PERSONAL MOTIVES, MORAL DISENGAGEMENT, AND UNETHICAL DECISIONS BY ENTREPRENEURS: POTENTIAL DANGERS OF THE DESIRE FOR FINANCIAL SUCCESS

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PERSONAL MOTIVES, MORAL DISENGAGEMENT, AND UNETHICAL DECISIONS BY ENTREPRENEURS: POTENTIAL DANGERS OF THE DESIRE FOR FINANCIAL SUCCESS

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ABSTRACT

We suggest that new insights into the origins and effects of entrepreneurs’ unethical actions can be acquired through attention to moral disengagement, a cognitive process that deactivates the self-regulatory mechanisms that normally restrain individuals from actions inconsistent with their own moral values. Results obtained with a sample of Chinese entrepreneurs indicate that entrepreneurs’ motivation for financial success is positively related to moral disengagement, and that such disengagement, in turn, is positively related to unethical decisions. However, motivation to attain self-fulfillment is not related to either moral disengagement or unethical decisions. Additional findings indicate that the relationship between moral disengagement and unethical decisions is moderated by organizational lifecycle, being stronger during early than later stages of firm development.

INTRODUCTION

In recent years, there has been increasing interest in ethical aspects of entrepreneurship, but the findings reported so far do not lead to clear or consistent conclusions. On the one hand, some scholars suggest that because of their strong work ethic and other factors, entrepreneurs are less likely to act unethically than other persons (e.g., Baron, 2010; Dodd, 2002). Some findings offer support for this positive view. For instance, Bucar and Hisrich (2001) found that entrepreneurs appear to apply strict moral standards in situations where employees take personal gains at the organizations’ cost. Similarly, Teal and Carroll (1999) reported that entrepreneurs have slightly higher moral reasoning skills than mid-level managers and the general population.

Other theorists, in contrast, suggest that entrepreneurs are often less ethical than other groups, perhaps, in part because their deep commitment to their businesses. Webb, Tihanyi, Ireland, and Sirmon (2009) speculated that entrepreneurs are often drawn into what they describe as the informal economy—efforts to develop opportunities that involve means or ends that are illegal, but are seen as legitimate, or ones that are legal, but are perceived by most persons as illegitimate. Furthermore, in discussing the impact of firm size on corporate social responsibilities, Lepoutre and Heene (2006) suggested that in general, small businesses would experience more difficulties in performing socially responsible actions than their larger counterparts. Chau and Siu (2000) further proposed harsh demands from the environment such as competition and time pressure often conflict with entrepreneurs’ dispositions to make responsible decisions.

Given the mixed findings concerning entrepreneurs’ ethics thus far, we suggest that additional
insights into the origins of entrepreneurs’ unethical decisions can be gained by expanding the scope of this ongoing research to include additional aspects of cognition. Specifically, we suggest that important new insights concerning these issues may be gained through attention to entrepreneurs’ self-regulatory mechanisms, and the process of moral disengagement (Bandura, 1986; Bandura, Caprara, & Pastorelli, 1996).

We define unethical decisions as ones that violate widely accepted standards of conduct (Brass, Butterfield, & Skaggs, 1998)—standards that are based on moral values, which, in turn, are beliefs about what is right or wrong, good or bad (Gatewood & Carroll, 1991; Sonenshein, 2007). In this context, it is important to distinguish between ethics and law which overlap, but are also distinct to some extent (Dunfee, 1996). Ethics refer to moral standards, while laws describe rules of conduct or procedures that are formally recognized by a community and are both binding and enforceable by authority.

