

The ethical orientation of aspiring entrepreneurs

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ABSTRACT

Research reported in this article seeks to better understand the ethical orientation of aspiring entrepreneurs. Using data from a sample of business students pursuing degrees in entrepreneurship, and collected with a set of well-established research tools, respondents are described by their reaction to a series of ethical situation and by their degree of moral intensity brought to each situation. Outcomes are mixed.

Keywords: entrepreneurship, ethics, moral equity, relativism



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INTRODUCTION

The general topic of business ethics has received significant interest and attention from academics in recent times. However, very little of this attention has been directed at entrepreneurs and/or their enterprises. The attention on the ethics of entrepreneurs and small business in general is especially important due to the unique role of the entrepreneur in organizations. Entrepreneurs are the core of their organizations. They exert strong influence on the behavior of the company and its personnel (Dollinger 2003).

Research reported in this paper seeks to identify the ethical orientation of entrepreneurial individuals. Are the business ethics of those who initiate new organizations different from the rest of us? And what degree of seriousness characterizes this orientation? Do entrepreneurs exhibit amounts of moral intensity unlike other members of society? Finally, what are the implications of these questions? How do answers to such issues impact entrepreneurial organizations and their stakeholders?

The overt, often visible behavior of the entrepreneur or founding manager is a strong presence in the small or emerging business. Her/his actions are on display for all employees to see and judge (Mariotti 2007). Unlike larger organizations where many actions or behaviors of key managers are hidden or distant from rank-and-file employees, in the smaller company the day-to-day behavior of key managers (owners/entrepreneurs) is in full view for all to see. Ethical orientation and behavior is obvious and open. No multi-tiered hierarchy separates key decision makers from the others.

Small and medium sized enterprises are characterized by compressed or flat organizations structures. One feature of the flat structure is very visible, accountable, and influential managers. The entrepreneur/founder is often one member (or the only member) of this managerial team. It is usually argued that the smaller or newer the organization, the greater the ethical influence of the founder (Morris et.al. 2002).

THE ETHICALLY VISIBLE ENTREPRENEUR

Like any individual, the values of the entrepreneur can translate into a wide range of behaviors, some good, some not. The behavior of the entrepreneur has been shown to impact the accuracy of information about the organization's product and services, the ability of the organization's customers to make informed choices, and the degree of commitment that customers exhibit toward the organization (Argyris 1973).

Research points to the entrepreneur as the one who sets the ethical trend, good or bad, for the small organization. For example, Boyd (2004) claims that for an organization to develop a positive ethical climate the founder needs to set the trend early in the company's life, the precise point where the founder's influence is still the greatest. Gurley, Wood, and Nijhawan (2005) conclude that the entrepreneur's values lead directly to company behavior. Gurley and her cohorts tested the significance of several variables on ethical decision making with a group of aspiring entrepreneurs and found that moral values explained the most variance in decision making.

Moral values derive from moral reasoning. Past research reveals that entrepreneurs have very high moral reasoning skills, higher than both middle level managers or the general adult population (Teal & Carroll 1999). Laker (1978) suggests that individuals with more

organizational authority, including entrepreneurs managing small businesses, are more likely to possess higher levels of moral reasoning skills.

Scholars also give the entrepreneur credit for having the ability to manipulate ethical behavior in employees through reward and punishment (Gurley 2006; Laczniak 1987). Within smaller organizations reward and punishment systems are less formal and are usually administered solely by the entrepreneur/founder (Morris et.al. 2002). It appears that in the young life of the typical new company, what the founder expects in ethical behavior he/she gets.

In their survey of small Midwestern businesses, Morris (2002) also discovered that initiatives used to encourage ethical behavior were more likely to exist in organizations in which the founding entrepreneur had a high financial stake. More recently (2001), in a survey of entrepreneurs and managers, Bucar reinforced the Morris finding by hypothesizing the following: *“Due to large relative ownership and larger financial risks, entrepreneurs will exhibit higher moral values than managers.”* The hypothesis, derived from stakeholder theory and the theory of property (Hill and Jones 1992), was confirmed across a variety of ethical attitudes.

