The Impact of Environmental, Firm, and Relational Factors on Entrepreneurs’ Ethically Suspect Behaviors
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Entrepreneurs’ engagement in ethically suspect behaviors (ESBs) can have seriously negative business and social consequences. Yet what defines entrepreneurs’ ESBs remains unclear. Further, little is known about what factors contribute to such behaviors. This study provides conceptual clarification of entrepreneurs’ ESBs and examines environmental, firm, and individual factors in relation to them. Results, based on data from 158 Chinese entrepreneurs, indicate that dynamism, firm performance, and relational social capital are all negatively related to ESBs. Firm performance partially mediates the relationship between dynamism and ESBs, and albeit with marginal support, the relationship between entrepreneurs’ relational social capital and their ESBs.

Instances of wrongdoing have highlighted the seriously negative business and social consequences of ethically suspect behaviors (ESBs). For example, in the 2008 tainted milk scandal, dairy products from more than 20 Chinese companies were found to be laced with a harmful chemical called melamine. Distributors and middlemen used melamine to boost the apparent protein levels in milk and related products. An estimated 300,000 children fell ill, about six died, and a nearly $232 million industry took a direct hit while China’s reputation plummeted (Blanchard 2009; Ramzy 2008). In 2009, the Chinese government executed two men who were accused of producing and selling hundreds of tons of tainted milk and melamine-laced protein powder. Though the social and business costs may not always be as severe, ESBs by entrepreneurs in service of their businesses are nevertheless a very important issue with implications for entrepreneurs, consumers, and government (Bucar and Hisrich 2001; Dees and Starr 1992; Hannafey 2003; Harris, Sapienza, and Bowie 2009).

Given the potentially significant impact of ESBs by entrepreneurs and businesses on various stakeholders and the economy and society as a whole, research at the interface of ethics and entrepreneurship has explored multiple aspects of this issue. One stream of work considered how entrepreneurs and small businesses are different from others in terms of ethical standards (e.g., Bucar and Hisrich 2001; Longenecker, McKinney, and Moore 1988, 1989a, 1989b) and moral reasoning skills (e.g., Teal and Carroll 1999). Another body of work has delineated the ethical challenges entrepreneurs face (e.g., Vitell, Dickerson, and Fester-vand 2000; Vyakarnam et al. 1997) and how they deal with them (e.g., Robinson et al. 2007). Research has also focused on ethical decision making by entrepreneurs and high-
lighted how entrepreneurs and small business owners vary in their sensitivity to moral/ethical issues and overall moral awareness (e.g., Dawson, Breen, and Satyen 2002).

Despite this growing body of work, it remains unclear what defines ESBs of entrepreneurs. Further, little attention has been paid to the factors contributing to ESBs of entrepreneurs (Bucar and Hisrich 2001). That is, there is a paucity of theoretical and empirical research on the potentially many different factors which may impact an entrepreneur's engagement in ESBs in line of his/her firm's interests. In particular, little is known about the relationships between factors at multiple levels (e.g., environmental, firm, and individual) and ESBs of entrepreneurs. This is regrettable because this knowledge could have significant implications not only for entrepreneurs but also for a variety of stakeholders in entrepreneurial firms and policy makers attempting to foster entrepreneurship.

The present study attempts to bridge this gap in the literature. First, taking a teleological view and focusing on those behaviors enacted by entrepreneurs in the service of their firm's success and which also run counter to socially constructed structures, we conceptually define entrepreneurs' ESBs as those acts of omission or commission, by individuals acting in their entrepreneurial roles, which violate socially constructed normative, regulatory, and/or legal structures, on behalf of firm goals. Second, guided by an organizing framework suggested by research on organizational misconduct (Vaughan 1999), which implicates environmental, firm, and individual factors in relation to entrepreneurs' ESBs, and drawing on Anomie and Strain Theories (Durkheim 1966; Merton 1968), we examine the relationships between environmental dynamism (environmental level), firm performance (firm level), relational social capital (individual level), and entrepreneurs' ESBs. Specifically, our model proposes that higher levels of environmental dynamism, firm performance, and relational social capital lower the level of ESBs by entrepreneurs. Further, we highlight the critical role of firm performance by examining its intervening effect on the relationships between environmental dynamism, relational social capital, and ESBs of entrepreneurs. See Figure 1 for the conceptual model.

Before proceeding to theory development, potential contributions of the present research should be briefly noted. First, it attempts to develop and clarify the concept of ESBs of entrepreneurs by explicitly invoking both the philosophical underpinnings of such behaviors and our own epistemological stance. Such conceptual development is, we believe, crucial for future research if we are to meaningfully engage this concept moving forward. Second, it integrates factors from multiple levels into one parsimonious model. Such a model should aid in improving our understanding about this critical issue and the mechanisms behind it. Third, it furthers research at the interface of ethics and
entrepreneurship by applying and extending theoretical perspectives on organizational misconduct and ethics to the context of ESBs of entrepreneurs. Also, our findings indicate that the well-documented Anomie and Strain Theories (Durkheim 1966; Merton 1968) concerning deviant behaviors can be extended, with appropriate precautions, to the field of entrepreneurship. Fourth, this study is set in the Chinese context which entails different socioeconomic and cultural backgrounds, thereby answering the call for studying this phenomenon beyond the traditionally Western contexts (Bucar and Hisrich 2001). Fifth, as entrepreneurship is vital to the world’s economy and to human welfare, this study heed the call for carefully designed studies considering factors affecting actual ESBs (as opposed to ethical orientations or hypothetical ethics-related scenarios, for example). The analysis results of a large sample of real entrepreneurs in the present research have both theoretical and practical implications to assist economic policymakers and individual entrepreneurs (Hannafey 2003).

**Theoretical Background and Hypothesis Development**

**ESBs of Entrepreneurs**

What are ESBs of entrepreneurs? The answer to this question is not straightforward but the following two considerations may provide some clarification. One way to understand the concept of ESBs of entrepreneurs is to look at it within the *deontological* and **teleological** perspectives. In the deontological view, each and every act is open to scrutiny of whether it is right or wrong. Then, the characteristics of such behavior (pointing to its appropriateness or otherwise) form the basis of the enactment of such behavior, at least in a normative sense (e.g., Fischer 2004). In the teleological view, the relative merit (normative or the “greater good” kind) of the *consequences* of actions provides the basis of whether one engages in such behavior (e.g., Chen-Fong 2002; Hunt and Vitell 1993).

Another way to look at ESBs of entrepreneurs, particularly with the desire to study them, is to examine our epistemological assumptions about this phenomenon from the *interpretivist* and *positivist* standpoints (e.g., Burrell and Morgan 1979). At one extreme, based on a “nominalist” ontology (i.e., a subjective view of reality), the interpretivist perspective would ask the question: “ethically suspect for whom?” That is, what may be “right/wrong” for one person may not be so for another (cf. Robinson et al. 2007) and such judgments may further be context dependent. On the other extreme, based on a “realist” ontology (i.e., an objective view of reality), the positivist perspective would posit that ESBs are “given out there” for everyone to know and are external to individual consciousness.