LITERATURE AND HYPOTHESIS DEVELOPMENT

Moral Disengagement

According to Bandura (1986; Bandura et al., 1996), self-regulatory processes usually function to prevent individuals from performing behaviors that are inconsistent with their own moral standards. Unfortunately, however, these self-regulatory mechanisms can sometimes be disengaged. Bandura (1986) proposed eight interrelated mechanisms of moral disengagement, but in subsequent research, Moore (2008) combined closely related mechanisms to form three basic categories: (1) Cognitive restructuring of reprehensible acts so that they appear less harmful (e.g., euphemistic labeling, in which unethical actions are described in terms that make them seek more benign and advantageous comparison which compares the current behavior with other actions that would be even more reprehensible). Through such cognitive restructuring, entrepreneurs may perceive unethical actions as somehow justified or appropriate, and come to view such actions in euphemistic terms: “We aren’t lying; we are just engaging in ‘strategic image management’.” Alternatively, they may note that other actions would be even worse—“True—we are polluting the environment, but other companies are much worse in this respect.” (2) Minimizing the role of the individual who acts unethically (including displacement of responsibility and diffusion of responsibility). Entrepreneurs may displace responsibility for unethical actions to others or diffuse responsibility so as to feel less personally responsible for it. For example, they may suggest that “The government’s unreasonable tax policies forced us to hide some of our cash flow.” (3) Reducing identification with the victims of harmful acts (including distortion of consequences, so that these are seen as less severe, dehumanization of victims, and attribution of blame away from the individual and to the victims). For instance, entrepreneurs may perceive unethical actions as less serious or harmful than they actually are: “Some of our products pose safety hazards, but the risks are so slight as to be negligible.” Similarly, they may view victims as somehow deserving of their fate or as not worthy of concern, for example, “My primary competitor is a terrible employer who exploits employees, so he does not deserve the loyalty of his chief engineer, whom I intend to hire.”

Previous research on moral disengagement has often been conducted with children (e.g., Bandura et al., 1996) or college students (e.g., Detert, Treviño, & Sweitzer, 2008), but recently, there has been growing interest in these processes among organizational scholars (e.g., Moore, Detert, Treviño, Baker, and Mayer, in press). For example, moral disengagement has been proposed
Entrepreneurial cognition as one important factor in organizational corruption (e.g., Ashforth & Anand, 2002; Moore, 2008), and Moore et al. (in press) studied moral disengagement among employees. Additional empirical examinations of moral disengagement are clearly needed and in this regard, we believe that entrepreneurs are an especially appropriate population for such research because a combination of personal characteristics, motives, and environmental conditions may make them especially likely to experience moral disengagement to their unique personal characteristics.

Figure 1 illustrates our proposed framework for extending moral disengagement theory to the domain of entrepreneurship. Basically, this model suggests that entrepreneurs’ strong motivation to attain financial success may be positively related to the emergence of moral disengagement, and hence to subsequent unethical decisions and actions. In contrast, another motive common among entrepreneurs—that for a high level of self-fulfillment—may be negatively related to this process, since this motive may direct attention to attention to factors such as concern for relationships or quality of life issues, that together, tend to strengthen self-regulatory processes, such as monitoring one’s own actions. The model further proposes that moral disengagement, when it occurs, increases the likelihood of unethical decisions, and that moral disengagement mediates the relationship between career motivations and unethical decisions. Finally, as explained below, our model also suggests that the relationship between moral disengagement and unethical decisions is moderated by organizational lifecycle, such that this relationship is stronger during early rather than later stages of firm development.

Career Motivation

Hannafey (2003) argues that studying why persons become entrepreneurs may “provide a deeper understanding of the moral perspectives and behaviors of entrepreneurs” (p. 107). We agree with this perspective and believe that entrepreneurs’ tendency to make unethical decisions can be traced, in part, to their basic motives for entering this career. As noted previously, although individuals choose to become entrepreneurs for many reasons, a strong achievement motivation may be central among these. As Naffziger, Hornsby, and Kuratko (1994, p. 37) indicate, entrepreneurs’ high achievement motivation may lead them to seek “financial or other tangible rewards made possible by the financial performance of the firm.” In addition, however, they may also seek a sense of self-fulfillment that “centers around the satisfaction of being one’s own boss, being more in control of [one’s] own destiny, and having ultimate responsibility for the success of the venture”. Empirical studies have confirmed that motivation for financial achievement and motivation for self-fulfillment are related but distinct dimensions with respect to entrepreneurs’ overall career motivation (e.g., Carter, Gartner, Shaver, & Gatewood, 2003; Scheinberg & MacMillan, 1988).