It seems clear that previous studies investigating ethics and entrepreneurship do help describe the founder/manager of the small business organization. Collectively, these studies paint a picture of an individual who helps protect a business investment through positive ethical attitudes, and one who possesses above average moral reasoning skills. Research consistently reveals a visible entrepreneur displaying significant influence in shaping the ethical climate and ethical development of an emerging organization (Withey 2008). That influence appears to be especially prevalent in its impact on employees. The entrepreneur founder has the power to lead or deceive when it comes to business ethics and ethical behavior. Typical perhaps, is the case where shocked employees of a small business irreparably damaged by the owner’s fraudulent behavior, described the entrepreneur as a father figure, a man who knew right from wrong, a man who seemed trustworthy. Employees believed their leader ‘walked on water’ and ‘made every person feel important’ (*South Bend Tribune* 2006).

THE ETHICALLY VISIBLE ENTREPRENEURIAL ORGANIZATION

If the ethical behavior of entrepreneurs is especially visible, so is the image of their organizations. One of the clearest descriptions of the ethically visible organization is the business evolution model offered by Morris et.al. (2002). The model posits a three stage organizational evolution process defined by the organization’s ethical reference point. In stage 1 the founder dominates the small start-up organization’s ethical culture. At stage 2 a limited number of professional managers join the founder and they begin to influence the ethical nature of the business. Finally, at stage 3 the organization reaches maturity and its ethical environment is characterized by a more formal ethical setting. By stage 3 the original founder has faded to the background or disappeared altogether.

Small and medium sized businesses are stage 1 and 2 organizations. The founding entrepreneur’s personal code of behavior is clearly reflected in the activities of the organization. Activities in early stage organizations are often open and visible.

Some scholars have concluded that the uniqueness of the smaller organization extends to ethics related issues. Vyakarnam (1997) argued that entrepreneurial businesses focus on a unique set of moral issues, issues different from larger organizations. Longenecker (2001) found that when comparing organizations having fewer than one hundred employees with larger

organizations, differences occurred across twelve of sixteen ethical situations. Longenecker's general conclusion was that smaller organizations are more demanding in their ethical codes or standards.

Previous research has led to at least four key areas that distinguish small organizations in the area of ethics management.

Area 1: Ethical attitudes affect hiring practices. Schwepker and Good (2004), in their study of hiring practices among sales managers, discovered that ethical attitudes impact evaluations of applicants for sales positions. Their study concluded that managerial coaching of recently hired sales people was influenced by the ethical attitudes of sales managers. Such findings may be especially significant within small organizations since the entrepreneur/founder does most or all of the hiring.

Area 2: Ethical actions often manifest themselves in local community initiatives. Studying a group of retailing businesses and their degree of involvement with social activities, charitable campaigns, etc., Lavorata and Pontier (2005) concluded that local communities are the most likely outlet for ethically oriented businesses. This finding is especially relevant since many small organizations are retailing businesses serving local markets only.

Area 3: Ethical behavior enhances the value of an organization's brand. It has been demonstrated that retailers (many of them small) hold a special position with their customers and with their suppliers, but still seek to be distinguish themselves from competitors (Fady and Pontier 1999). Activities that are perceived as indicators of ethical behavior and that are visible to customers and suppliers contribute to the goal.

Area 4: Ethical behavior and company performance are linked. For example, Wu (2002) compared a group of small organizations to a group of larger businesses and found that ethical decision making, overall company business ethics, and organizational performance are related.

While it seems clear that entrepreneurs and their organizations pay particular attention to business ethics, at issue in the present research is whether entrepreneurs are uniquely different that the general population in their ethical approach to ethical behavior.

MEASURING ETHICAL BEHAVIOR AMONG SMALL ENTERPRISES

Particularly challenging in investigations of this manner are issues of measurement. How might entrepreneurs be scored on their attitudes toward to ethical behavior?