However, taking a position at either extreme may not be necessary and/or viable (Bhaskar 1979). For example, the theory of structuration (Giddens 1979) reconciles the two extremes of purely subjective and objective dimensions of reality and suggests that both are important. Social reality is constituted by both subjective human actors *and* by institutional properties. Human actions are enabled and constrained by structures, yet these structures are the result of previous actions (Orlikowski 1992; Orlikowski and Robey 1991). From this perspective then, and at least in the socially constructed world view, there are nevertheless a certain set of behaviors, which run counter to social structures such as organizational rules, societal and cultural norms, and legal and regulatory institutions. Such structures both enable and constrain human action while at the same time are recreated and reaffirmed through being used by human actors (Giddens 1979; Orlikowski 1992). Examples of entrepreneurs’ behaviors which may be considered ethically suspect, impacting and being impacted by these socially constructed structures, may include: not fulfilling the terms of a contract, false advertising, inappropriate giving and receiving gifts/bribery, price collusion, price discrimination and unfair pricing, unfair treatment of employees, cheating customers, discriminatory hiring practices, padding of expense accounts, over-selling, unfair credit practices, environmental pollution, and sexual harassment (Bhide and Stevenson 1990; Bucar and Hisrich 2001; Chen-Fong 2002; Vitell 2002; Vitell, Dickerson, and Festervand 2000; Vyakarnam et al. 1997). Moreover, the consideration of such behaviors as ethically suspect transcends organizational and national cultures where they may be viewed as in violation, to one extent or another, of what Donaldson and Dunfee (1999) term “hypernorms” or fundamental principles which guide standards of right or wrong (cf. Martin et al. 2007 in the case of firm-level bribery activity).

Within these two perspectives of examining ESBs of entrepreneurs, in this study, we take a
teleological view and focus on those behaviors enacted by entrepreneurs in the service of their firm's success. Additionally, we are interested in those behaviors which run counter to socially constructed structures just described. Accordingly, and drawing on the work of Vaughan (1999), we conceptually define entrepreneurs' ESBs as those acts of omission or commission, by individuals acting in their entrepreneurial roles, which violate socially constructed normative, regulatory, and/or legal structures, on behalf of firm goals.

**Theoretical Framework**

Qualitative research suggests a variety of factors at the individual, organizational, and institutional level such as pressures from stakeholders; the psychology of entrepreneurs (e.g., rationalization, dominance of financial considerations); focus on short-term tactics; the motives of business (e.g., money, power, achievement, and success); the globalization of economy; and the evolution of society (e.g., individualism), as reasons behind entrepreneurs' ESBs (Fassin 2005). Indeed, pressures and changes related to competition, technology, supply and demand, labor issues, legal developments, relations with suppliers and creditors, scarcity of resources (Chau and Siu 2000; Hannafey 2003) all warrant a careful balancing act on the part of the entrepreneurs.

Research on misconduct within organizations, which suggests that environmental, firm, and individual factors are implicated in misconduct (Vaughan 1999), provides the organizing framework for this study. Such a framework is particularly suitable for studying ESBs of entrepreneurs, as a similar set of factors guide the study of how entrepreneurs organize and act (e.g., Gartner 1985). In this study, we employ environmental dynamism (operationally defined as the instability in total industry sales, adjusted for absolute industry size; [Dess and Beard 1984]) as an environmental variable; previous firm performance (operationally defined as the sales growth rate of the entrepreneurial firm in the past 4 years) as a firm variable; and entrepreneurs' relational social capital (defined as the total number of direct network relationships marked by high levels of trust, norms, and mutual obligations) as an individual variable. Within this organizing framework, we draw on Anomie and Strain theories (Durkheim 1966; Merton 1968) along with expositions and prior literature which tie into these theories to help develop our hypotheses.

Merton's strain theory draws on the concept of anomie from the earlier exposition of Durkheim's anomie theory (Durkheim 1966) whose basic premise was that institutional and cultural changes associated with modernization encourage a decline of traditional social controls based on family and social relationships. This decline of social controls results in a condition of weakened norms (or anomie), which, in turn, causes increased deviance (Cullen, Parboteeah, and Hoegl 2004). Merton (1968), however, was more concerned with cultural values that emphasize achieving materialistic and economic ends (in the form of societal expectations or cultural goals) over the appropriateness (e.g., legal or ethical) of the means through which an individual may achieve those ends. Under the presence of such values, an individual is more likely to pursue deviant means to achieve the societal goals when a social system inhibits valued goal achievement (Martin et al. 2007), especially when there is a disconnect between valued goals and the legitimate means of achieving them. We now develop specific hypotheses concerning how environmental dynamism, firm performance, and entrepreneurs' relational social capital impact ESBs.

**Firm Performance and Entrepreneurs' ESBs**

Consistent with our teleological view on ESBs, Merton's (1968) Strain Theory suggests an inverse relationship between firm performance and entrepreneurs' ESBs. The dominance of financial considerations and economic success as a personal and societal goal for entrepreneurs is clear (Fassin 2005). Merton's (1968) strain theory suggests that when entrepreneurs face factors that obstruct or prevent accomplishment of economic success (as a critical goal), they may experience strain and in turn be more likely to use illegitimate means to achieve their ends. In other words, when the entrepreneur faces pressures of performance and profitability goals not being met and when there is a disconnect between legitimate means and the desired goals, they are more likely to pursue deviant means for achieving their goals (Martin et al. 2007). On the other hand, when firm performance goals are being met and the disconnect between legitimate means and
desired goals is weaker or nonexistent, entrepreneurs are less likely to use the means of ESBs to achieve financial success.

Although indirect, there is empirical support for this reasoning. For example, at the firm level of analysis, based on a cross-national sample of nearly 4,000 firms, Martin et al. (2007) found that perceived financial constraints on firms have a significant and positive effect on the likelihood of a firm's engagement in bribery activity. Additional support, albeit weak, comes from the context of corporate crimes and wrongdoing in large corporations. Although findings in the corporate crimes literature related to this have been mixed, corporate crime scholars generally agree on a negative relationship between performance and corporate wrongdoing (Baucus and Near 1991; Daboub et al. 1995) as indicated by some earlier research (Asch and Seneca 1975; Clinard and Yeager 1980; Daboub et al. 1995). Further, McDonald (2007) reported that entrepreneurs acting outside of formal regulatory institutions recognize their businesses’ lack of legitimacy with respect to such institutions, and plan on compliance within the formal regulatory framework, but only after achieving financial stability. This finding also indirectly supports the strain theory-based reasoning, in that realization or knowledge of ethical implications may not be enough to stop ESBs and are superseded by the primacy of achieving financial stability via firm growth. McDonald’s (2007) finding also suggests that entrepreneurs are more likely to comply when financial stability is achieved. Based on the theoretical reasoning and some empirical support just discussed, we make the following hypothesis:

H1: Firm performance is negatively related to ESBs of entrepreneurs.