Taking note of these contrasting motives and quoting biblical usage, Tang and Chiu (2003) suggest that “The love of money is the root of evil” (p. 16). They do not, however, specify the theoretical mechanism underlying such effects. We propose that moral disengagement plays a mediating role between motivation for financial success and unethical decisions. We further reason that entrepreneurs with strong motivation for financial success are more likely to experience moral disengagement than those lower in such motivation. When entrepreneurs’ primary motive for launching a new venture is to maximize financial gains, their single-mindedness may prompt them to use every possible means necessary to achieve these goals, regardless of others’ discomfort and suffering. In other words, they may be conscientiously or subconsciously tempted to use the cognitive techniques included within the scope of moral disengagement (e.g., restructuring
reprehensible acts as less harmful, minimizing their personal responsibility for such actions, cognitively reducing the harm to victims or dehumanizing and disparaging them) to turn off the self-regulation system. On the basis of this reasoning, we offer the following hypothesis:

**Hypothesis 1a:** Entrepreneurs’ motivation for financial achievement is positively related to moral disengagement.

While some entrepreneurs are indeed motivated primarily by their desire for financial success and view their businesses largely as means for generating such success, others are, as Naffziger et al. (1994) note, strongly motivated by non-financial considerations, such as attaining opportunities for challenge, learning, growth, and leadership. We expect that to the extent entrepreneurs start new ventures because of such motives, they will be less likely to experience moral disengagement. This will be the case because they are seeking personal responsibility (i.e., to be “their own bosses”) and so cannot readily minimize their personal responsibility for unethical decisions. Further, they may also be less likely to minimize the consequences of unethical decisions since they are sensitive to feedback from a broader range of stakeholders (e.g., employees). In contrast to hired managers, entrepreneurs cannot blame their bosses or peers, and given their strong personal identification with the companies, they are very unlikely to simply resign, as even high-level managers can do to avoid accusations or reproach. Such entrepreneurs are very likely to be aware of their personal responsibilities and therefore, are less likely to experience key components of moral disengagement. Consistent with this reasoning, we propose the following hypothesis:

**Hypothesis 1b:** Entrepreneurs’ motivation to attain self-fulfillment is negatively related to moral disengagement.

Past research has shown that moral disengagement increases the likelihood of unethical actions. For example, Duffy, Aquino, Tepper, Reed, and O’Leary-Kelly (2005) found that moral justification (one mechanism through which moral disengagement occurs) was positively related to subsequent “undermining” of co-workers (e.g., spreading rumors) among hospital workers. Detert et al. (2008) have found that college students’ moral disengagement to unethical decisions such as cheating. More recently, Moore et al., (in press) report that moral disengagement facilitates a wide range of unethical decisions (e.g., sending fraudulent information to a client, attributing failure actually caused by a manager to a subordinate). We reason that moral disengagement will produce similar effects among entrepreneurs. Hence, we offer the following hypothesis:

**Hypothesis 2:** Entrepreneurs’ moral disengagement is positively related to their likelihood of making unethical decisions.

Although entrepreneurs’ career motives (financial success, enhanced self-fulfillment) may have direct effects on their tendency to make unethical decisions, we expect that the relationships between them are at least partly mediated by moral disengagement. Thus, we offer the following hypotheses:

**Hypothesis 3a:** Moral disengagement mediates the positive relationship between entrepreneurs’ motivation for financial achievement and the likelihood of unethical decisions.
Hypothesis 3b: Moral disengagement mediates the negative relationship between entrepreneurs’ motivation for self-fulfillment and the likelihood of unethical decisions.

Firm Lifecycle

Moore et al. (in press) indicated that when making decisions, even morally disengaged individuals often perform deliberative reasoning and consider situational factors. Entrepreneurship is a process rather than a single event, and consequently, the situational requirements change over time. Organizational lifecycle theory proposes that organizations move through different stages over time, with each stage posing unique challenges (Dodge, Fullerton, & Robbins, 1994). Hannafey (2003, p. 106) suggests that in order to gain increased understanding of ethics-related problems in entrepreneurial firms, future studies should “explore how the ethical concerns, perspectives, and behaviors of entrepreneurs change over time as their organizations grow and develop”. We share this perspective and for several reasons, expect moral disengagement’s effects on unethical behaviors to change as firms grow.

