay eventually.” The restated financial statements show earnings that meet earnings expectations.

1. From the standpoint of your own ethical standards, how would you characterize Joey’s actions?
   a. I would consider them to be highly unethical.
   b. I would consider them to be somewhat more unethical than ethical.
   c. I would consider them to be ethically neutral
   d. I would consider them to be somewhat more ethical than unethical.
   e. I would consider them to be highly ethical.

2. From the standpoint of the Board of directors of Universal Spanner Corp. (USC), which of the following is most accurate?
   a. USC’s board should consider Joey’s actions to be highly unethical.
   b. USC’s board should consider Joey’s actions to be more unethical than ethical.
   c. USC’s board should consider Joey’s actions to be ethically neutral
   d. USC’s board should consider Joey’s actions to be more ethical than unethical.
   e. USC’s board should consider Joey’s actions to be highly ethical.

Suppose that the economy recovers substantially in the next quarter and the new customers who had been slow in paying their debts to USC actually pay their bills, resulting in no increase in bad debts for the year to date.

3. From the standpoint of your own ethical standards, how would you characterize Joey’s actions?
   a. I would consider them to be highly unethical.
   b. I would consider them to be somewhat more unethical than ethical.
   c. I would consider them to be ethically neutral
   d. I would consider them to be somewhat more ethical than unethical.
   e. I would consider them to be highly ethical.
4. From the standpoint of the Board of directors of Universal Spanner Corp. (USC), which of the following is most accurate?
   a. USC’s board should consider Joey’s actions to be highly unethical.
   b. USC’s board should consider Joey’s actions to be more unethical than ethical.
   c. USC’s board should consider Joey’s actions to be ethically neutral
   d. USC’s board should consider Joey’s actions to be more ethical than unethical.
   e. USC’s board should consider Joey’s actions to be highly ethical.

Art Ensianz, a senior auditor for a large CPA firm, worked on the audit of one of the firm’s major clients. Art discovered that a group of the client’s transactions were not properly accounted for in accordance with Generally Accepted Accounting Principles. Art determined that the improper accounting resulted in an understatement of the client’s current liabilities by an amount equivalent to one-half of the client’s stated net worth. Art presented his findings to the CPA firm’s partner in charge of the audit. The partner told Art that the misstatement was immaterial to the client’s financial statements taken as a whole. He also told Art to include the following statement in his audit working papers, “I believe the amount of the misstatement is immaterial. No adjustment needed.” Art did as he was told, and the firm issued a “clean” opinion on the client’s financials.

5. From the standpoint of your own ethical standards, how would you characterize Art’s actions?
   a. I would consider them to be highly unethical.
   b. I would consider them to be somewhat more unethical than ethical.
   c. I would consider them to be ethically neutral
   d. I would consider them to be somewhat more ethical than unethical.
   e. I would consider them to be highly ethical.

6. From the standpoint of the other partners of the CPA firm, which of the following is most accurate?
   a. The other partners should consider Art’s actions to be highly unethical.
   b. The other partners should consider Art’s actions to be more unethical than ethical.
   c. The other partners should consider Art’s actions to be ethically neutral
   d. The other partners should consider Art’s actions to be more ethical than unethical.
   e. The other partners should consider Art’s actions to be highly ethical.

Suppose that Art refused to place the requested statement in his work papers. Instead he wrote the following: “I believe that the amount of the misstatement is material and that, if the management of the company is unwilling to adjust the financial statements to reflect proper accounting according to GAAP, the firm should issue either a qualified or adverse opinion on the company’s financial statements.

7. From the standpoint of your own ethical standards, how would you characterize Art’s actions?
   a. I would consider them to be highly unethical.
   b. I would consider them to be somewhat more unethical than ethical.
   c. I would consider them to be ethically neutral
   d. I would consider them to be somewhat more ethical than unethical.
   e. I would consider them to be highly ethical.
8. From the standpoint of the other partners of the CPA firm, which of the following is most accurate?
   a. The other partners should consider Art’s actions to be highly unethical.
   b. The other partners should consider Art’s actions to be more unethical than ethical.
   c. The other partners should consider Art’s actions to be ethically neutral
   d. The other partners should consider Art’s actions to be more ethical than unethical.
   e. The other partners should consider Art’s actions to be highly ethical.

Lynn, an internal auditor for a company, discovers that internal control procedures that were designed and instituted by management to separate the functions of authorizing transactions, recording transactions, and maintaining custody of a particular type of asset are not being followed by employees who are involved with the assets. As a result of this failure to follow proper control procedures, a significant portion of the company’s most liquid assets are susceptible to being stolen by employees of the company and concealed from management. Lynn does not report the internal control failure to her supervisor, because there is no evidence that assets are actually being stolen.

9. From the standpoint of your own ethical standards, how would you characterize Lynn’s actions?
   a. I would consider them to be highly unethical.
   b. I would consider them to be somewhat more unethical than ethical.
   c. I would consider them to be ethically neutral
   d. I would consider them to be somewhat more ethical than unethical.
   e. I would consider them to be highly ethical.

10. From the standpoint of the top management of the company, which of the following is most accurate?
    a. Top management should consider Joey’s actions to be highly unethical.
    b. Top management should consider Joey’s actions to be more unethical than ethical.
    c. Top management should consider Joey’s actions to be ethically neutral
    d. Top management should consider Joey’s actions to be more ethical than unethical.
    e. Top management should consider Joey’s actions to be highly ethical.

Suppose that Lynn does not report the internal control failure to her supervisor, despite the fact that assets have actually been stolen, because of fear that the employees involved will think that Lynn is accusing them of the thefts.