All of the studies referenced above utilized research instruments that were developed for and are unique to that study. While perhaps appropriate for one-time or very limited use, these instruments may lack the reliability and validity of the more established research tools used in ethics research.

Research about ethics in business has a reasonably long tradition, and well established data collection instruments do exist. The current study outlined in this paper uses three such instruments. They are the Multi-Dimensional Ethics Scale, the Moral Intensity Scale and a scale used for controlling socially desirable response bias.

The Multi-Dimensional Ethics Scale (MES) and the Moral Intensity Scale (MIS) are two of the more powerful instruments used to measure ethical orientation among business managers. The MES, developed by Reidenbach and Robin (1988 and 1990), and Robin, Gordon, and Reidenbach (2000) is a nine-item instrument used to measure the construct of moral judgment. Refined somewhat by Guffey and McCartney (2000), the scale captures the more basic

constructs of moral equity, relativism, and contractualism. Moral equity addresses the question of right versus wrong. Relativism defines behavior in the context of cultural acceptability. Contractualism refers to the ethical expectations of unwritten contracts or promises. Four scale items address the construct of moral equity, three items measure relativism, and two items ask for responses about contractualism. All items are displayed in a semantic differential format (Burns and Bush 2000) on a six point scale ranging from ‘strongly agree’ to ‘strongly disagree.’

Parallel with the evolution of the MES scale was the development of the MIS or moral intensity scale (Jones 1991). This six item, Likert-style instrument makes operational the notion of moral intensity as a potential contributor to ethical orientation. Respondents are offered a nine point answer choice range. Use of the MIS allows respondents to articulate the relationship between feelings about the seriousness of an issue and their resultant behavior or behavioral intent.

The MES and MIS scales have rich histories of application and testing. But, to date, no applications relate to entrepreneurs or their emerging organizations. Research reported on these pages continues the stream of data collection using the MES and the MIS but uses them with those who have or aspire to careers in small, entrepreneurial organizations. More specifically, the present investigation, unlike its predecessors, uses two well-established data gathering instruments to measure ethical orientation among entrepreneurs. To the author’s knowledge, this is the first application of this type.

Self-reported data, especially data concerning potentially sensitive topics, may be problematic. Participants may deliberately respond in a way thought attractive to those gathering the data. This data collection issue, frequently labeled ‘impression management,’ is especially relevant in ethics research. To address this concern, a twenty item scale has been developed that identifies degree of impression management contained in survey research (Paulhus 1988). Called the Balanced Inventory of Desirable Responding (BIDR), the instrument’s twenty propositions provide a device for singling out respondents who are likely to provide socially desirable answers to queries about ethical situations.

Recent research has confirmed the presence of impression management response bias in ethics research (Bernardi 2003; Randall & Fernandes 1991). Studies also conclude that measures different from the BIDR are not as effective in identifying socially desirable response bias (Geiger & O’Connell 2000). Research reported in this paper controls for impression management by including the BIDR instrument.

THE CURRENT STUDY

As described above, this investigation combines three research tools shown to be especially useful in ethics research: the multi-dimensional ethics scale, the moral intensity scale, and the balanced inventory of desirable response scale.

Undergraduate senior and graduate student business majors served as the study’s participants. All were completing a seminar course in entrepreneurship. Most were aspiring entrepreneurs. All were evening, employed students at a metropolitan, regionally-focused university. The survey instruments were administered following a regular weekly class session. Twenty eight of the group’s twenty nine members completed all three instruments. Aspiring entrepreneurs are frequently used as appropriate surrogates for practicing entrepreneurs (Gurley 2006). Respondents participating in the current study seem an especially relevant substitute for practicing entrepreneurs, given their broad student profile. Some students in the study already

had entrepreneurial work experience; some had previous exposure to small family businesses, and most were over twenty years of age.

Study participants reacted to four ethics-oriented scenarios or vignettes using the MES and the MIS. Vignettes are a long established vehicle for aiding survey research (e.g. Alexander and Becker 1978). Many contemporary studies of business ethics utilize vignettes. Examples include Gurley (2005), Guffey and McCartney (2000), Buscar (2001), and Geiger and O'Connell (2000). The vignettes used in the current study contain situations that might be encountered by a college student. The four situations are:

Scenario A: student purchases and uses as his own research papers from a commercial research firm.