First, founding entrepreneurs of new firms are initially subject to relatively low levels of internal and external monitoring. There is, in short, no one to “look over their shoulders” and both observe and evaluate their decisions or actions. As their organizational grow and develop, however, they often become increasingly subject to careful monitoring and scrutiny by stakeholders, government regulators, auditors, and even the media. This increases the chance that unethical decisions they make will be uncovered, and this possibility, in turn, can be a strong deterrent to such decisions. Second, as firms grow, they accumulate larger assets and liabilities, so that entrepreneurs may feel the cost of ethically questionable decisions is too high, even though they can cognitively justify such decisions. Third, firms in the early stages of development often operate in unfamiliar environments and have no established internal norms or rules to guide their decisions. In addition, the industries in which they function may be relatively new as well, and so lack external rules or guidelines. Under such conditions, entrepreneurs’ self-regulatory mechanisms may play an especially important role in their decisions. As new ventures mature, however, rules and norms develop, thus reducing the necessity for entrepreneurs to rely mainly, or even exclusively, on their own self-regulatory mechanisms. In short, the above factors and conditions may combine to reduce the strength of the relationships between entrepreneurs’ moral disengagement and unethical decisions as new ventures mature. Consistent with this reasoning, we offer the following hypothesis:

Hypothesis 4: The relationship between entrepreneurs’ moral disengagement and unethical decisions is moderated by organizational lifecycle such that the relationship is stronger during early stages of firm development than during later stages.

Method

Data

Data to test the hypotheses were collected in China. China is an appropriate and interesting context for our research, because it is playing an important role in global economy, and private enterprises led by ambitious entrepreneurs make significant contributions to China’s impressive economic growth (Enderle, 2010). We collected time-lagged data from entrepreneurs attending executive training sessions in a large public university on the east coast of China where active
entrepreneurial activities are ongoing. The coauthor in charge of data collection was not an instructor of these training sessions. Participation was voluntary and surveys were distributed by research assistants after class. Participants completed surveys on site and left the completed forms in an enclosed ballot box in the classroom. There was a six-week lag between Time-1 survey and Time-2 survey, and a numeric code was used to match data. The time lag between the collection of independent and dependent variables in this study was designed to minimize common method variance of self-reported survey data (Mayer & Schoorman, 1992). Participants were rewarded with gifts worth of $40 for completing the surveys.

Of the 415 entrepreneurs who attended the training sessions, a total of 133 provided valid responses at Time-1 and 116 provided valid responses at Time-2. This represents an average response rate of about 30%, which is comparable to top executives' response rate (Cycyota & Harrison, 2006), especially given “the general hesitancy of business persons to participate in ethics studies” (Hannafey, 2003, p. 100). Responses from 106 entrepreneurs who completed both surveys were used for analyses. Missing values of all variables were less than 5% and were replaced with variable means. All entrepreneurs identified themselves as both founders and managers of their firms. Most of them (90%) are male. Twenty percent received high school or lower level diploma, 33% had Associate's degrees, and 37% had Bachelor's degrees. Only 10% held graduate level degrees. Their average age was 40.5, and the average firm age was 8.4 years. Their average number of employees was 274, meeting common definitions of small and medium enterprises (e.g., Bruton & Prasad, 1997). About 42% of the firms are in the broadly-defined manufacturing industry (e.g., textile and electronics), 32% are in the broadly-defined service industry (e.g., financial and retailing), 20% in real estate or construction industry, and 6% in the utility or mining industry.

Measures

Most measures used in this study were taken or adapted from published scales in English. We followed the standardized translation and back-translation procedure (Brislin, 1970) to ensure that the Chinese translations were faithful to the original meanings.