11. From the standpoint of your own ethical standards, how would you characterize Lynn’s actions?
    a. I would consider them to be highly unethical.
    b. I would consider them to be somewhat more unethical than ethical.
    c. I would consider them to be ethically neutral
    d. I would consider them to be somewhat more ethical than unethical.
    e. I would consider them to be highly ethical.
12. From the standpoint of the top management of the company, which of the following is most accurate?
   a. Top management should consider Joey’s actions to be highly unethical.
   b. Top management should consider Joey’s actions to be more unethical than ethical.
   c. Top management should consider Joey’s actions to be ethically neutral
   d. Top management should consider Joey’s actions to be more ethical than unethical.
   e. Top management should consider Joey’s actions to be highly ethical.

**PERSONAL PROFILE QUESTIONS**

13. Which of the following best describes the extent of your full-time work experience?
   a. None
   b. 1 to 3 years
   c. 3 to 10 years
   d. More than 10 years

14. Which of the following best describes your religious involvement?
   a. Religious faith plays no role in my daily life.
   b. Religious faith plays an occasional role in my life.
   c. Religious faith plays a significant role in my life.

15. _____ Male _____ Female

16. _____ Freshman _____ Sophomore _____ Junior _____ Senior _____ Graduate Student

**REFERENCES**


Is Healthcare Reform Possible?
A Consideration From the Ethical Lens of Justice and Distribution

Jackson Rainer, Neil Martin and Sean Fowler

INTRODUCTION
U.S. health reform is failing. The political agenda is searching for technical solutions to cure the ails of all health systems. At its root, however, healthcare reform is a crisis requiring us to grapple with the ethical implications of healthcare policies and practices in the public and private sectors. This article examines the ethical principles that must underlie any new reform initiative and the processes of critical decision-making essential to successful reform. There has been a great deal of mythmaking, controversy, and distortion that characterize public discussion of healthcare reform. The goal of this paper is to examine ethical principles that undergird the moral foundations and institutional arrangements needed to drive new healthcare initiatives.

Ethics is the branch of philosophy that seeks to determine how human actions may be judged as right or wrong (Baillie & Garrett, 2010, pg. 1). Steeped in the brilliant minds of philosophers such as Aristotle, Socrates, Nietzsche, and Kant, the study of ethics guides critical thinking for Life’s greater questions. The pursuit of the ethical ideal never yields definitive answers, but asks larger questions. As Socrates said, “Out of good dialogue, truth should come.” (de Vogel, 1955, p. 32) Ethics is a method of discovery more than a body of knowledge. As a discipline, it points toward inquiry, of knowing what matters as a possible answer, and to which questions are appropriate and constructive to ask.

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The process of thinking in ethical frames has not changed greatly over time. Critical thinking is necessary to place ethical perspectives in action. An ethical individual must practice questioning, discerning the relevant features of any given situation, generating alternatives, and reflectively arriving at a decision based on the best possible reasons in light of values and preferences. Ethical thinking is a deliberate and intentional process, formerly only a luxury of the elite, however, with increases in the ease of communication, access to information, and the development of social media platforms, individuals and groups can now express opinions with the click of a button. Many argue that this “information overload” muddies the waters of scholarly and thoughtful debate.

Few debates have evoked more conflict and difference of opinion than the contemporary concern over healthcare in the United States. Arguments over healthcare reform have bled into multiple areas including medicine, finance, social service, and partisan polemics. At this point in the debate, the rhetoric primarily revolves around access to care and financial remuneration. The ethical questions of healthcare reform have been oversimplified into sound bites: Who should have access to healthcare? How will healthcare be subsidized?

**Health, Need, Care, and Healthcare**

With complicated concepts involved in any discussion of healthcare reform, basic terms often escape the analytical eye. Perhaps a more fundamental question should be addressed: What is health?

For most, health is a positive term seen as a life-giving force that allows people to live in a state of overall well-being. The World Health Organization (WHO) defines health as a “state of complete physical, mental, and social well-being.” (WHO, 2010, p.8) Culturally, it stands as the antithesis to disease, which connotes illness, disorder, sickness, and ailment. Philosophically, disease refers to deficit, whether it is manifest in physiological, psychological, or social functioning. The continuum of health/disease is defined in terms of what society wants or expects from an individual as well as what the individual wants or expects for herself. While the definition is appealing at first glance, the concept is more complex than implied in its parsimony.

Because the definition of health is set at such a wide scope, a variety of concepts encompass the concept. Viewed solely in physical terms, health is based on the functioning of organs, systems, community, and mental well-being. From a sociological perspective, health takes on a more dynamic structure. Since humans are capable of choice and change, health is seen as adaptive and a flexible, elastic state of being. The western model of health, adhered to in the United States, views well-being through a medical lens, requiring sophisticated knowledge to intervene with disease, ultimately returning psyche and soma to a state of balance. The eastern model, practiced in other societies throughout the world, views health from the perspective of person-in-environment, taking the larger system into account during the course of treatment for disease. (Illingworth & Parmet, 2006, p. 23). In the western pure-science model, medicine and health are studied through a Cartesian analytical philosophy. This approach promotes subdividing problems into progressively smaller parts to undergo examination. While this has lead to amazing scientific successes, it has caused western healthcare to fall behind in terms of treating the person’s world and worldview. Summarily, western healthcare focuses on physical health. The broader lens of eastern health philosophies teach that biological health cannot exist without psychological and social health. All entities are dependent on each other for the ability to function to their full potential, truly achieving the idea of being healthy.
The philosophical definition of need refers to a deficit or lack of something that is considered necessary. Three types of needs can be distinguished. The first is inherent need, which exists no matter what the individual may think about the matter, e.g., when an individual is thirsty, they need to hydrate. The second is subjective need, which grows out of the ideas and desires of the individual. Subjective needs are shaped by society, such as the “need” for a new car. Finally, socially induced needs result from historical development of material or social conditions which are coupled with social consciousness. The premise holds that the individual “needs” some things as necessary for a good life, happiness, or other material goal, such as the “need” for a cell phone.