Scenario B: student finds copy of upcoming examination and uses it as study guide

Scenario C: student doesn't report grading error made in her favor

Scenario D: student accepts information from a friend regarding possible content on forthcoming examination.

An identical format was used in all four scenarios. As an example, Scenario A was presented as follows:

“Hank Tomes is a senior business student at a large state university and has an excellent GPA which he very much wants to maintain. Hank has fallen behind in his course work. He is barely maintaining his GPA; further, he cannot complete term paper assignments in two of his courses. Another student tells Hank that he can purchase completed term papers from a commercial research firm. Hank knows that submitting such papers is a violation of university policy and could cause his suspension. However, not purchasing and submitting the papers will probably result in Hank's GPA decreasing substantially.

Action: Hank decides to purchase and submit the papers. Evaluate this action by Hank Tomes.”

Previous research indicates that behavior among entrepreneurs and their organizations is highly visible (Withey 2008). Aspiring entrepreneurs and students of entrepreneurship should be especially sensitive to this dimension of managing small businesses, and therefore should be very appropriate candidates for judging ethical situations. The multi-dimensional ethics scale (MES) and the moral intensity scale (MIS) allowed this group of aspiring entrepreneurs to express agreement/disagreement with a variety of ethics-related statements. As described previously, the MES measures the constructs of moral equity, relativism, and contractualism. The MIS measures how important these issues are in and specific situation. Expected outcomes of the current study were:

H1: Aspiring entrepreneurs will produce responses on the Multi-Dimensional Ethics Scale that are significantly stronger from those expected in the general population. This outcome is expected on all scale items: those measuring moral equity, relativism, and contractualism.

H2: Aspiring entrepreneurs will produce responses to all items on the Moral Intensity Scale that are significantly stronger from those expected in the general population.

OUTCOMES

The Social Response Bias Scale identified two of the study’s twenty-eight participants who provided suspicious responses. The remaining twenty-six respondents did not exhibit significant attempts at impression management.

Table 1 displays the mean responses for each of the nine items contained in the Multi-Dimensional Ethics Scale. Outcomes for each of the four scenarios appear in the columns labeled A through D.

**Table 1: Multi-Dimensional Ethics Scale (MES)
Mean Responses of Aspiring Entrepreneurs
(N=26)**

SCENARIOS	A*	B*	C	D*
Moral Equity				
Action is Right	1.750	1.929	3.000	2.464
Action is Just	2.142	2.102	3.357	2.602
Action is Fair	2.142	2.000	3.071	2.571
Behavioral Intention	2.179	2.643	3.750	1.764
Relativism				
Family	1.534	1.927	3.357	2.500
Culture	2.107	2.429	3.179	2.964
Tradition	1.857	1.893	3.102	2.571
Contractualism				
Unwritten Contract	5.429	5.607	4.036	4.357
Unspoken Promise	5.429	5.607	4.036	4.321
Overall Means	2.730	2.905	3.099	3.040

*Outcomes significant at the .05 level

On the construct of moral equity (four scale items) in scenarios A, B, and D, the aspiring entrepreneurs in the sample group consistently exhibited scores below the scale’s 3.500 midpoint. Reverse scoring on the MES instrument links lower score values with higher degrees of agreement with the statements pertaining to moral equity. In scenarios A, B, and D, regardless of which item, respondents indicated the action was morally wrong, unfair, unjust, and something they would not engage in. Mean scores were significantly less than 3.500, the value expected to occur by chance. Responses to moral equity issues as they apply to scenario C, not reporting grading errors, while in the hypothesized direction, were not statistically significant (Kinnear & Taylor 1996).