Unethical decisions. We measured entrepreneurs’ unethical decisions using a set of vignettes with ethical implications. The use of scenarios or vignettes, according to Fritzsche and Becker (1982), allows one to include more background information in an ethically questionable situations or contexts and make them more realistic. We adapted vignettes from Longenecker, Moore, Petty, Palich, and McKinney (2006) and from Norris and Gifford (1988), and created one vignette for use in this study. These vignettes represent a wide variety of business situations entrepreneurs typically encounter when dealing with stakeholders such as customers, investors, government, and competitors, and have been used to study entrepreneurs’ ethics in previous research. A sample is “You found that a competitor had made an important scientific discovery, which would sharply reduce the profits of your own company. You then hired a key employee of the competitor in an attempt to learn the details of the discovery”. The 7-item measure’s Cronbach’s alpha is .70.

Moral disengagement. Moral disengagement was measured using the 24-item scale from Detert et al. (2008). We reshuffled the order of items to avoid subjects’ fatigue. Bandura et al. (1996) suggested that moral disengagement should be measured as a single higher order concept, so consistent with the practice of Detert et al., we created an overall measure of moral disengagement by averaging the responses to the 24 items. This measure was administered to students in the pilot
study, and the Cronbach’s alpha was .73. Based on students’ feedback, four items were reworded to make them easier to understand in the Chinese cultural context. In the full study, entrepreneurs were asked at Time-1 to report the extent to which they agree with each item on a 5-point Likert scale, 1=strongly disagree, and 5=strongly agree. Some sample items are “It is alright to fight to protect your friends” and “Someone who is obnoxious does not deserve to be treated like a human being.” The Cronbach’s alpha was .84 for the entrepreneurs’ sample.

Organizational lifecycle. Following prior literature (e.g., Dibrell, Craig, & Hansen, 2011), we measure organizational lifecycle in distinctive stages. We asked entrepreneurs at Time-2 to choose one of the following five stages to position their venture’s lifecycle: 1=pre-birth, 2=infancy, 3=growth, 4=maturity, and 5=decline. These five stages were adapted from the organizational lifecycle model of Miller and Friesen (1984). This approach offers important advantages over the use of firm age, because the lengths of product life may differ across industries (Colvin, Slevin, & Colvin, 1990) and two companies (e.g., a software company and a real estate developer) of the same firm age may be in very different stages of development. Nevertheless, the correlation between organizational lifecycle and firm age was significant (r=.37, p<.01), thus providing support for the convergent validity of this measure.

Entrepreneurs’ motivation for financial gain and motivation for personal fulfillment. Entrepreneurs’ motives for starting and operating their businesses were measured by the financial success dimension and self-realization dimension, respectively, of the career reason scale developed by Carter et al. (2003). The scale was originally designed for the Panel Study of Entrepreneurial Dynamics (Reynolds, 2000) to assess nascent entrepreneurs’ motivations for engaging in entrepreneurial careers. Carter et al. found that the motives are separate dimensions, and that both had satisfactory psychometric properties. In this study, entrepreneurs were asked at Time-1 to report how accurately each item reflected their primary motivation in starting their businesses, again using a 5-point Likert scale (1=completely inaccurate, and 5=completely accurate). The items reflecting motivation for financial gain are “to build great wealth and high income”, “to build business my children can inherit”, “to earn a larger personal income”, and “financial security.” The items reflecting motivation for self-fulfillment are “to lead and motivate others,” “to challenge myself”, “to fulfill a personal vision”, and “to learn and grow as a person”. Responses for each motivation were averaged, and the Cronbach’s alpha was .80 and .75, respectively, for the two measures.

Control variables. We included three control variables. We adapted an item from Miller and Friesen (1983) to measure the environmental dynamism of the entrepreneurial firms: “The rate of innovation of new operating processes and new products or services in my principal industry has dramatically increased”. Entrepreneurs rated at Time-1 the extent to which they agreed with this statement on a 5-point scale, 1=completely inaccurate, and 5=completely accurate. We measured prior startup experience at Time-1 by asking whether they had founded any business before the current one, 0=no and 1=yes. We measured gender at Time-2 as a dichotomous variable, 0=female and 1=male.