Care is defined by the New Oxford American Dictionary as “the provision of what is necessary for the health, welfare, maintenance, and protection of someone or something” (2010, p. 258). The definition can be extended into the more active notion of feeling concern, having interest, or attaching importance to something. The theory and philosophy of care ethics revolve around five overarching tenets called meta-ethics. The first is the principle of autonomy, which undergirds the human belief in freedom of action and choice. Autonomy guides the personal sense of privacy and consent. The second, beneficence, states that all actions should be taken in favor of the overall condition of the individual. It is the obligation to do the greatest good to contribute to human health and welfare without infringing on another’s autonomy. The third is nonmaleficence, which reminds the helper to “above all, do no harm.” At a minimum, the principle states that human behavior should be maximally promoted. The fourth principle is fidelity. In any voluntary, caring relationship, loyalty and promise-keeping are the bases for trust and fidelity. Finally, the fifth meta-ethical principle of care ethics is justice, which will be discussed in greater depth.

In the current health reform debate, the question of care emerges in discussions of deservability, access, and subsidization of cost. To properly consider care ethics and health reform, the associated principle of responsibility must be brought to bear. Defined as the state or fact of having a duty to deal with something, the question emerges: Do members of society have a particular responsibility (or duty) to care for other members of a society? If so, how much responsibility is laid upon the members of a society to care for each other? Duty based ethical principles speak to the goal of creating a system which gives individuals a responsibility to act in ethical ways toward and with each other. As one contemporary philosopher succinctly stated, “Care ethics is our response to the aptness of things, to the lack of what they need, and to require help” (Reader, 2007, p. 1).

If health is a life-giving force, and care is the provision for the welfare and maintenance of this force, then what is healthcare? The simplest position is that healthcare is the only socially controllable factor that makes a significant contribution to health (Marmot, 1999). Social determinants of health are those social factors, outside of the individual, that have an effect—either positive or negative—on the health status of individuals in a given population, such as smoking or obesity. Furthermore, society trains practitioners as arbiters, who possess special methods, responsibility, and authority for mediating the needs of the individual and the social resources available for care.

How, then, is healthcare defined from an ethical point of view? In this rubric, health is understood in terms of what is perceived to be significant. At the same time, there is heightened emphasis on the role of the individual and society in the definition of disease. Healthcare is typically seen as good and designed for prolongation of life. It is designed for the alleviation of suffering, since most people would agree that individuals should live their lives as free from pain.
as is reasonably possible. Healthcare, then, contributes to the optimization of an individual’s chance for a happy and productive life, as defined by the individual. Humane healthcare, at its most basic and adequate level, protects the dignity of the individual. “Basic and adequate” levels of healthcare include, in addition to pain relief, maintenance or restoration from disease to a minimum level of functional activity in a way that is valued by society, being spared from a loss of function that leaves the individual unable to share the actions, burdens, and accomplishment that membership in the community demands, and forbearance of death caused by trivial or avoidable circumstances.

Healthcare has emerged in the United States in two forms. Originally, healthcare was entirely a fee-for-service for medical interventions. Prior to World War II, any individual paid out of pocket for care rendered by a physician. Following WWII, the indemnity service of the insurance model was brought into the mainstream of society (Matthews, 2009). In this familiar model, a patient could see any physician or go to any hospital for service and a third party would reimburse the practitioner a portion of the cost of care. Contemporary versions of the insurance model now follow “managed care.” Those covered are obligated for a co-pay for service, rather than a deductible. Contemporary insurance models are generally tied to a workplace benefit, with the exception of Medicare, which is a hybrid managed care model. The indemnity and managed care models of reimbursement highlight the cost of healthcare and the disparities in service access for the uninsured and underinsured.

Ethics and Reform

Ethics requires “the systematic inquiry into man’s moral behavior with the purpose of discovering the rules that ought to govern human action and the goods that are worth seeking in human life” (Johnson, 1965, p. 11). Ethics is the private science that every person faces, at maturational points in development, leading to thoughtful consideration of moral truths about right and wrong. Two frames of reference may be distinguished. The first concerns the rightness or wrongness of actions themselves, know as a deontological ethic. This ethic concerns duty and with the actions of humanity. The second frame, the teleological ethic, concerns ends and speaks to the outcome of good vs. bad behavior. This view looks at the outcome of the action in question, rather than focusing upon the action itself. It is the demonstration of the question “do the means justify the end?”

A brief lesson on the ethics of helping others is in order. The Scottish philosopher David Hume discussed reason from the ‘passenger seat’ of emotions. He famously stated, “Reason is and ought only to be the slave of the passions” (as cited in Johnson, 1965, p. 158). He said that moral distinctions are subjective, and ethical choices are guided by a felt, affective sense. According to Hume, pleasure or discomfort guide decisions in the contemplation of moral actions. He argued for examination of any situation without regard to self-interest. Those contemporary ethicists adhering most closely to Hume advocate for healthcare reform as decided by personal good and subjective choice.

On the other hand, Emmanuel Kant felt that “...morality has to do more with following rules and acting from good intentions” (Card, 2004, p. 27). In order to enact this, Kant created the primary principle of the categorical imperative where morality is found. Kant believed that humanity needs a code of conduct deemed as universally valid, one that “embodies a law capable of being applied as a standard to govern the actions of all rational beings” (Johnson, 1965, p. 180). The term ‘categorical’ suggests that the duty of the individual making the ethical action be independent of desire, and those moral rules are constant for all of humanity. An imperative is a
command. For Kant, an action is moral, not by the results that occur due to it, but by the intention from which the action is produced. In order to determine therightness or wrongness of an action, an individual must ask the question, “What if everyone acted the same way in this situation?” Kant stated that humans “...are not a means to someone else’s pleasure or well-being...and our personhood consists in our status as a rational agent of worth” (as cited in Papadimos, 2007, p. 2). In this pronouncement, he demonstrated a belief that each individual has intrinsic worth and should be treated as such. In his Formula for Humanity, Kant said that all beings have needs, sensations/desires, and intelligence, and humans all have a natural absolute worth that makes it required that “we treat each other in a way we wish to be treated” (Papadimos, p. 2). When applied to healthcare reform, Kantian ethics supports a universal system of health rights which coincide with access and ability to receive care.