On the construct of relativism, sample participants exhibited the same pattern of response. Relativism addresses behavior in the context of acceptability. The Multi- Dimensional Ethics Scale measures relativism with three of its nine items. Items ask about family, culture, and traditional acceptability of behavior. As indicated in Table 1, all mean values for all four scenarios are below the scale’s midpoint value of 3.500. And, with the exception of scenario C, all values are significant at the .05 level.

Responses relating ethical orientation to the influence of family and tradition are somewhat more pronounced than responses reflecting the influence of culture. Cultural acceptability scores are closer to the scale’s midpoint than are scores that describe acceptability by family and tradition. But all scores for scenarios A, B, and D are distant enough from the scale’s midpoint to achieve statistical significance.

On the issue of contractualism, the response again repeats itself. Contractualism refers to the presence of unwritten contracts or unspoken promises surrounding behavior. The MES contains two items that operationalize the construct. For behaviors described in scenarios A, B, and D, the group of aspiring entrepreneurs are in agreement that unwritten contracts and unspoken promises do prohibit the behavior. Table 1 displays the mean responses, each possessing statistical significance at the .05 level. (Scoring procedure results in values above the 3.500 midpoint instead of below.) As with moral equity and relativism, scenario C had contractualism values in the hypothesized direction (greater than 3.500) but not large enough to be statistically significant.

Based on Table 1 data, hypothesis 1 is accepted. Aspiring entrepreneurs did produce responses on the multi-dimensional ethics scale that are significantly different from the scale’s midpoint. This outcome occurred on all scale items; those measuring moral equity, relativism, and contractualism.

Table 2
Moral Intensity Scale (MIS)
Mean Responses by Aspiring Entrepreneurs
N=26

Scenarios	A	B	C	D
Item 1: Overall Harm	5.000	5.623	5.893	2.464
Item 2: Consensus of Harm	7.571	6.714	5.964	6.179
Item 3: Likelihood of Harm	4.679	5.427	5.821	6.143
Item 4: Future Harm	4.857	5.393	5.571	5.464
Item 5: Personal Friend and Harm	6.286	5.929	5.927	5.357
Item 6: Extent of Harm	5.357	5.679	6.000	5.927
Overall Means	5.643	5.798	5.863	5.917

As indicated in Table 2, mean responses to items on the moral intensity scale ranged from 4.679 to 7.571. Overall means across the four scenarios were all slightly below 6.000, ranging from 5.643 to 5.917. None of the mean values were statistically significant. Further, there were no significant differences among responses between scenarios. All means were slightly higher than the midpoint of the nine point scale items, the hypothesized direction of the intensity level, but none were higher than what might be expected by chance in a larger population. Therefore,

the study's hypothesis number 2 was not supported. Aspiring entrepreneurs did not exhibit high levels of intensity regarding the ethics of the behaviors described in the four scenarios.

DISCUSSION

On issues of moral equity, aspiring entrepreneurs receive high scores. Participants in this study express clear views on the acceptability of selected, student-related behaviors. In scenarios dealing with purchasing someone else's completed research paper, using improperly acquired examination study guides, and getting information from friends about forthcoming examinations, entrepreneurs responding to MES items consistently rate these behaviors as wrong, unjust, and unfair, behaviors they would not personally engage in. The level of agreement that these behaviors are morally wrong was significantly higher than would be expected from the general population. Mean scores on the MES were significantly distant from the scale's midpoint, the predicted point where scores would cluster by chance.

Beyond their personal opinions and behavioral intentions, aspiring entrepreneurs responding to the MES also expressed consistent beliefs that society in general would consider these activities morally inappropriate. On items asking how family members, the larger culture, and tradition in general might view the three student behaviors, respondents again expressed decisive feelings that these societal groups would also describe the behaviors as less than appropriate. Mean responses on this issue were also much further from the scale's midpoint than would be anticipated in the larger population, a population not specifically interested in entrepreneurship.

Further, the responding group of aspiring entrepreneurs was likely to perceive unwritten contracts or unwritten promises to prohibit the behaviors described in vignettes A, B, and D. Their reactions to these behaviors as ethical violations was again significantly higher than reactions expected from the general population.