Results

Tests of mediation hypotheses are often guided by the multistep approach proposed by Baron and Kenny (1986). However, methodologists have recently identified potential shortcomings in this approach (e.g., MacKinnon, Lockwood, Hoffman, West, and Sheets, 2002), and recommended...
formal significance tests of the indirect effect \( a^*b \) (path a is the relationship between the independent variable and the mediator, and path b is the relationship between the mediator and the dependent variable). While the Sobel test is the best known significance test, its assumption that the indirect effect \( a^*b \) is normally distributed may be unrealistic (MacKinnon, Lockwood, & Williams, 2004). Bootstrapping is recognized as the ideal approach because through the application of bootstrapped confidence intervals (CIs) it is possible to avoid power problems introduced by asymmetric and other non-normal sampling distributions of an indirect effect. In accordance, we test our mediation hypotheses using the SPSS macro provided by Preacher and Hayes (2008), which calculates both separate path coefficients (e.g., a and b), and the bootstrapped CI of the indirect effect \( a^*b \). This program can test only one independent variable at a time, so we test extrinsic and need for self-fulfillments’ effects separately.

Table 1 presents the results for Hypotheses 1a, 2 and 3a. Hypothesis 1a proposed that entrepreneurs’ need for financial achievement is related to their moral disengagement (path a); Hypothesis 2 proposed that moral disengagement is related to unethical decisions (path b). Hypotheses 3a proposed that moral disengagement mediates the relationships between motivation for financial gain and unethical decisions (\( a^*b \)). Results show that both path a and path b are significant, supporting Hypotheses 1a and 2 respectively. Path \( a^*b \) is positive, and the bootstrapped 95% CI of the indirect effect does not include zero, suggesting that there exists an indirect effect of need for financial achievement through moral disengagement, thus offering support for Hypothesis 3a.

Similarly, Table 2 presents the results for Hypotheses 1b, 2 and 3b. Hypothesis 1b proposed that entrepreneurs’ motivation to attain self-fulfillment is related to their moral disengagement (path a), and Hypothesis 2 proposed that moral disengagement is related to unethical decisions (path b). Hypotheses 3b proposed that moral disengagement mediates the relationships between need for self-fulfillment and unethical decisions (\( a^*b \)). Results show that path a is near zero and not significant, but path b is significant. Thus, Hypothesis 1b is not supported, while Hypothesis 2 is supported—a finding consistent with the previous analysis. The bootstrapped 95% CI of the indirect effect includes zero, suggesting moral disengagement does not mediate the relationship between need for self-fulfillment and unethical decisions. Thus, no support was obtained for Hypothesis 3b.

To test Hypothesis 3 which focuses on the potential moderating effect of organization lifecycle on the relationship between moral disengagement and unethical decision, we conducted hierarchical moderated regression analysis. Because firms in the last stage (i.e., decline stage) may face similar challenges (e.g., cash flow problems) to those faced by new firms, we ran the moderation analyses both with and without the three firms in the decline stage. The differences in results were negligible, so we present results of the full sample in Table 4. Control variables, moral disengagement, and organizational lifecycle were entered in the first step, and the interaction term between moral disengagement and organizational lifecycle was entered into the regression in the second step. The variables used as components of the interaction term were centered to minimize the problem of multicollinearity between interaction terms and their components (Aiken & West, 1991). Results of Step 1 show that the only significant effect on unethical decision was the main effect of moral disengagement (\( p < .05 \)). When it was entered at Step 2, the interaction term was also significant (\( p < .05 \)) and the direction of the effect was consistent with our prediction. Thus, support for Hypothesis 4 was obtained. Figure 2 displays the nature of the interaction.
representing plus and minus one standard deviation from the mean were used to split the graphs and to generate the plotted regression lines (Cohen, Cohen, West, & Aiken, 2003). As shown by Figure 1, when firms are at an early stage of their development, moral disengagement is positively related to unethical decisions. When they are at a later stage, the relationship between these variables is not significant.