Relational Social Capital and ESBs of Entrepreneurs

Social capital includes both the social relationship itself, which allows individuals to claim access to resources possessed by their network, and the resources embedded within those relationships (Bourdieu 1985; Burt 1992). The relational dimension of social capital refers to the kinds of personal relationships people have developed through a history of interactions (Granovetter 1992), and through which they are able to access and leverage resources created by such relationships. Key facets in the relational dimension of social capital include trust and trustworthiness, norms and sanctions, obligations and expectations, and identity and identification (Nahapet and Ghoshal 1998). Relational social capital has been documented to exert strong effects on entrepreneurs during the value creation process by enhancing both bonding (i.e., trust) and bridging (i.e., ties) (Davidsson and Honig 2003). Further, social relationships are likely to shape responsible behavior of entrepreneurs in a far more direct and personal way than it is with appointed managers of major corporations (cf. Fuller and Tian 2006).

Durkheim’s Anomie Theory (Durkheim 1966) connects relational social capital as a deterrent to ESBs of entrepreneurs. It points to the importance of traditional social controls based on family and communal relationships as key deterrents to conditions which result in anomie and consequent deviance. Work in the sociology domain suggests that for entrepreneurs in China, kinship networks provide important informal norms against opportunistic behaviors (Peng 2004) where formal institutions may often fail to do so (Ireland and Webb 2007). Apart from being a source of normative influences and acting as a structural control mechanism against ESBs of entrepreneurs in general, relational social capital may also shape entrepreneurs’ responses in dealing with what Dees and Starr (1992) term “Relationship Dilemmas.” That is, it may reduce the possibility of ESBs directed toward the counterparts (who are often among the stakeholders in their businesses) in entrepreneurs’ relationships. This may accrue through at least three mechanisms.

First, high relational capital reduces the tendency for people to act opportunistically because it embodies trust, obligation, generosity, fairness, reciprocity, and cooperation (Granovetter, 1985). One of the common conceptualizations of trust as confidence that no party in an exchange will exploit another’s vulnerabilities (e.g., Barney and Hansen 1994) suggests that the presence of trust in a relationship is likely to reduce the possibility of ESBs. Similarly, Wicks, Berman, and Jones (1999) theorize that high levels of trust are commonly associated with strong ties and interdependent relationships and accrue the benefits of low agency and transaction costs, preferred trading relationships and high capacity of adaptation, cooperation, and commitment. Lower agency
and transaction costs associated with trust (Frank 1988; Jones 1995) are also likely to be related to lower levels of opportunism in the form of ESBs.

Second, because relational social capital is marked by strong interpersonal relationships and such strong relationships build slowly and incrementally over time as a result of significant investments in these relationships (McFadyen and Cannella 2004), the costs of behaving unethically can be very high. Indeed, whereas the opportunities for ESB increase as the frequency of interaction and trust increase, the consequences in terms of loss of a strong relationship are much higher than in the case of weak ties (Brass, Butterfield, and Skaggs 1998). In other words, the trust and positive feelings, norms, mutual obligations, and the satisfaction involved in a strong relationship, all of which have been possible because of deliberate investments of both economic and cultural resources (Bourdieu 1985), act as significant costs or disincentives for ESBs (Brass, Butterfield, and Skaggs 1998).

Third, strong relationships foster empathy and psychological, cultural, physical, and social proximity and hence are likely to be negatively related to the likelihood of ESBs (Brass, Butterfield, and Skaggs 1998). People are more morally aware when dealing with people they are proximal to and are less likely to behave unethically with them as compared to with strangers (Jones 1991). Similarly, given that people vary in terms of their willingness to morally identify with others (Opotow 1990), the possibility of moral exclusion is lower when the relationships are stronger (Brass, Butterfield, and Skaggs 1998).

In sum, relational social capital reduces the possibility of ESBs of entrepreneurs by embodying normative influences against ESBs, providing the resource of lower opportunism, increasing the costs of unethical behavior, and by reducing the possibility of moral exclusion. Thus, we make the following hypothesis:

H2: Entrepreneurs’ relational social capital is negatively related to their ESBs.

In addition, relational social capital may reduce ESBs via its effect on the entrepreneur’s firm performance. There is strong theoretical and empirical support for a positive relationship between entrepreneurs’ relational social capital and performance of their firms. Right from the beginning, previous working relationships, kinship, and community ties lay the groundwork for independent new ventures (Aldrich and Zimmer 1986; Davidsson and Honig 2003; Dees and Starr 1992) by providing key resources necessary for survival and growth such as access to private equity (Batjargal and Liu 2004) and by reducing the risks of start-ups by the use of social assets such as friendship, trust, gratitude, and obligation (Dees and Starr 1992). As entrepreneurs develop strong relationships with well-regarded individuals, organizations, financial institutions, government agencies, and professional associations, etc., they may be able to enhance their firms’ legitimacy which has been considered to be a key resource for both firm survival and growth (Zimmerman and Zeit 2002). Strong relationships typical of relational social capital also foster innovation by providing access to knowledge resources and by facilitating knowledge creation (McFadyen and Cannella 2004), thereby contributing to performance. High trust present in such relationships may also provide the benefits of high capacity for adaptation, cooperation, and commitment where stakeholders are more willing to adapt to change, cooperate without explicit incentives, and overall act in the interests of the entrepreneurial firm (Wicks, Berman, and Jones 1999). In essence, relational social capital of entrepreneurs is likely to increase the performance of their firms. Further, and by extension of H2 and H1, relational social capital is likely to indirectly reduce ESBs via its relationship with firm performance. Thus, we make the following mediation hypothesis:

H3: Firm performance mediates, at least partially, the relationship between entrepreneurs’ relational social capital and their ESBs.

Environmental Dynamism and Entrepreneurs’ ESBs

The impact of dynamic environments on firms and their administrators in general (e.g., Aldrich 1979; Pfeffer and Salancik 1978), and on deviant behavior such as corporate illegal activities (Daboub et al. 1995) in particular, has long been held. In general, the term environmental dynamism has been used to refer to the extent to which environments are characterized by an absence of pattern and unpredictability, that is, “change that is hard to predict and that
heightens uncertainty for key organizational members" (Dess and Beard 1984, p. 56). As operationalized here, the source of uncertainty in the environment is the instability in total industry sales, adjusted for absolute industry size. Further, the type of uncertainty this operationalization corresponds to is Milliken's (1987) notion of State Uncertainty (Goll and Rasheed 1997), which is what entrepreneurs experience when they perceive their firms’ environment, or a particular component (in this case, industry sales), to be unpredictable. Given the uncertainty inherent in highly dynamic environments, environmental dynamism may reduce entrepreneurs’ engagement in ESB by reducing both (1) the opportunities and (2) the perceived need for such behaviors.