The strong consensus among respondents on all items of the multi-dimensional ethics scale suggests something unique or special about those with entrepreneurial orientations. For some reason or reasons entrepreneurs appear to exhibit a keener sense of morality or commitment to ethical behavior. Previous research, as reviewed earlier in this paper, points to 'visibility among entrepreneurs and their organizations' as explanation for this sense of morality. An organization's founder and entrepreneurial leader is the ethical weather vane for the newer, smaller organization. He/she sets the ethical tone and climate for the organization. That tone and the individual behind it are in plain view of all. Customers, suppliers, investors, and employees are all keenly aware of how the entrepreneur behaves, how he/she reacts to almost all business decision making situations. Ethical behavior by the entrepreneur is out there for all to see and evaluate.

Entrepreneurial visibility may lead to heightened attention to situations that pose ethical dilemmas. For this reason entrepreneurs (and aspiring entrepreneurs) know they and their organizations are on display. They exercise special caution in practicing ethical behavior because of it.

Responses to one of the four behavioral scenarios did not conform to the overall outcome of the research. When asked their opinion regarding the ethics of a student not reporting a favorable grading error (scenario C), the group of aspiring entrepreneurs did not demonstrate attitudes significantly different than what might be expected from any group of respondents. Mean scores on MES items measuring moral equity, relativism, and contractualism were not a

significant distance from the scale's midpoint of 3.5 (overall mean was 3.009). This anomaly in the findings may derive from the way in which vignette C differs from vignettes A, B, and D. Scenarios A, B, and D require overt actions on the part of the scenario protagonist, actions that MES respondents judged as wrong. Scenario C asked for a judgment on an action committed by someone else. The protagonist was guilty of not correcting a mistake made by another, rather than making a mistake herself. This may have been viewed as less serious by the aspiring entrepreneurs responding to the MES.

The visibility theory may also support the scenario C outcome. The behavior outlined in scenario C vignette is less visible than in the other three scenarios. It is behavior that would not even be revealed if not brought forward by the person in the scenario. In a business setting this might be akin to an outsider acting in less than an ethical manner, something people in the organization might not be aware of, or might not judge as particularly relevant to their organization and its entrepreneur/founder.

Reactions to items on the moral intensity scale (MIS) produced a completely different result than that uncovered on the MES. Aspiring entrepreneurs were not found to be significantly different in their responses than what might be expected from the more general population.

The construct of moral intensity as presented on the six item MIS measures opinions about the degree of harm unethical behavior may cause. Contrary to the hypothesized outcome, aspiring entrepreneurs did not express unusual concern for the harm that might result from the actions described in any of the four vignettes. Respondents did have strong feelings about the inappropriateness or morality of behavior described in three of the four scenarios (their reactions to MES items), but none of the behaviors was perceived as particularly harmful. This finding may derive from the fact all four behavior scenarios described student behavior, not behavior that a small, entrepreneurial business might actually encounter.

Notwithstanding specific outcomes of the study, the research presented in this paper does represent a useful extension of investigative tools to a new area of academic and practitioner interest. The MES and MIS were shown to be applicable in investigations that seek to unravel the link between ethics and entrepreneurship.

ADDITIONAL RESEARCH

The current study does show some embryonic promise of clarifying the impact of ethics on decision making among entrepreneurs. The study is also a useful and unique application of three established research tools. But additional research is still needed. At a minimum, larger, cross-sectional samples of practitioners are needed to validate outcomes produced by the research described in the present paper. And, despite their arguable appropriateness as surrogates, aspiring entrepreneurs need to be replaced by 'real' entrepreneurs. Finally, new vignettes must be constructed and validated; vignettes that present more realistic settings in which entrepreneurs are faced with ethical decision making.

Recent history has clearly demonstrated the importance of ethics and ethical behavior in the conduct of business management. Entrepreneurial organizations are a prominent form of business organization; a type of organization in which ethics occupies a unique place. It is especially important and relevant to seek better understanding of ethical decision making within entrepreneurial organizations. This study is a worthwhile contributor to that understanding. More studies are needed.

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