Kant’s views on the importance of humankind’s choices rings true when considering the idea of collective action in the discussion of medicine and health. A “collective action problem” revolves around the idea that, while an individual’s actions may not be detrimental to the population’s well-being, the same actions of many people can cause a significant impact. For instance, one cigarette smoker may not be detrimental to social well-being. However, when seen as a collective group, all cigarette smokers create a drain on health resources for the treatment of ailments and disease related to their habit. In the collective, the individual is not powerful. As a body, the group has profound influence.

John Stuart Mill wrote on the ethic of utilitarianism. This stance focuses primarily on the consequence of action, rather than on the intention of the action itself. The measure of consequence is based upon the happiness which the action brings and the action that is best suited to the most happiness. Utilitarianism “does not determine the morality of actions on the basis of divine commands or inflexible rules” (Card, 2004, p. 24). Ethical actions vary, depending on which action brings the most good for the most people. In his theory, personal rights can be overridden. As Mill said, “When living in society, in some cases rights must be curtailed for the greater good” (Card, 2004, p. 25). The utilitarian ethic seeks to maximize pleasure and minimize pain for the greatest number of individuals, even when it means limiting the rights of some individuals.

Mill spoke to the utilitarian ethic in an individual context. Others looked toward the ethic to speak to the collective, primarily through governmental entities. The utilitarian ethicist Bentham believed that an act of the government “must justify itself through its utility...” (Johnson, 1965, p.202). In the framework of utilitarian thinking, the question of healthcare reform is built in terms of discovery of those choices which bring the most happiness for the highest number of individuals. The answer comes from comparison of systems of health access and utility, and then proceeds based on which group receives the greatest good.

Early ethicists wrote on and spoke about moral relativism, which continues to have weight in the contemporary healthcare debate. The theory can be summed by the principle stating, “There are many different moral frameworks, none of which are more important than the others” (Harman and Thomson, 1996, p. 5). At a deeper level, cultural relativism deems that it is the culture of each individual that provides a scaffold for ethical standards. For example, different cultures have different social customs, such as table manners and exchange of greetings. Marriage traditions vary across cultures; the acceptance of polygamy is legal and accepted in several African cultures, but is criminal and socially abhorrent in the United States. Cultural relativists take exception to the notion of individual relativism, which states that individuals are relative to each other rather than to society. Adherents of this belief state that their views and values are the determinants of their own form of ethical standards.
When these moral principles are ethically applied as an overlay to the healthcare debate, cultural and individual relativism oppose each other. Cultural relativists will not look to healthcare solutions or structures in other countries, such as the socially based systems in Canada and France. Rather, as the twentieth-century cultural ethicist Reichert said, “The truth belongs to the individual or the individual society” (2006, p. 28). While his statement could make a plausible argument for universal healthcare, American society would be required to come to a general consensus that healthcare for all members of society is ethically acceptable. In our contemporary social community, the United States holds a more individually relative ethical position: The marketplace determines healthcare access, and individuals are free to choose to have or not have healthcare services for themselves.

The Ethics of Justice, Distribution, and Distributive Justice

John Rawls developed a modern theory of ethics, based on an application of the role that government has in the lives of its people. His Theory of Justice explains a system in which society is viewed as “…governed by principles that persons choose from an impartial standpoint” (Card, 2004, p. 20). For this type of governance to emerge, Rawls believed that individuals make choices of social and ethical contracts behind a “veil of ignorance.” Behind this veil, “...individuals are prevented from knowing a number of specific facts about their place in our world, including such things as social position, natural abilities, intelligence, strength, or special psychological propensities” (Rawls, 1971, p. 79, as cited by Card, 2004, p. 40). Defined as ‘the Original Position,’ Rawls stated that individuals would make decisions impartially that are designed to rule society. He said that all citizens are entitled to social primary goods and natural primary goods. Social primary goods are the basic rights of all individuals, including opportunity, income, and wealth. They are given by the structure of society, but not given directly to individuals by the government. Natural primary goods include health, aptitude, and imagination. Rawls believed that those in the Original Position would agree upon principles that would guarantee each individual to have “an equal right to the most extensive total system of equal basic liberties compatible with a similar system of liberties for all” (Rawls, 1971 and 1995, as cited in Card, 2004, p. 41).

Justice is not always identified with equity. In ethics discussions, justice is talked about as fair distribution of unequal resources. Justice-as-fairness attempts to balance the basic equality of people with the inequality of their needs and abilities. Justice theory more often discusses distribution in terms of moral rights, defined as a “morally justified claim or demand that someone else do something (positive right) or not do something (negative right). Rights imply duties.” (Parks & Wike, 2010, p. 11)

Justice aims to achieve fairness by upholding right and treating people as they deserve to be treated. The theory states that people deserve to be treated like those to whom they are similar and unlike those to whom they are dissimilar, that is, who differ from them in morally significant ways, such as need, merit, or social contribution. Therefore, the ethic of justice teaches that it is fair to treat people dissimilarly when they differ in terms of merit, need, or social contribution. The question then arises, “How do we know which needs to focus on and which are relevant to a specific situation?” Acting justly or fairly requires paying attention to the resources of a community and determining how to distribute the benefits and burdens of the community equitably. This premise brings the nature of the distributive justice question to bear.
Social expectations and habits influence what our society and its members perceive to be good or bad. The ethics of distribution are normative principles designed to guide the allocation of the benefits and burdens of economic activity. Depending on the point of view of the distributive effect, the ethic of distributive justice guides the point of view based on a continuum bound by two questions: How should social policies and laws be changed to raise the position of the least advantaged in our society? How are changes brought to bring economic benefits and burdens in accordance with what people deserve? In the healthcare debate, the benchmark of economics rather than ethics (i.e., "how can we afford it?") is a popular misconception. At best, economics tells us the effects of pursuing different policies. It cannot, without the guidance of normative principles, recommend which policy to pursue.

