



## Personal strain and ethical standards of the self-employed

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### ARTICLE INFO

#### Keywords:

Personal strain  
Ethical standards  
Self-employed  
Cultural and institutional context

### ABSTRACT

Using strain theory to examine the relationship between sources of personal strain and ethical standards, we study how variations in the self-employed's household income, educational level, associational membership, and trust in institutions link to the extent to which they maintain high ethical standards. We test our hypotheses using data from 3716 self-employed persons across 39 countries. The self-employed's ethical standards relate positively to their household income and trust in institutions but negatively to their educational level and associational membership. A supplementary exploratory analysis provides further insights into how broader cultural and institutional contexts in which the self-employed are embedded might influence the relationship between sources of personal strain and ethical standards.

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### 1. Executive summary

We draw from strain theory—which argues that persons' ethical attitudes relate to the strain they experience when they lack the means to realize personal goals—to investigate the relationship between sources of personal strain and ethical standards of the self-employed. We reason that to the extent the self-employed's personal circumstances reflect possible sources of strain, or lack thereof, their beliefs about whether a person can rely solely on ethical standards to accomplish goals may vary. Focusing on four possible sources of strain—household income, educational level, associational membership, and trust in institutions—we hypothesize that at higher levels of these variables, which translate into lower levels of personal strain, the self-employed may maintain higher ethical standards. For the purpose of this study, we define the self-employed as anyone who earns a living from his or her own business and note that the self-employed represent a segment of the population that are more likely to confront personal strain in their day-to-day activities.

Our empirical investigation includes both a confirmatory and an exploratory component. First, the confirmatory component provides a formal test of how these four sources of strain link to the self-employed's ethical standards. To this end, we test four hypotheses with multiple regression analysis based on individual-level data from 3716 self-employed persons across 39 countries collected through the World Values Survey. Second, the exploratory component of the study provides preliminary insights into how the relationships between the sources of the self-employed's personal strain and their ethical standards may alter as a result of country-level factors. In other words, we address how the environmental context in which the self-employed are embedded might shape their ethical standards. We assess one dimension of a country's cultural environment (i.e., uncertainty avoidance) and one dimension of its institutional environment (i.e., government involvement).

The results of the confirmatory analysis provide mixed support for the four hypotheses. Although we find support for our expectation that the self-employed's household income and trust in institutions relate positively to their ethical standards, their educational level and associational membership relate negatively to such standards. We provide possible explanations for these

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counterintuitive findings. Specifically, self-employed persons with higher educational backgrounds may be less likely to regard ethical issues in simple black-and-white terms and therefore more willing to believe that a person cannot adhere solely to ethical means to achieve goals. Furthermore, drawing from the literature on the “dark side” of social capital, we suggest that associations may encourage the self-employed to believe that a person should not always adhere to ethical standards when making decisions, especially when those associations help advance members' interests, even if they conflict with broader societal norms. Finally, the results from the exploratory analysis shed some further light on the findings from the confirmatory analysis. The relationship between the self-employed's educational level and ethical standards is negative only in countries with high levels of uncertainty avoidance. Similarly, we observe a negative relationship between associational membership and ethical standards in high uncertainty avoidance countries, as well as in countries with low levels of government involvement. Finally, we observe that the strength of the positive relationship between the self-employed's trust in institutions and their ethical standards is stronger in countries with less government involvement.

## 2. Introduction

Despite a substantial body of ethics research, relatively few empirical studies examine correlates of the ethical standards of the self-employed (Hannafey, 2003; Longenecker et al., 2006; Vyakarnam et al., 1997). The growing attention in academia and the business world on ethics, to a great extent, has focused instead on the ethical attitudes of persons employed by others, with a particular focus on managers in large corporations (Christie et al., 2003; Cullen et al., 2004). However, maintaining ethical standards is a concern for everyone, regardless of their employment status. The presence of ownership and management responsibility in the hands of one person may establish different dynamics from those found among managers who work for someone else's organization (Vyakarnam et al., 1997). In particular, the ethical values and inclinations of individual business owners may have far more direct effects on their companies' actions because of their close involvement with their company's day-to-day practices (Quinn, 1997). Furthermore, given the close link between the individual business owner and company practices, the *personal* strain that the self-employed may experience in accomplishing their goal of economic success likely reflects more directly on the ethical character of their business activities compared with the case of employed persons whose personal circumstances link more remotely with their companies' activities (Morris et al., 2002; Vyakarnam et al., 1997).