**Discussion**

Our findings have both theoretical and practical implications. First, in general terms, the model developed here responds to Hannafey’s (2003) call for careful theory development in the field of entrepreneurial ethics. Briefly, it links various aspects of Bandura’s socio-cognitive theory (e.g., Bandura, 1986, 2001) to important issues pertaining to entrepreneurial ethics. In this respect, our model serves to expand on, and supplement, previously developed theory in this area. In particular, it provides a framework useful in explaining why entrepreneurs, who have generally been found to show relatively high levels of moral reasoning and who often overtly accept the ethical standards and values of their societies (Payne & Joyner, 2006), still sometimes make disturbing unethical decisions. Entrepreneurs’ awareness of the unethical nature of a behavior alone does not appear to deter them from making such decisions; rather, these decisions emerge, at least in part, as a result of the deactivation of crucial self-regulatory mechanisms that normally serve to deter such decisions and actions. Overall, our research contributes to theory development by identifying important cognitive factors that play a role in entrepreneurs’ unethical decisions and actions.

Additional theoretical contributions involve the fact that we investigated potential links between what is often considered to be a positive form of motivation—motivation for high achievement—and unethical decisions. The meta-analysis by Collins, Hanges, and Locke (2004) indicates that achievement motivation is related both to individuals’ initial decisions to become entrepreneurs and also to their subsequent successes. In their paper, Collins et al. also suggested that unidentified moderators of the relationship between achievement motivation and entrepreneurial performance exist, and the present research contributes to current theory and knowledge by identifying one such moderator: the specific nature of entrepreneurs’ motivation. Specifically, we found that motivation for financial success is positively related to moral disengagement and unethical decisions, while motivation for personal fulfillment is not. When combined with Collins et al.’s (2004) findings, our research reveals a very interesting phenomenon: a motive that encourages many individuals to become entrepreneurs, and keeps them working diligently at the many tasks and challenges it presents, may, in some cases, start them on a trajectory toward unethical decisions. In a sense, then, the temptation to engage in unethical decisions may be endogenous to the business venturing process.

The present research also adds to current theory by investigating the relationship between one important firm-level variable (organizational lifecycle) and moral disengagement among founders. Previous research on moral disengagement has generally focused on the role of individual-level variables in this process. For instance, Detert et al. (2008) and Moore et al. (in press) focused primarily on individual difference antecedents of moral disengagement. Thus, our research extends previous research and theory to include one important firm-level variable. We found that the relationship between entrepreneurs’ moral disengagement and unethical decisions is moderated by organizational lifecycle, being stronger during early stages of venture life than...
during later ones. These results do not in any way imply that this pattern of declining tendencies to engage in unethical decisions or actions is an automatic process or that moral disengagement does not occur among top executives in mature companies. On the contrary, as noted by Moore et al., (in press), unethical actions by employees are a major problem for a wide range of organizations. Thus, further research is necessary to clarify the specific factors generating the pattern of findings observed here. As the firms grow, how do entrepreneurs cope with the increasing amount of external and internal monitoring? What moral lessons do they acquire from their business successes and failures? Answers to such questions can help explain the evolution of entrepreneurs’ ethics over time.

As is true of virtually all empirical research, the study reported here has several limitations that simultaneously highlight intriguing directions for future research. First, the relatively weak effect sizes of this study may be partly attributed to the survivor bias and associated range restriction, which is typical in entrepreneurship research (Ireland, Webb, & Coombs, 2005). Specifically, all entrepreneurs who participated in the study are survivors of business competition, and those who failed due to unethical practices could not be sampled. It would be ideal to employ a longitudinal design in the future and track the same panel of participants over time to examine how entrepreneurs’ motivations affect their moral disengagement, actual business decisions, and firm performance and survival. Second, results are of course subjects to biases related to common method variance. Although the analyses conducted suggest that these were not major problems, the threat of such biases remains and should be carefully considered.