If distribution implies allocation, justice speaks to the provision of a standard for right and wrong action. Justice essentially means getting what one deserves or is owed. It includes having individual rights respected and being treated fairly. Justice theory is rooted in a broad, social perspective that views people as members of a community. Given that individual lives are lived in the context of the community, coexistence demands sharing the benefits and burdens of communal living. In return for certain benefits, such as protection from attack, a legal system, and a system of private property and commerce, citizens agree to accept certain burdens, such as taxation and an obligation to defend the community. As an ethic, justice theory is applied and understood comparatively. In order to determine what is just for one person, s/he must be compared to others in order to decide what is just for them, as well. What one person deserves is defined in light of what others deserve.

Distributive justice is ethically grounded in the concepts of need and contribution. “A system of justice based on need alone holds that a just system provides goods to its members simply on the basis of their demonstrated need and their inability to satisfy it on their own.” (Bailie & Garrett, 2010, p. 92) In turn, the contributions of individuals to society must be acknowledged in practice. Succinctly stated, justice as distribution is accomplished through the practice of critically meeting the needs of human dignity in the social and economic circumstance of the time.

Distributive justice is most relevant to the issue of healthcare reform since it applies to situations of scarcity. The ethic begs the question, “How can we fairly pass out the benefits and burdens of living in a community when resources are insufficient?” If resources are not scarce, then there is no distributive justice problem, since everyone could get as much of everything as they might need or want. Regarding the United States health system, the body politic often acts as if resources are unlimited. Realistically, though, there are increasingly scarce resources related to medicine, healthcare, and access. The argument rests on the concern for limits, which is in keeping with the ethics of distributive justice. Society is obligated not only to protect its members by protecting their dignity, but must also protect itself by protecting its resources.

One of the simplest principles of distributive justice is that of strict or radical equality. The ethic states that every person should have the same level of material goods and services. The principle is most commonly justified on the grounds that people are owed respect, and that equality in material goods and services is the best way to give effect to this ideal. Goods are distributed according to some pattern, e.g., equality. In our contemporary society, money is used as an index for the value of material goods and services, imperfect though it may be. This equality principle holds many moral and political criticisms: that it unduly restricts freedom (since everyone gets the same, no matter what), that the principle does not give best effect to equal respect for persons (only commodities), and that it conflicts with what people deserve.
Distributive justice is alternately discussed in terms of difference. Ethicists state the “wealth” of a society is not a fixed amount from one period to the next. Earlier discussions of John Rawls’ theory of justice speak to this principle. Primarily, the principle of difference speaks to equal respect for persons, who have varying talents and needs. Because people are different, they should be afforded an equal measure of respect. The viewpoint of distributive difference suggests that inequalities are permitted as long as the least advantaged are provided for. Differences are acceptable as long as they do not compromise the fair value of political liberties. Rawls and his advocates argue for a governmental guarantee for the provision of primary social goods, including basic rights, liberties, opportunities, income, and wealth, which would be distributed by the structure of society. Natural primary goods, such as health, intelligence, and vigor, would not be governmentally distributed, but rather influenced by society as a whole. Therefore, “healthcare ought to be considered a primary social good in addition to those on Rawls’ own list” (Marmot & Wilkerson, 1999, p.333). Other supporters of this stance believe that securing healthcare is a concern that would be as important as the social liberties which are guaranteed as primary social goods. This suggests that all in the community would be guaranteed a basic right of healthcare, out of the notion that those in a reasoned society would want such a guarantee provided by the government.

A third viewpoint of distributive justice arises from the position that prescribes equality of resources. This view defines outcomes determined by people’s free use of their resources. The argument is practically illustrated by people who choose to work hard to earn more income. According to the ethic, they should not be required to subsidize those choosing more leisure and less income. The ethic causes disagreement among theorists when considering social circumstances. Theorists agree that under ideal conditions, social circumstances over which people have no control should not adversely affect life prospects or earning capacities. For example, people born with handicaps, ill-health, or low levels of natural talents have not brought these circumstances upon themselves. Therefore, they should not be disadvantaged in their life prospects. Pragmatically, though, it seem impossible to measure differences in people’s natural talents or energy, so it becomes unclear how to implement equality of resources in a complex economy.

Welfare-based principles of distributive justice are motivated by the idea that the level of welfare of people is of primary moral importance. In this view, all distributive questions should be settled according to which distribution maximizes welfare, based on need and desire. The theory states that people may take on greater burdens, suffering, or sacrifice at certain periods of their lives so that their lives are better overall.

Welfare-based principles are also known as utilitarianism, where utility is best promoted in the long run when people’s preferences are shaped in harmonious ways with one another. This becomes problematic when the question of which material distributions are used to implement the principle. Utilitarian advocates must determine the distribution of goods and services based on the identity of each person in the distribution, the utility of each person from the goods and services distributed or them, and the utility of each person from the “higher ground” of the ethic itself.

A primary complaint against these theories of distributive justice is found in the claim that people deserve certain economic benefits in light of their actions. The debate takes flight in the discussion of healthcare. Particularly, the complaint about use/abuse of the system by those who do not actively contribute financially is loud and rambunctious.