In dynamic environments marked by unpredictability, administrators are typically uncertain about what actions are relevant to organizations or key organizational constituencies such as suppliers, competitors, consumers, etc. might take (Milliken 1987), and are thus likely to engage in tactics such as long-term contracts and vertical integration (Dess and Beard 1984; Williamson 1985). Such tactics are clearly geared toward reducing the threats of opportunistic behavior and are likely to reduce the opportunities for entrepreneurs to engage in ESBs. In other words, constituencies external to the focal entrepreneur have their “guard up,” so to speak, and in the process reduce the likelihood of ESB.

On the other hand, the uncertainty associated with the environment and in particular the dynamic nature of industry sales also reduces the perceived need for entrepreneurs to engage in ESBs. From this perspective, entrepreneurs are uncertain about how things are going to fair (in terms of market growth for example). Given that entrepreneurs, in general, tend to be highly optimistic (Hmieleski and Baron 2009) and display high levels of dispositional positive affect (Baron and Tang 2011), they are more likely to treat this unpredictability as an “impending good.” That is, the uncertainty is less likely to be perceived as blocked access to resources and more likely as an indication of better things to come. This notion is consistent with Hmieleski and Baron's (2009) observation, based on uncertainty reduction theory (Berger and Gudykunst 1991), that given their optimism, entrepreneurs are more likely to selectively map an unbalanced mix of mostly positive information from their past into the present situation in order to make sense of the uncertainty present in dynamic environments. As discussed earlier, Anomie Theory (Durkheim 1966) suggests that blocked access to resources is a key reason individuals engage in deviant behavior in order to achieve their goals. However, when entrepreneurs view uncertainty inherent in dynamic environments not as blocked access to resources but instead as an indication of potential opportunities and chances for growth, they are less likely to experience strain or feel the need for ESBs as a mechanism for survival and growth.

Direct empirical evidence of a negative impact of environmental dynamism on ESBs of entrepreneurs is scarce. In the corporate context, Baucus and Near (1991) report a curvilinear relationship between environmental dynamism and corporate illegal behavior based on a sample of Fortune 500 companies. Firms operating in moderately dynamic environments were less likely to be convicted of illegal behavior than firms operating in relatively stable environments, but firms in highly dynamic environments were more likely to be convicted of illegal behavior than those in stable environments. However, as mentioned already, as entrepreneurs are more likely to perceive the environment as stable to moderately dynamic and full of business opportunities, ESBs of entrepreneurs tend to decrease as dynamism increases. Hence, we make the following hypothesis:

**H4:** Environmental dynamism is negatively related to entrepreneurs’ ESBs.

Further, environmental dynamism may also affect entrepreneurs’ ESBs via its positive influence on the performance of their firms. A number of theoretical perspectives across disciplines suggest that industry-level factors have a strong effect on firm performance. For example, population ecologists have shown how certain environmental conditions may create pressures to select firms out of a population of firms (e.g., Hannan and Freeman 1977), and economic perspectives suggest that market structures and changes in structural elements, such as dynamism, shape performance of existing firms (e.g., Dess, Ireland, and Hitt 1990).

In highly dynamic environments, entrepreneurial opportunities become abundant (Shane and Venkataraman 2000), innovative strategies...
are more beneficial for firm growth (Lumpkin and Dess 1996), heterogeneous top management teams perform best (Hambrick and Mason 1984), and overall firm performance increases, particularly for firms with high entrepreneurial orientation (Wiklund and Shepherd, 2005). Entrepreneurs, with high levels of risk-taking propensity (Tang and Tang 2007), tolerance for ambiguity (Hai and See 1997), perseverance (Markman and Baron 2003), optimism (Hmieleski and Baron 2009), and positive affect (Baron and Tang 2011), may be better able to capitalize on the entrepreneurial opportunities available in dynamic environments. For the same reasons, they are also more likely to adjust to and cope with the uncertainty and the ensuing challenges associated with dynamic environments, and at the same time lower their negative impacts. That is, entrepreneurs, often characterized with high optimism and positive affect, may tend to discount the negative information and instead, focus their attention to respond quickly and effectively to emerging opportunities before the “windows” close. In further support for this line of reasoning, upper echelons theory (Hambrick and Mason 1984) suggests that top management teams act on the basis of their personalized interpretations of the strategic situation they face, and that these interpretations are a function of their experience, values, and personalities. Thus, the actions entrepreneurs take and the strategies they formulate on the basis of these personalized interpretations of the environment strongly influence a wide range of their behaviors (Hambrick and Mason 1984). The assuredness, confidence, and vision of the entrepreneur are a source of psychological comfort and confirm their decision to turn uncertainty into opportunity and success.

Empirical results from studies involving samples of both large corporations and entrepreneurial firms further support a positive relationship between environmental dynamism and firm performance. Berman et al. (2006) found a significant positive correlation between environmental dynamism and firm performance (i.e., Return on Assets) in a sample of top 100 of Fortune 500 companies. Hmieleski and Baron (2009) reported significant and positive main effects of environmental dynamism on revenue growth and employment growth as two indicators of new venture performance, in a random sample of 1,000 new ventures. In sum, based on theoretical and empirical support that environmental dynamism is positively related to entrepreneurial firm performance, and by extension of H4 and H1, we make the following mediation hypothesis.

H5: Firm performance mediates, at least partially, the relationship between environmental dynamism and entrepreneurs’ ESBs.

Method
Sample and Data Collection
Data for this research were collected from entrepreneurs located in various regions in China. In order to be selected for this study, the respondents had to meet three criteria: (1) they had participated actively in the founding process; (2) they were members of top-management teams, owners or co-owners of the firm, at the time of data collection; and (3) their firms were independent entities rather than subsidiaries. Following the framework established by Brislin (1980) for conducting international surveys, the survey for this study was drafted in English and then translated into Chinese by the third author. Then the Chinese version was backtranslated into English by the second author. To ensure linguistic and conceptual accuracy, a pilot test was conducted with eight entrepreneurs in Guangzhou and several rounds of modifications were made to correct any discrepancies between the two versions.

In order to obtain data for highly sensitive topics, such as ethics-related research in our study, creative ways must be sought to gain access to larger numbers of entrepreneurs and to earn their trust for honest responses (Hannafey 2003). A total of 400 entrepreneurs for this research were identified via the social network of the third author from the following sources: (1) 150 were identified through the 32 MBA students enrolled in the third author’s courses (when the project was carried out) in a large university in Southeastern China; (2) 100 were selected from the Guangdong Chamber of Commerce; (3) 100 were identified from the Association of Industries in Guangdong and Zhejiang Provinces; (4) 31 were former MBA or EMBA students who enrolled in the third author's classes in the same university; and finally (5) 19 were selected from a database of supporters of the entrepreneurship program in the same university. These 19 entrepreneurs have contributed significantly to the university’s entrepreneurship program both financially
and nonfinancially. Upon initial contact, 206 out of the 400 entrepreneurs agreed to participate in the survey. However, 48 refused to provide answers to the ESBs items. Thus, 158 usable responses with complete information were generated, representing a 39.5 percent response rate. We deemed it justifiable to combine the responses generated from these five different sources to reach this total sample of 158 for the following reasons: (1) all participants in each sample were founding entrepreneurs; (2) no significant differences were found in terms of ESBs (the key independent variable) between the samples; and (3) the samples were highly similar in education, experience, and other basic demographic variables.