In essence, this study addresses the following question: How do different sources of strain for the self-employed relate to their ethical standards? We define strain as the frustration the self-employed may experience when they lack the means to accomplish their goal of becoming a successful entrepreneur (Merton, 1938, 1968).<sup>2</sup> Furthermore, we define ethical standards as the extent to which the self-employed are unwilling to justify behaviors that are generally considered ethically suspect solutions to ethical dilemmas (Cullen et al., 2004). That is, similar to Cullen et al.'s (2004) study of managers' ethical attitudes, we consider a specific step in the self-employed's ethical reasoning processes that precedes their actual behavior, namely, their general belief that ethically suspect behavior cannot be justified or accepted.<sup>3</sup> We consider the self-employed those persons who earn a living from their own business, rather than as an employee of another (Robinson and Sexton, 1994), and thus as a group that often lacks access to physical, financial, or intellectual resources (Brush and Chaganti, 1998; Caputo and Dolinsky, 1998; Davidsson and Honig, 2003; Morris and Zahra, 2000; Robinson and Sexton, 1994).

Although extant entrepreneurship literature devotes substantial attention to how limited access to resources may hamper business success (e.g., Brüderl and Preisendorfer, 1998; Robinson and Sexton, 1994), we know relatively little about how such resource constraints may relate to ethical attitudes. That is, while extant ethics literature relates people's ethical attitudes to various personal characteristics, such as gender (e.g., McCabe et al., 2006), age (Rawwas and Singhapakdi, 1998), religion (e.g., Vitell and Paolillo, 2003), or education (e.g., Rest and Narvaez, 1991), to the best of our knowledge, it does not directly address the specific question of how variations among persons in terms of personal strain may reflect on their ethical standards. For instance, a popular theory in ethics research is Kohlberg's (1981) theory of moral development, which posits that people make different judgments about an ethical issue depending on their level of cognitive moral development. In essence, the theory and its applications (e.g., Bass et al., 1999; Forte, 2004) argue that persons move in a linear fashion through different stages of moral development, ranging from lower to higher levels of ethical sensitivity, influenced by their life experiences. For example, factors associated with higher levels of ethical sensitivity include exposure to a college education (McNeel, 1994) and the selection-socialization process provided by employing organizations (e.g., Cohen et al., 2001). However, the theory of moral development does not specifically account for how people experience different levels of personal strain across the different stages of their moral development.

Thus, though ethics literature considers factors potentially associated with people's ethical attitudes, it does not address the question of how variations among persons in terms of personal strain may reflect on their ethical standards. This oversight is particularly troublesome for the context of the self-employed, considering that self-employed persons, as we noted previously, commonly confront severe constraints in their day-to-day activities (e.g., Robinson and Sexton, 1994). Accordingly, we contribute

<sup>2</sup> Consistent with prior research, we thus associate a negative connotation with the label “strain” as it relates to a person's propensity to maintain standards that deviate from what is generally understood as “acceptable” behavior (Agnew, 1992; Durkheim, 1951; Merton, 1968). We note that recent arguments also suggest that strain may have some positive aspects, in that the lack of means to achieve goals may lead persons to exhibit higher levels of improvisation, creativity, and self-reliance (Akers, 2000).

<sup>3</sup> Prior research discusses the link between people's ethical attitudes and actual behavior in the context of their moral cognitive development and qualifies the link between moral judgment and behavior as “pervasive albeit moderate” (Trevino, 1992: 453). Although it may be reasonable to assume that people who maintain high ethical standards also demonstrate high levels of ethical behavior in their day-to-day activities, we acknowledge that this expectation is not automatic.

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