Despite these important limitations, the present study does help to identify several potentially fruitful avenues for future research. One involves extending our framework to study the effects on entrepreneurs of engaging in unethical decisions. When unethical decisions are uncovered, the result is often public legal proceedings and public condemnations. But what happens when such actions are not discovered? Do entrepreneurs become emboldened by their success in “breaking the rules,” and so tend to engage in them even more readily and blatantly than before? Or do they experience powerful feelings of guilt—negative affective reactions resulting from awareness that they have engaged in behaviors they judge to be morally wrong (e.g., Amodio, Devine, & Harmon-Jones, 2007)? Another would involve extending the present framework to explore the potential links between additional characteristics shown by entrepreneurs (e.g., high positive affect, optimism, passion; Baron, Hmieleski, & Henry, 2012; Cardon, et al., 2005) and moral disengagement. For instance, high positive affect might lead entrepreneurs to overlook information concerning the potential harm of unethical decisions, and so might enhance the occurrence of moral disengagement. Similarly, high levels of passion for and commitment to their new ventures might also encourage moral disengagement by enhancing entrepreneurs’ tendency to minimize the consequences of unethical actions. Overall, the findings and theoretical model developed here, suggest that if entrepreneurs wish to behave in ways consistent with their own moral values, they must learn to modulate their own, understandable, desire for financial gain; in short, they must heed the words of Ralph Waldo Emerson who once warned that: “Money often costs too much.”

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**Figure 1. The role of moral disengagement in entrepreneurs’ unethical decisions**

**Figure 2. The Moderation Effect (Hypothesis 4).**
### Table 1. Testing Hypotheses 1a, 2, and 3a

<table>
<thead>
<tr>
<th>Predictor and Statistic</th>
<th>Mediator Model</th>
<th>DV model</th>
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<tr>
<td></td>
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<td>Moral Disengagement (path b)</td>
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<td>Motivation for Financial gains (path c’)</td>
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R² = .128
F = 2.769*

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<th>95% UL</th>
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<td>.010</td>
<td>.136</td>
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*p<.05, **p<.01. Bootstrap sample size =1,000. Bias corrected and accelerated confidence interval reported. LL= lower limit of confidence interval; UL=upper limit of confidence interval; M=mean; SE=standard deviation.

a. Female=0, Male=1.

### Table 2. Testing Hypotheses 1b, 2, and 3b

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<tr>
<th>Predictor and Statistic</th>
<th>Mediator Model</th>
<th>DV model</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Coefficient</td>
<td>SE</td>
</tr>
<tr>
<td>Gender a</td>
<td>.120</td>
<td>.216</td>
</tr>
<tr>
<td>Industry Dynamism</td>
<td>.116*</td>
<td>.057</td>
</tr>
<tr>
<td>Startup Experience</td>
<td>.050</td>
<td>.128</td>
</tr>
<tr>
<td>Motivation for Self-fulfillment (path a)</td>
<td>-.001</td>
<td>.054</td>
</tr>
<tr>
<td>Moral Disengagement (path b)</td>
<td>.453**</td>
<td>.166</td>
</tr>
<tr>
<td>Motivation for Self-fulfillment (path c’)</td>
<td>-.056</td>
<td>.087</td>
</tr>
</tbody>
</table>

R² = .106
F = 2.236

<table>
<thead>
<tr>
<th>Bootstrap M</th>
<th>SE</th>
<th>95% LL</th>
<th>95% UL</th>
</tr>
</thead>
<tbody>
<tr>
<td>-.001</td>
<td>.023</td>
<td>-.050</td>
<td>.046</td>
</tr>
</tbody>
</table>

*p<.05, **p<.01. Bootstrap sample size =1,000. Bias corrected and accelerated confidence interval reported. LL= lower limit of confidence interval; UL=upper limit of confidence interval; M=mean; SE=standard deviation.

a. Female=0, Male=1.

### Table 3. Regression Results for Testing Moderation in Hypothesis 4

<table>
<thead>
<tr>
<th>Predictor and Statistic</th>
<th>Unethical Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Step 1</td>
</tr>
<tr>
<td>Gender a</td>
<td>-.05</td>
</tr>
<tr>
<td>Industry Dynamism</td>
<td>.15</td>
</tr>
<tr>
<td>Startup Experience</td>
<td>-.12</td>
</tr>
<tr>
<td>Moral Disengagement</td>
<td>.22*</td>
</tr>
<tr>
<td>Organizational Lifecycle</td>
<td>.02</td>
</tr>
<tr>
<td>Moral Disengagement × Organizational Lifecycle</td>
<td>-.171*</td>
</tr>
</tbody>
</table>

R² = .09
F = 2.00

*p<.05, **p<.01. Standard beta weights are reported.

a. Female=0, Male=1.