Structured onsite (for entrepreneurs located in Southeastern China) or phone (for entrepreneurs located outside Southeastern China) interviews were conducted, instead of mail surveys, by 32 MBA students of the third author. Structured interviews were chosen over mail surveys as we felt they would provide the respondents opportunity to ask for clarifications about survey items and reassurance on confidentiality, possibly increasing the response rate. Prior to data collection, the MBA students attended a training session where the third author explained the questionnaire packet and interview process in detail. The following points were stressed during the training session: (1) identify entrepreneurs via family members, friends, colleagues, and business associates in your social network who meet the three criteria (mentioned above); (2) participation is completely voluntary; (3) no payment is made to the participants; (4) no voice or video recording is to be carried out; and (4) confidentiality of personal and business information is guaranteed. The 32 MBA students were volunteers from among students enrolled in two courses, Strategic Management and New Venture Creation, taught by the third author in two consecutive terms. No course or extra credit was awarded for their service. Considering China has a high power-distance culture (Hofstede 2001) where the less powerful members (MBA students in our case) show significant respect to the more powerful members (professor in our case) we expected the students would follow the instructions and protocol fully and wholeheartedly.

We invited the respondents to include their email or telephone number in the survey so that we could share the study results with them if they are interested. Approximately 80 percent of the participants opted to include their contact information. The average age of the participating entrepreneurs was 37 years, with 86 percent being male. The average firm age was 6 years and the average number of employees was 149. These 158 entrepreneurs operate their businesses in a large array of industries (e.g., textile, food and beverage, construction, electronics, wholesale trade, retail trade) and these businesses were located in diverse regions of China. Approximately 50 percent were from Southeastern China (e.g., Pearl River Delta, Chaoshan Area, etc.); around 25 percent from Eastern China (e.g., Shanghai and Zhejiang Province); 12.5 percent from Northern China (e.g., Beijing and Tianjin); and the other 12.5 percent from central and Southwestern China (e.g., Wuhan, Anhui Province, and Sichuan Province). According to the Global Entrepreneurship Monitor (GEM) 2009 Global Report, entrepreneurial activities are the most active in Guangdong and Zhejiang Provinces. Thus, our sample is representative of entrepreneurial activities in China.

Measures

ESBs of Entrepreneurs. In compiling the items for ESBs of entrepreneurs, we drew on prior conceptual and empirical literature at the entrepreneurship-ethics interface (e.g., Bucar, Glas, and Hisrich 2003; Clarke and Aram 1997; Dees and Starr 1992; Fassin 2005; Hannafey 2003; Longenecker, McKinney, and Moore 1988). In line with our conceptual approach described earlier, the goal was to arrive at a manageable subset of ESBs which (1) were particularly germane to entrepreneurs acting in the service of their firms, and (2) would be, relatively clearly, socially viewed as ethically suspect. Eight such behaviors were selected. Entrepreneurs were asked to indicate the degree to which they have engaged in the following behaviors for business success (1 = strongly disagree; 7 = strongly agree): (1) sacrificing previous family or friendship relationships; (2) treating other individuals as a means to an economic end; (3) practicing selective honesty when helping others; (4) authorizing subordinates to violate company policy; (5) claiming government benefits which my company is not entitled to; (6) taking personal interests over stakeholder interests; (7) giving and accepting gifts/favors in exchange for
preferential treatment; and (8) lowering ethical standards by cutting corners or bending rules.

Before we proceeded to explore the reliability and dimensionality of the measure, we performed the measure of sampling adequacy test (MSA) to assess which items, if any, needed to be dropped because of high multicollinearity (Hair et al. 2006). Results showed that the Kaiser–Meyer–Olkin (KMO) overall statistic was 0.75 and each individual KMO statistic was greater than 0.70, higher than the recommended 0.60 threshold. Our observations-to-respondent ratio for this analysis was 19.75:1, which significantly exceeds the 5:1 rule-of-thumb ratio (Hair et al. 2006). Thus, all eight items were kept for exploratory factor analysis. Principal component factoring with varimax rotation requesting one factor was performed (Reis and Judd 2000). Two items were eliminated due to low factor loadings (i.e., “claiming government benefits which my company is not entitled to” and “cutting corners or bending rules”). Then the analyses were rerun and the results showed that the one-factor solution explained approximately 50 percent of the total variance. All item loadings were greater than 0.66 and internal consistency indices revealed reliability estimates of 0.80. The resultant six-item scale for ESBs was retained for hypotheses testing.

Environmental Dynamism. Following Palmer and Wiseman (1999), we employed stock market data to approximate the industry effect. Industry sales data from the Chinese Stock Market Report, provided by Shenzhen Securities Information Co., Ltd. (SSIC), were used to assess industrial dynamism. SSIC is powered by Shenzhen Stock Exchange, the sole agent of Securities Times, and a renowned professional provider of securities information in China. Specifically, we measured industrial dynamism by regressing time against industry sales for the 4-year period of 2001–2004. To conduct the regression, time (2001–2004) was entered as independent variables and industry sales (provided by SSIC) as dependent variable for each industry category. The standard errors of the regression coefficients were divided by the mean sales volumes of the 4 years (Boyd 1990). The result, indicating the extent to which sales were dynamic in each industry, was used as the measure of environmental dynamism. This time frame is consistent with our survey data, which were collected at the end of 2005 and asked respondents to report the sales volumes of their firms for the years between 2001 and 2004.

Firm Performance. Firm performance was measured by asking the respondents to report their firms’ sales revenues for each year between 2001 and 2004. The average rate of growth in sales was calculated for the period of 2001 to 2004. This approach has been used extensively in previous research as an indicator for firm performance (e.g., Covin, Green, and Slevin 2006; Florin, Lubatkin, and Schulze 2003; Walter, Auer, and Ritter 2006). Previous research indicates that self-reported sales figures are a reliable measure of firm performance (e.g., Chandler, Honig, and Wiklund 2005). The mean firm sales growth rate was 0.47 for our sample. However, as it was highly skewed (skewness statistic = 4.77), the logged growth rate was used in the analysis (skewness statistic = 0.11).

Relational Social Capital. Following prior research (Florin, Lubatkin, and Schulze 2003; McFadyen and Cannella 2004), we constructed a composite measure of relational social capital consisting of three commonly used facets: trust, norms, and obligations. We first identified 10 categories of social networks with whom entrepreneurs have constant interactions: (1) family/friends; (2) financial institutions; (3) government agencies; (4) higher education; (5) professional associations such as business associations, consulting companies, attorneys, accountants; (6) employees; (7) suppliers; (8) distributors; (9) consumers; and (10) competitors. Respondents were asked to indicate the number of people they are in a relationship with across each of these networks who they can trust, who follow business norms, and who uphold mutual obligations. The numbers of relationships were then added across the ten networks for each of the three facets, that is, trust, norms, and mutual obligations. The means and standard deviations of these measures were used to reduce skewness and the average was used as a composite for relational social capital.