In distributive justice, people are viewed as purposeful beings, responsible for their actions
and creative in their environments. The principles of distribution differ primarily in what they identify as the basis for deserving. Contemporary thought calls for deservability according to three broad categories:

1. Contribution—people should be rewarded for their work activity according to the value of their contribution to the social product (Riley, 1989)
2. Effort—people should be rewarded according to the effort they spend in their work activity (Milne, 1986)
3. Compensation—People should be rewarded according to the costs they incur in their work activity (Lamont, 1997)

Current principles of distribution based on deservability all share the value of raising the standard of living for the community. Only activity directed at raising the social product will serve as a basis for deserving income. However, it is difficult to identify what is to count as a social contribution, whether an effort or a cost, and it is even more difficult to measure these in a complex modern economy.

A Shift of Metaphor

Language has a powerful effect on how issues are conceptualized. Metaphors entice us to understand and experience one kind of thing in terms of another. They play a central role in the construction of social and political reality, since they denote rhetorical figures of speech that achieve their effects via association, comparison, or resemblance.

Particularly in the last thirty years, healthcare has been framed as a marketplace issue rather than a service. There is more talk and debate about health financing than there is about healthcare. The role of physicians has been altered, as they are instructed by financial managers that they can no longer be patient advocates, but instead must advocate for the entire group of covered lives in a specific health plan. The goal of medicine has become a healthy bottom line instead of a healthy population. This marketplace metaphor focuses on thoughts of health that emphasizes efficiency, profit maximization, customer satisfaction, the ability to pay, planning, entrepreneurship, and competitive models. There is no place for the poor and uninsured in the marketplace metaphor. “Business” supplants “health” in the corporatization of well-being. Patients are now consumers. The market metaphor ignores the inability of the market to distribute goods and services whose supply and demand are unrelated to price. There is a pretense of a “free market.”

The writer George Annas speaks provocatively, “We live in a country that holds, as an ethic, that we are endowed with certain inalienable rights, especially the right to life, liberty, and the pursuit of happiness. Any government sponsored healthcare plan must take into account the assumptions by Americans that these rights support entitlement to whatever makes them happy. Equally important, we live in a wasteful, technologically driven, individualistic, and death-defying culture. Every healthcare plan, government sponsored or not, must also take these postmodern American characteristics into account.” (1995, p. 744)

Because the United States culture is driven to deny death and to live at such a fast pace, the delivery of healthcare is difficult when relying solely on the marketplace metaphor. Furthermore, the fiscal nature of the argument underestimates the problems with reform and proposes solutions that are, at best, cursory. Even if “reformed,” the marketplace of healthcare will demand more research funding, esoteric technological advancements, physician specialization over primary care practices, and expensive malpractice insurance coverage. The US marketplace also allows for-profit insurance companies to flourish. All of this makes healthcare in the United
States twice as expensive as most other industrial nations. In late 2009, medical care represented nearly $8000 per capita in absolute terms and about 16%, in relative terms, of the gross national product (Bednarz & Pierce, 2009). Without significant change, this curve indicates that the United States will spend nearly 20 percent of the gross national product on healthcare by 2017 (Davis, 2009).

Several scholars have suggested a new metaphor for re-envisioning the healthcare reform debate; their proposal for examining healthcare reform as an ecological metaphor is relevant and thoughtful. (Bednarz & Pierce, 2009; Annas, 1995). Rather than marketplace terms such as profit, competition, and dominance, the metaphor of ecology is marked and described by sustainability. Terms such as natural, diverse, renewable, and conservation emerge as constructs for change that seems reasonable. The ecological metaphor speaks to limits (both in terms of length of life and expenditure of resources that increase longevity). The metaphor values nature and emphasizes quality of life. The shift of metaphor allows for new discussions of prevention and public health measures, and creates room for the merits and considerations of rationing. When applied to medicine, the ecology metaphor encourages alternative visions of resource conservation, sustainable technology, acceptance of death as natural and necessary, responsibility for others, and at least some degree of community (Friedman, 1991).

Possible Solutions for Sustainable Healthcare Reform

Human dignity is based on fluid factors, including the society’s traditions and goals, available social and economic resources, contemporary understanding of the meaning of appropriate social ideals, and ascribed power and persuasiveness of political authority. While preference is given to individuals, there must be consensus in the society about how resources are distributed.

The marketplace metaphor of healthcare distribution inadequately embraces the burden that the baby boom generation will place on society. Personal, business, and governmental debt inhibits consumer driven growth, particularly in the last several decades, since consumers have borrowed on the future. As healthcare costs continue to rise and the forecast for economic recovery remains vague, the consequences of healthcare reform are heightened.

The ecology of healthcare reform speaks to greater stewardship of resources. By one estimate, the United States wastes approximately 30% of each healthcare dollar, through circumstances such as over-prescription of medication and unnecessary, duplicative tests and procedures performed (Bednarz & Pierce, 2009). Sustainability of healthcare reform will require new examination of patterns, including a focus of interrelationships of problems and solutions that will minimize the creation of new problems. Research must focus in terms of cost and health outcomes. Work to reduce the frequency of redundant, unnecessary, and expensive tests is a win-win for all members of society.

The Healthcare Financial Management Association (HFMA) argues that, for sustainable healthcare to occur, the incentives of users must change. In this viewpoint, healthcare financiers claim that “incentives driven through payment reform” is the key to a true form of sustainable healthcare (Clark, 2008). The HFMA has established principles to guide policy makers in the alteration of healthcare. The first states that payments should reward positive outcomes. The second states that payments should reward and encourage health choices that increase individual, therefore society’s, health. External incentives would be used to reinforce desirable outcomes and payments would balance the needs of stakeholders. The fourth financial principle purports that healthcare systems should work in such a fashion that consumer and practitioners
should be able to predict and prepare for medical costs, and that such costs should be simple and administered in a standardized fashion. Finally, those programs that drive innovation and progress in health-related fields should be rewarded and encouraged. The overall message emphasizes attention to the removal of waste and inefficiency. (Clark, 2008)

Those ethicists who consider the notion of distributive justice point to a basic right of health. However, while healthcare is not seen as a primary social good whose distribution is guaranteed, while health is frequently mentioned as a primary natural good (Rawls, 1971, p. 62). At face value, our society presupposes the right of all individuals to healthcare, or at least, general good health. There is an increasing argument that healthcare should be made another primary social good. Notably, the ethicist Norman Daniels said, “Healthcare institutions are among the background institutions involved in providing for fair equality of equal opportunity” (Daniels, 1981, p. 65). From his vantage point, access to healthcare provides a necessary function for allowing all individuals to have full equality of the community resources.

