

## Chapter 6

# Entrepreneurial Ethical Decision Making: Context and Determinants

**Gizem Öksüzoğlu-Güven**  
*University of Mediterranean Karpasia, Cyprus*

### ABSTRACT

*This chapter looks into determinants and contexts that influence an entrepreneur's decision where ethical judgment is required. By looking into relevant theories and research in the field of ethical decision making, concepts of greed and power and their influence on ethical decision making, cognitive moral development, individual psychological characteristics, ethical ideologies, organizational, environmental, industrial, and moral intensity are discussed through relevant models. The aim is to provide a perspective on understanding ethical decision making in the entrepreneurial context by forming a bridge between our understanding of individual moral psychology and entrepreneurial decision making. This discussion further augments the existing research on entrepreneurship and SME literature within the ethical decision-making context. What is presented in this chapter provides an alternative understanding of reasoning when examining entrepreneurial behaviour.*

### INTRODUCTION

The entrepreneur's characteristics and decisions have a significant influence on both daily operations and long-term strategic manoeuvres of a company in micro and small sized enterprises. As the company size gets smaller in terms of employee numbers, the influence of the entrepreneur become more significant. This chapter explores the relevant concepts and existing theories on ethical

decision making within SMEs context and entrepreneurs as individuals to understand how and in what ways they can influence their organizations. Management and ownership cannot be detached from each other and the entrepreneur's preferences on self-interest impacts on the company for better or worse (Spence & Rutherford, 2003; Smith & Oakley, 1994). When at least 95% of all private enterprises in most of the countries are SMEs and they are the primary source of employment, it is

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crucial to understand the decision mechanism of entrepreneurs who run these companies (European Commission, 2013).

At this point, a clarification on the distinction between entrepreneur and small and medium sized enterprise owner has to be made. Although small business owners are seen as managers who do not strive for growth and expansion and are perceived as seeking a stable approach in running their businesses and entrepreneurs are seen as individuals with a primary goal of growth, profitability and innovation (Kuratko, 2013) this distinction as such can be considered as misleading since not all SME owners are after stability and not all entrepreneurs carry similar characteristics. Existing literature frequently treats entrepreneurs as a homogenous group with identical powers and properties and they are treated as “equally capable” when it comes to starting up and operating a business and these lead to omission of those entrepreneurs that do not necessarily fit the stereotypical image of an entrepreneur (Kašperová & Kitching, 2014). Considering the fact that, SMEs are profit-seeking companies, there is an element of growth and profitability orientation in SME owners as well. Furthermore, both entrepreneurs and SME owners are the principal decision makers, thus differentiating them from larger organizations and creating a commonality between them (Batchelor et al., 2011). Therefore, instead of making a distinction between the two and focusing on either category in the literature, this chapter assumes that there is varying degrees of entrepreneurial capacity in SME owners and uses the term entrepreneur to represent both entrepreneurs and SME owners.

Within this chapter, concepts of greed and power (Fassin, 2005; Gallo, 1998); cognitive moral development (Kohlberg, 1968; Gilligan, 1982); ethical ideologies (Forsyth, 1980; Rest, 1986) and entrepreneurs’ psychological characteristics (Shane, 2003; Trevino, 1986) are explored from the literature in order to build a bridge between

individual moral psychology and entrepreneurial decision making. Nevertheless, although individual ethical values correlate with the decision-making process enough research has been done to show that external factors play a very crucial role in that process as well (Allmon, Page & Roberts, 2000). Therefore, the chapter also critically discusses organisational factors and entrepreneurial environment (Hegarty & Sims, 1978; Wu, 2002; Longenecker, McKinney & Moore, 2006; Stead, Worrell & Stead, 1990) and how these can influence an individual decision making process of an entrepreneur.

When examining external factors, the claim is that the influence of the very same external factors changes from one entrepreneur to another since every individual’s social constructs, experiences and expectations are different. This is why the main ideas that are put forward in this chapter revolve around the moral individuality of entrepreneurs and the discussions in this chapter provide a variety of perspectives on how moral individuality impacts decision making in SMEs. The objective of this chapter is to provide an alternative view on understanding the context and determinants of entrepreneurial ethical decision making by exploring factors influencing the individual ethical decision making process. The chapter acknowledges that the cognitive decision making process of entrepreneurs are limited due to human nature therefore expecting fully informed decisions on every occasion is unrealistic (Bommer et al., 1987). The discussion of decision making in SMEs is concluded with a theoretical framework that is useful for case analysis and future research.

## **Background**

Derived from the root ‘ēthos’ the original meaning of ethics is character traits (Blackburn, 2005). Today, ethics has a deeper meaning: it evaluates human conduct and how human beings are es-

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