Control Variables. Three controls were entered when we tested the hypothesized relationships. These three control variables are widely believed to influence ethical behaviors (Cullen, Parboteeah, and Hoegl 2004; Martin
The first control was firm size, which was measured by the current number of employees (Keats and Hitt 1988; McKinley 1987). As the raw number of employees was skewed (skewness statistic = 3.20), the logged number of employees was used (skewness statistic = 0.39) as an indicator of firm size. Firm age, calculated as the number of years from founding to 2005, was entered as the second control variable. At the individual level, entrepreneurs’ education (1 = up to high school; 2 = high school; 3 = undergraduate; 4 = master; and 5 = doctoral) was used as a control variable.

Analysis and Results
Tests for Multicollinearity, Potential Outliers, and Common Method Variance
To check for the threat of multicollinearity, we examined the variance inflation factors (VIFs) and condition index scores. Results showed that all VIF values were less than 2.17 and all condition index scores were less than 30.80. Each of these statistics is well within the acceptable ranges (Fox 1999; Neter et al. 1996; Tabachnick and Fidell 2001). Thus, multicollinearity is not likely to be a threat to the validity of our results. To detect potential outliers, we calculated leverage values and DfBetas. These analyses found no leverage values higher than 0.18 and no standardized DfBetas greater than an absolute value of 0.41. Again, these scores fall well within the acceptable ranges suggested by Neter et al. (1996) and Tabachnick and Fidell (2001). Thus, outliers are not likely to be a potential threat to our analysis.

Three variables (sales growth rate, relational social capital and ESBs) were collected from the same respondents in this study. Thus, we checked for the potential common method variance problem with Harman’s one-factor (or single-factor) test (Podsakoff et al. 2003). Harman’s one-factor test suggests that if a single factor emerges or one general factor accounts for the majority of the covariance among the variables, the potential for common method variance exists in the data. To test for this potential threat to validity, we first performed an exploratory factor analysis. Principal axis factoring method and unrotated factor solution were employed. We then examined the results to determine the number of factors that accounted for the variance in the variables. Three factors emerged with eigenvalues greater than one. No single factor was dominant with the first factor explaining 39.76 percent of the variance. In addition, one of our independent variables—environmental dynamism—was obtained from archival data sources and was entered in the model together with these self-reported variables. Thus, common method variance should not be a potential problem in our study.

Tests for Hypotheses
Table 1 presents the means, standard deviations, and correlations for all variables. As indicated in Table 1, each of the independent variables (relational social capital, firm sales growth rate, and environmental dynamism) was significantly and negatively correlated with ESBs.

H1, H2, and H4 predict that entrepreneurs’ firm performance (H1), relational social capital (H2), and environmental dynamism (H4) are negatively related to ESBs. Results relevant to these hypotheses are presented in Model 2 of Table 2. As Model 2 indicates, each of the hypothesized predictors of ESBs is significantly and negatively associated with ESBs (\( b = -0.23, p < .05 \) for firm sales growth rate; \( b = -0.33, p < .001 \) for relational social capital; \( b = -0.23, p < .05 \) for environmental dynamism). Besides, the addition of these independent variables explained an extra 25 percent of the variance for ESBs. H1, H2, and H4 are supported.

H3 suggests that firm performance mediates the relationship between entrepreneurs’ relational social capital and ESBs, and H5 proposes that firm performance mediates the relationship between environmental dynamism and entrepreneurs’ ESBs. To test the proposed mediating relationships, we adopted the procedures developed by Baron and Kenny (1986). According to the logic of this procedure, mediation is suggested if the following conditions are met: (1) the independent variable is a significant predictor of both the dependent variable and the mediator; (2) the mediator is a significant predictor of the dependent variable; and (3) the effects of the independent variable on the dependent variable are reduced when the mediating variable is added to the regression equation. Full mediation is indicated if the effect of the independent variable is no longer significant when the mediating variable is added, whereas partial mediation is suggested.
if the effect of the independent variable is reduced but remains significant.

We first examined the relationship between the independent variables (relational social capital and environmental dynamism) and dependent variable (ESBs) as well as the relationship between the independent variables and the mediator (firm sales growth rate). As shown in Model 4 of Table 2, relational social capital is marginally related to the mediator (firm sales growth) ($b = 0.14$, $p < .10$) and environmental dynamism is significantly and positively related to the mediator ($b = 0.20$, $p < .05$). The addition of these two independent variables (relational social capital and environmental dynamism) explained an extra 5 percent of the variance for firm sales growth. Model 6 of Table 2 indicates that both relational social capital and environmental dynamism are significantly and negatively associated with the dependent variable (ESBs) ($\beta = -0.38$, $p < .001$ for relational social capital and $\beta = -0.27$, $p < .01$ for environmental dynamism). The addition of these two variables explained an extra 22 percent of the variance for ESBs. These results show that the condition of Step 1 for a mediation relationship is met for environmental dynamism, yet only marginal significance is found for relational social capital.

Second, Model 7 of Table 2 indicates that a significant relationship exists between firm sales growth and ESBs ($\beta = -0.23$, $p < .05$). The requirement of Step 2 in the Baron and Kenny (1986) procedure is fulfilled. Third and finally, as Models 6 and 7 of Table 2 demonstrate, the effects of relational social capital and environmental dynamism on ESBs were reduced yet remained significant, when firm sales growth was included in the regression equation. The coefficient for relational social capital decreased from $-0.38$ ($p < .001$) to $-0.33$ ($p < .01$), and the coefficient for environmental dynamism decreased from $-0.27$ ($p < .01$) to $-0.23$ ($p < .05$). As Step 3 of the Baron and Kenny (1986) procedure suggests, firm sales growth partially mediates the relationship between environmental dynamism and ESBs, supporting H5. As the results of Step 1 of the procedure indicate marginal significance for the effect of relational social capital on firm sales growth ($\beta = 0.14$, $p < .10$), H3 is only partially supported.