Out of the sustainable ecology metaphor, three ethical stands emerge: Healthcare is a right, not a privilege, or alternately, healthcare is a privilege, not a right. The final stance rests on the premise that the current healthcare delivery system can manage without significant reform.

Kant’s theory categorically states that humans should treat each other with basic rights, not out of any consequence, but rather out of the virtuous act of being good. He believed that an individual “...exists as an end himself, not merely as a means for arbitrary use by this or that will...” (as cited in Papadimos, 2007). As such, people should not treat each other in ways to make gains for the self, but to help each other gain maximum potential. Here lies the crux of the “healthcare is a right, not a privilege” argument. If Kant’s Categorical Imperative is accepted as an acceptable moral template, then all humanity, who all have an inherent natural worth, need to be treated with such worth. Rawls’ Theory of Justice supports this premise. In his view, there exists an ethical guarantee by the government for primary social goods, including basic rights, liberties, opportunities, income, and wealth. These goods are distributed by the structure of society. Rawls’ continues with his description of natural primary goods, including health, intelligence, and vigor. These are distributed through social influence. As noted, contemporary theorists state that healthcare should be included in the list of primary social goods. Securing healthcare is a concern that is as important as the social liberties guaranteed as inalienable rights. Therefore, all in the society would be guaranteed the basic right of healthcare by the very notion that those in a society would want such assurance from a governmental structure. They would continue the argument that, in order for those in a society to have an equal chance for fair opportunity, each individual needs a measure of health as a condition for the freedom of achievement. The political translation suggests that what is invested by the people in government is returned to the people of the society. This, in turn, benefits the society’s strength.

This principle lends credence to the argument for universal healthcare, with some degree of cost constraint. Proponents of this stance suggest disconnecting the tethers between health insurance and employment. They further suggest the stumbling block into this option is political and is not an ethics or economics issue. With access to a decent, minimum of healthcare, all members of society would have a protected share of opportunity. The intellectual leap required by this position is to initially embrace the belief of a fair share of opportunity as a fair share of health. The second step logically follows that a fair share of health is reliant on a fair share of healthcare.
Others argue that healthcare is a privilege, not a right, and that applying free-market economics to healthcare will maximize consumer welfare. In their essay Healthcare Reform, Andrew Ferris and Griffin Seiler state,

“The fundamental problems in the healthcare market are a result of governmental intervention. This government intervention, under the guise of market correction, has caused market failure. The market clearing price in the healthcare market, like any other market, is driven by the intersection of supply and demand. Lowering the price and thus, the total expenditure on healthcare, requires action to decrease demand, increase supply, and reduce transaction costs.

To correct market failure on the demand side, healthcare benefits must be tied to healthcare costs. First, recipients of healthcare must consider the full cost of healthcare when making health related decisions. Second, “free riders” must pay for the healthcare they ultimately receive. Third, the demand for healthcare services must be reduced by redefining medical malpractice in a manner that reduces excess treatments. Finally, demand must be reduced by increasing reliance on preventative healthcare, self-diagnosis, and self-treatment.” (Ferris & Seiler, 1995, p. 45)

And what if nothing is done? The system will continue to have an overemphasis on contribution. The marketplace will be allowed to continue as the main mechanism of allocation, regardless of need. This argument is spurious since the marketplace metaphor ignores need and supplies only those who have the economic resource to purchase the commodity; namely, healthcare. The scarcity of resources will ultimately result in economic rationing. Those who can afford it, get it. Regrettfully, “it” does not speak to accurate, qualitative measures of healthcare, only to the quantity of goods that may be purchased.

**SUMMARY**

Most healthcare experts agree that reform focuses on two primary goals: to increase life expectancy and the quality of life and to eliminate health disparities among various population groups. Ethicists will state that a just society protects the dignity of its members and satisfies their basic needs. Ideally, the society accomplishes this by giving its members the opportunity to satisfy their own needs in their own personal way. When members cannot satisfy their own needs, the just society then specifies how it will attempt to satisfy these needs directly and humanely.

Ethicists and healthcare reform experts agree that healthcare in the United states is “...badly organized, highly inconsistent, almost always compassionate, close to [being] data free, amazingly unaccountable in key areas, too often wasteful, too often dangerous, and extremely expensive.” (Collen, 2010, p. 93). There is an increasing call for political courage to re-engineer healthcare delivery and care financing. Most ethicists and reasoned economists believe that everyone should have some form of health insurance, and that the best way to eliminate cost-shifting, gross disparities between insurance practices, inefficient medical care and unnecessary procedures is to have a system that includes everyone.

In order to accomplish this monumental shift, society must decide what constitutes a minimum level of satisfaction consistent with human dignity and the resources available. The healthcare reform debate will continue to alarm the community as resources diminish and financing rationing increases. Until a sustainable solution is discerned, there will be little distributive justice.
REFERENCES


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A Brief History of Gardner-Webb University

On December 2, 1905 the Boiling Springs High School was chartered as a result of an initiative sponsored by the Kings Mountain Baptist Association (Cleveland County) and the Sandy Run Baptist Association (Rutherford County). Three years later, the first campus structure, the Huggins-Curtis building, was completed.