Further evidence of partial mediation was obtained by conducting the Sobel test. Sobel tests (Sobel 1982) calculate the magnitude of the unstandardized indirect effect and its associated standard error. The ratio of the indirect effect over its standard error is referred to as the Sobel statistic, which is compared with a $z$ distribution to determine the statistical significance of the indirect effect. The Sobel tests based on our data indicated that the indirect effect of relational social capital on ESBs (Sobel statistic $= -1.35$, $p < .10$) was in the anticipated
Table 2
Results of Regression Analysis Predicting Ethically Suspect Behaviors\(^a\)

<table>
<thead>
<tr>
<th>Variables</th>
<th>Ethically Suspect Behaviors</th>
<th>Firm Sales Growth Rate</th>
<th>Ethically Suspect Behaviors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
</tr>
<tr>
<td>Firm Size(^b)</td>
<td>-0.34* (0.25)</td>
<td>-0.09 (0.27)</td>
<td>0.71*** (0.13)</td>
</tr>
<tr>
<td>Firm Age(^b)</td>
<td>0.42** (0.51)</td>
<td>0.18 (0.49)</td>
<td>-0.62*** (0.25)</td>
</tr>
<tr>
<td>Entrepreneur Education</td>
<td>0.03 (0.12)</td>
<td>-0.08 (0.11)</td>
<td>-0.07 (0.06)</td>
</tr>
<tr>
<td>Relational Social Capital(^b)</td>
<td>-0.33*** (0.24)</td>
<td>0.14* (0.15)</td>
<td>-0.38*** (0.24)</td>
</tr>
<tr>
<td>Environmental Dynamism</td>
<td>-0.23* (3.97)</td>
<td>0.20* (2.67)</td>
<td>-0.27* (3.96)</td>
</tr>
<tr>
<td>Firm Sales Growth Rate(^b)</td>
<td>-0.23* (0.16)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\)Standardized coefficients are displayed in the table with standard errors in parentheses.
\(^b\)Logarithm.
\(^*\)p < .10 (2-tailed).
\(^*\)p < .05, (2-tailed).
\(^**\)p < .01 (2-tailed).
\(^***\)p < .001 (2-tailed).
direction and marginally significant; and the indirect effect of environmental dynamism on ESBs was both in the anticipated direction and significant (Sobel statistic $=-1.45, \ p<.05$). Thus, further support was found for H3 and H5.

**Discussion**

This study attempted to clarify the concept of ESBs and aid future research by examining the philosophical underpinnings of such behaviors and by explicitly invoking our own ontological and epistemological assumptions regarding them. Building on Anomie and Strain Theory-based arguments (Durkheim 1966; Merton 1968) and within an organizing framework suggested by research on organizational misconduct (Vaughan 1999), we studied the relationships of environmental dynamism, firm performance, and relational social capital with ESBs of entrepreneurs. Results suggest that on average, firm performance, relational social capital, and the extent to which industry sales are dynamic (i.e., environmental dynamism), all have a negative relationship with entrepreneurs' engagement in ESBs. The results further suggest that firm performance partially mediates the relationship between environmental dynamism and ESBs. Albeit with marginal support, firm performance also partially mediates the relationship between entrepreneurs' relational social capital and ESBs.

Overall, this study finds good support for Anomie and Strain Theory-based reasoning in establishing the primacy of firm performance with respect to ESBs of entrepreneurs. Entrepreneurs with better-performing firms were less likely to engage in ESBs. The importance of firm performance is further established as the effects of both the environment and, to a certain extent, entrepreneurs’ relational social capital, are partially mediated by firm performance. This explanation is simple and perhaps more fitting to the entrepreneurial context given that often one of the most critical goals of entrepreneurs is for their firms to survive and do well. However, it does not explain why entrepreneurs with well-performing firms may at times also engage in ethical misconduct. Although our data do not show such a pattern, Vaughan (1999) suggests that competition not just for profits and economic success but for many other kinds of scarce resources may be at play and organizations, regardless of their place in the “food chain,” are structurally induced to violation. For example, the powerful may compete (and in the process sometimes engage in ethical misconduct) to stay powerful, others may compete to move up, and yet others may compete to stay in the race and avoid dropping out of the competition. This is a fruitful avenue for future research where competition for resources is captured in many varieties.

Findings related to the relational social capital and ESBs relationship suggest that as the number of close relationships marked by high levels of trust and presence of norms and mutual obligations held by an entrepreneur increases, his/her ESB decreases. This decrease is partially attributable to an increase in firm performance resulting from these relationships. These findings reiterate the importance of social aspects to entrepreneurship in general and ESBs of entrepreneurs in particular. As developed earlier, what constitutes ESB itself is inherently a socially constructed phenomenon. Actors act within socially constructed structures such as social and cultural norms, rules, legal and regulatory institutions, etc., and in their acting both create and recreate these social structures. In other words, the repertoire of ethical/unethical behavior gets created and evolves as a function of social action. Within this view, and consistent with Anomie Theory, the close relationships and the resources embedded within them act as deterrents to what are socially considered as ESBs. However, how relational social capital (and other dimensions such as structural and cognitive; Nahapiet and Goshal 1998) actually discourages deviance and encourages compliance, or vice versa, is a critical area for future research. That is, what mechanisms (e.g., religious, cultural, etc.) are at play in the social construction of particular behaviors as ethically suspect to begin with and what mechanisms (e.g., power, reciprocity, legitimacy, etc.) embedded within social networks are responsible in eliciting desirable behavior and prohibiting undesirable behavior by entrepreneurs. Furthermore, little is known whether entrepreneurs hold a certain hierarchy or preference in deciding which types of relationships are worthy of “sacrifice” in the interest of their firms. That is, are they more likely to take undue advantage of relationships which are not as close? Future research may break down social networks (and the capital inherent within them) into meaningful categories and study the differential impacts of such categories on ESBs of entrepreneurs.
Findings related to the environmental dynamism and ESBs relationship suggest that as industry-level sales become more dynamic and unpredictable, entrepreneurs’ engagement in ESBs decreases. Further, such a decrease is partially attributable to increases in firm performance resulting from environmental dynamism. We believe that these findings are particularly intuitive for the entrepreneurial context. Though at the surface one may argue that uncertainty as a result of dynamic environments may prompt more not less engagement in ESBs in general, a deeper consideration of both need and opportunity would suggest it to be otherwise for entrepreneurs. From this perspective, firm administrators (both the focal entrepreneur and administrators of other firms) and other stakeholders are more on guard than in stable environments and this could decrease the opportunities for them to be taken advantage of. Further, it seems that entrepreneurs are somehow able to view the uncertainty as a positive rather than a negative, thereby reducing the perceived need or the perceived strain (in Strain Theory terms; Merton 1968) associated with ESBs. Both these factors result in a net decrease in ESBs of entrepreneurs. However, although we hypothesized and found support for a linear negative relationship, it is possible that this relationship is curvilinear. As a matter of fact, a curvilinear relationship between environmental dynamism and illegal behavior has been reported in the corporate context (Baucus and Near 1991), where illegal behavior was lower in moderately dynamic environments as compared with stable environments, but illegal behavior was higher in highly dynamic environments as compared with stable environments. Future research may explicitly test a curvilinear relationship in the entrepreneurial context.

Further, although empirical findings based on large corporations with respect to the relationship between dynamism and firm performance have often been mixed, the entrepreneurial context seems to be different. Entrepreneurs typically possess high levels of optimism (Hmieleski and Baron 2009), risk-taking propensity (Tang and Tang 2007), tolerance for ambiguity (Hai and See 1997), perseverance (Markman and Baron 2003), and positive affect (Baron and Tang 2011). As a result, it is likely that entrepreneurs are better able to “make sense” of the uncertainty inherent in dynamic environments (for reasons good or bad) and thrive where large corporations, with multiple layers of bureaucracy and fragmented decision making, often struggle. However, the just given interpretations require a word of caution. It is implicit in our arguments that entrepreneurs acted (here with lower levels of ESBs) in response to the environment based on their perception (true or otherwise) of the environment. How accurately they perceived (or need to perceive) the environment is open for debate. This point relates to a larger debate in the literature regarding the conformity of measures of perceptions of environment by firm administrators and the “objective” or archival measures of environment characteristics (e.g., Milliken 1987). Clearly, perceptions play an important role in mediating action. Future research may attempt to measure perceived environmental uncertainty as well as incorporate archival measures in the same study to provide clarification.

Limitations and Suggestions for Future Research

There are limitations in this study which must be considered in the interpretation of its findings. First, though we measured ESBs at the time of data collection and used sales figures from the 4-year period preceding data collection, a reciprocal relationship between ESBs and firm performance cannot be completely ruled out. It is possible that firms with entrepreneurs engaging in ESBs were performing well because of such behaviors and that better performance thereby reduced the need for further engagement in such behaviors. It is also possible that firms with entrepreneurs engaging in ESBs were performing poorly as a result of such behaviors (e.g., lower performance due to legitimacy loss) and entrepreneurs adapted by reducing their ESBs. This is a promising area for future research where scholars may probe individual instances of ESBs and the causal chains associated with them. Qualitative studies should be particularly suitable for this purpose to gain an in situ understanding of each ethically suspect act, as well as the entrepreneur’s orientation underlying it.

Second, although we followed previous research (Florin, Lubatkin, and Schulze 2003; McFadyen and Cannella 2004) to construct a composite measure of relational social capital consisting of three commonly used facets: trust, norms, and obligations, this measure is highly subjective. As mentioned previously, entrepre-
neurs typically possess a high level of optimism (Hmieleski and Baron 2009) and positive affect (Baron and Tang 2011). Thus, the number of people in their networks of relationships that entrepreneurs report as trustworthy, following the business norms, and fulfilling their obligations, is likely to be inflated. The fact that only marginal support was found for the mediating role of firm growth rate in the relationship between relational social capital and ESBs may be due to the subjective measure employed in the analysis. More objective or second-source measure of relational social capital should be employed in future research.

Third, the cross-sectional design of this study limits our ability to draw causal inferences about the relationships observed. Although difficult, future research may incorporate longitudinal designs by measuring performance criteria and lagged instances of ESBs at multiple points in time. Longitudinal case studies (with multiple cases designs) may especially be fruitful in this avenue regardless of a positivist or an interpretivist orientation. It is to be noted, however, that when considering specific instances of ESBs, researchers are clear (and explicit) both about their own ontological and epistemological assumptions regarding ESBs and about the perspectives of individual entrepreneurs.

Exciting possibilities for future research emerge from this study. First, additional variables can be included at all three levels. At the environment level, competition intensity, industry concentration, and munificence should be especially relevant. At the firm level, our findings related to the firm size and firm age control variables seem interesting (Model 1 of Table 2). As firm size increased, ESBs decreased, yet as firm age increased, ESBs also increased. Although these effects were not significant in models which included key study variables, they do suggest that liabilities of smallness and newness may be running in opposite directions in their impact on ESBs. Do entrepreneurs with older firms really engage in more ESBs and those with larger firms less so than those with smaller firms? In terms of social capital, other dimensions of social capital such as structural and cognitive (Nahapiet and Ghoshal 1998) may be simultaneously modeled. Further, interactions between environmental and firm variables or firm and individual variables are quite possible and definitely worthy of study.

Second, the consequences of ESBs are of equal importance. Do ESBs pay? On the flip side, what are the advantages, if any, of ethically sound conduct (Bhide and Stevenson 1990) for entrepreneurs? Further, the consequences of ESBs may be much larger and have impacts beyond a focal entrepreneur. In line with this reasoning, future research may focus on the spread of legitimacy loss to innocent entrepreneurial ventures as a result of instances of wrongdoing or unethical behavior by one or a few focal entrepreneurs. We believe that it is important to understand how consumers and other stakeholders generalize in shaping the image of an entrepreneur as willing to do anything for personal gain because of the actions of a few—the 2008–2009 lead poisoning and milk scandals related to Chinese products being recent examples (see Jonsson, Greve, and Fujiwara-Greve 2009 for an excellent application of this concept to corporate deviance).

Third, given the conceptualization of ESBs in this study within a teleological perspective and a socially constructed worldview, we believe that it is possible and opportune to start developing taxonomies of ESBs. Researchers may develop different categories of ESBs which capture their many facets. This is important as not all ESBs are likely to have the same antecedents. Further, they may differ in their consequences for both entrepreneurs and in terms of social costs.

Implications for Policymakers and Entrepreneurs

In our sample, firm performance seemed to be rather important in relation to entrepreneurs’ ESBs. This reiterates the importance of support from governments in the form of financial assistance, loans, and information not only during the start-up phase but also in later stages of entrepreneurial ventures. If entrepreneurs are able to turn to more legitimate means of mitigating financial constraints and counter falling revenues, they may be less likely to take the deviant route—assuming such constraints to be key motivators of ESBs. Further, policymakers may attempt to supplement the existing social networks (typically informal in nature) of entrepreneurs with broader and more formal networks (similar to professional networks, for example) of support, information, and possibly direct financial assistance. Such networks may be more likely to deter ESBs.
Similarly, entrepreneurs are encouraged to actively develop their social networks and perhaps engage in mutually benefitting firm network relationships which provide both opportunities for economic success and deterrence against misconduct. Further, our study found that entrepreneurs performed well and engaged in lower levels of ESBs in dynamic environments. As dynamic environments are often suggested to result in entrepreneurial opportunities (Shane and Venkataraman 2000), this is encouraging. Entrepreneurs are cautioned, however, to carefully consider the ethical nature of such opportunities in exploiting them and also to not be overly optimistic in their assessments of what the future holds (Hmieleski and Baron 2009). More importantly, entrepreneurs are encouraged to explicitly invoke ethical aspects pertaining to their actions. Such invocations may help entrepreneurs to critically evaluate their actions in light of socially accepted ethical criteria.

Conclusion

Clearly, ethical issues are deeply intertwined with entrepreneurs and entrepreneurial action (Dees and Starr 1992; McClelland 1961). Entrepreneurs face unique ethical challenges as they operate in complex environments and often have to contend with financial, operational, and other pressures (Hannafey 2003; Morris et al. 2002). It is also evident, however, that ESBs do not have to be “a normal part of doing business” for entrepreneurs. In the present study, we attempted to investigate three factors which lower the level of ESBs based on a conceptualization of ESBs which lends itself to further study and refinement. This conceptualization also presents researchers an opportunity to invoke different (than ours) philosophical perspectives in studying this critical phenomenon. For example, researchers may adopt an interpretivist stance and aim at understanding the perspectives of entrepreneurs with respect to different behaviors across varied situations to better understand what and when entrepreneurs consider ethically suspect and under what circumstances they are willing to engage in or abstain from them. With increased understanding of this crucial phenomenon, we may be able to better debate the notion that ESBs are inherent in entrepreneurial action.

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