In 1928 in response to the changing educational needs of the area, the institution was transformed into the Boiling Springs Junior College. The Great Depression created many obstacles for the College, but its survival was secured by the sacrifices of many loyal supporters. One such instance occurred in 1932 when the school contracted with teachers to run the College on the condition that the teachers pay all expenses for food, books, supplies, heat, water, and lights and then accept for their own pay what was left from fees and gifts. There were at least two occasions in the 1930’s when trustees made motions to close the school. The proposals failed (once by a single vote) and the college survived.

Shortly thereafter, North Carolina Governor, O. Max Gardner, began devoting his energy, time, and wealth to strengthening and guiding the college. On June 15, 1942 the trustees voted to change the name to Gardner-Webb Junior College in honor of Gardner and his wife Fay Webb-Gardner. During the following year, the institution embarked on a $300,000 financial campaign. At the conclusion of this initiative, the trustees announced that the school was debt-free.

Enrollment stood at 1300 when Gardner-Webb was granted senior college status in 1969. In 1971, the first graduates of Gardner-Webb Senior College received their Bachelor degrees. During this same year, the Christian Service Organization was established to provide scholarships to students preparing for ministry.

The institution became a pioneer in distance learning in 1978 with the establishment of the GOAL (Greater Opportunity for Adult Learners) Program. In 1980, the first Master Degree program was offered - a Master of Arts in Education with concentrations in early childhood, middle school, and physical education.

In 1991, Gardner-Webb was recognized by the John Templeton Foundation as a character building school. The School of Divinity was established in 1992, with the initial group of students enrolling in Spring 1993. Two other significant events occurred during 1993 - the school changed its name to Gardner-Webb University and the Master of Business Administration program began in earnest.

The University began offering its first doctoral program in 2001 - the first graduates with the Doctor of Ministry degrees received their diplomas at the May 2004 commencement ceremonies. A second doctoral degree program, the Ed.D. in Educational Leadership, was added in 2004.
Statement of Values

CHRISTIAN HERITAGE
Acknowledging One God – Creator and Sustainer of life, and Jesus Christ as Savior and Lord; committing to self-giving service displayed in Christ-like moral action that respects the dignity and value of every person.

BAPTIST HERITAGE
Affirming historic Baptist values such as the freedom of individual conscience and the right of people to worship God as they choose, the authority of Scripture in matters of faith and practice, the priesthood of every believer, the autonomy of the local church, and the separation of church and state.

ACADEMIC EXCELLENCE
Encouraging visible enthusiasm for knowledge, intellectual challenge, continuous learning, and scholarly endeavors; inviting pursuit of educational opportunities within and beyond the classroom for the joy of discovery; and inspiring accomplishment within one’s field of study.

LIBERAL ARTS
Offering broad-based exposure to the arts, humanities and sciences and to each field’s unique challenges, contributions, and life lessons; complementing the acquisition of career-related knowledge and skills with well-rounded knowledge of self, others, and society.

TEAMWORK
Working collaboratively to support and promote shared goals, assuming responsibility willingly, meeting commitments dependably, handling disagreement constructively, and persevering despite distraction and adversity.

STUDENT-CENTERED FOCUS
Providing students an environment that fosters intellectual and spiritual growth; encourages physical fitness, service, social and cultural enrichment; strengthens and develops moral character; and respects the value and individuality of every student.

COMMUNITY ENGAGEMENT
Assisting campus, local, national, and global communities through education, outreach, and research; fostering dialogue and action in support of human welfare and environmental stewardship.

DIVERSITY
Studying and celebrating our world’s rich mix of cultures, ideologies, and ethnicities; respecting and welcoming students without regard to ethnicity, gender, religious commitment, national origin, or disability.
Gardner-Webb University at a Glance

GWU, a private Christian University, is located 50 miles west of Charlotte in the Piedmont area of Western North Carolina. Main campus of 200 acres is located in Boiling Springs, NC.

ENROLLMENT: Over 4,000 students including the day program, graduate studies, and the GOAL program (Greater Opportunities for Adult Learners). 63% female, 37% male. Geographic distribution: 39 states, 24 foreign countries.

CURRICULUM: A total of 5 professional schools and 9 academic schools offer nearly 60 undergraduate and graduate major fields of study. Approximately 33% of students major in business, 30% in social sciences, and 17% in nursing.

ATHLETICS: NCAA Division I; member of the Big-South Conference.


PRESIDENT: Dr. A. Frank Bonner (July 1, 2005 - Present)

DID YOU KNOW?:

✦ Gardner-Webb University has once again been ranked as one of the “Best Universities” in the South that offer “a full range of undergraduate and master's programs” in the 2010 edition of "America's Best Colleges" from U.S. News & World Report.

✦ Gardner-Webb University has been named to the annual report on America’s 100 Best College Buys, designating them as one of America's best college educations for the cost.

✦ Gardner-Webb was one of only 528 universities and colleges nationwide to be named to the President’s Higher Education Community Service Honor Roll (for the third consecutive year).

✦ The Big South Conference honored Gardner-Webb's Allie Mills (women's tennis) and Gardner-Webb's Aaron Linn (men's basketball) with the prestigious George A. Christenberry Award for Academic Excellence.

✦ Summer Hess, a 2006 honors graduate from Gardner-Webb University (English major) has been named as a prestigious 2010-11 Fulbright Scholar. Hess becomes the first GWU graduate to receive this award. Hess will be traveling to Northern Chile for a 10-month study abroad as part of her Fulbright scholarship. While living in Chile, Hess will be responsible for writing and archiving nonfiction essays concerning the Atacama region and its people.

✦ Gardner-Webb Women's basketball made its first postseason appearance since moving to Division I in 2000. The Lady Bulldogs earned the WNIT berth after winning the Big South regular-season title.

✦ The Gardner-Webb women's swim team is ranked first again nationally for Fall 2009 with the best cumulative GPA for all women's swimming programs in NCAA Division I. The Men's Team ranked 7th nationally.