



Innovation, rule breaking and the ethics of entrepreneurship

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ARTICLE INFO

Keywords:
Innovation
Rule breaking
Ethics
Entrepreneurship

ABSTRACT

This article examines a feature of the ethics of entrepreneurship that is infrequently directly discussed, viz., rule breaking. Entrepreneurs are widely said to engage in rule breaking. Many examples of this appear in popular and academic literature. But how may this be integrated into an account of the ethics of entrepreneurship? One response would be that when entrepreneurs break legal and moral rules then what they do is wrong and ought to be condemned. There is a great deal to be said for this rule model of entrepreneurial ethics. However, this view is also mistaken. Instead, this article defends a virtue-based account of the ethics of entrepreneurship in which certain instances of rule breaking, even if morally wrong, are nevertheless ethically acceptable and part of the creative destruction that entrepreneurs bring not only to the economy but also to morality.

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1. Executive summary

This article examines one aspect of the ethics of entrepreneurship that relates to the changes and innovations with which entrepreneurship is frequently associated. To be an entrepreneur, it is often said, one must break the rules so as to take advantage of opportunities one identifies or can create. Following such injunctions may, of course, lead entrepreneurs into a number of moral dilemmas, especially when rule breaking takes place within legal and moral contexts. Still, such behavior fits with some descriptions of entrepreneurs being tricksters, wily competitors, and clever enterprisers. In fact, some of these rule violations, of the moral and legal sort, become part of their mythology. Without bold and/or devious acts, some of their products and companies would not have succeeded. Consequently, if entrepreneurs are viewed as engaging in creative destruction, there is no reason why this notion might not apply to the law and morality as well.

Exploring the connections between this dynamic, boundary-crossing view of entrepreneurship and its ethical implications is crucial to developing an ethics of entrepreneurship. There is, of course, much to be said for *not* breaking rules, at least moral and legal ones. Such a view accords with traditional views of morality and rule breaking. On these views, either one ought never to break moral rules, or only to do so when there are excusing or justifying circumstances. However, even in this latter case, an appeal is being made to some principle behind the rule, which would justify breaking the particular rule. Hence, this view has typically relied upon universal, general, and unchanging principles from which we may derive the specific rules we ought to follow.

Though this kind of account captures an important place for rules in our view of morality, I argue that there is something more complex going on that naturally comes to the fore when considering the ethics of entrepreneurship. This complexity can be captured in a number of kinds of situations entrepreneurs' face in which genuine moral rules are broken and yet this behavior is accepted as part of entrepreneurship. For example, in some "Competitive Contexts" entrepreneurs may break rules regarding truth telling and promise making and yet their actions are accepted as what entrepreneurs do. In cases of "Permission and Forgiveness"

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entrepreneurs may break genuine rules within organizations and yet their actions be forgiven. Some actions entrepreneurs take may alter the context so that what was wrong becomes right or what was false becomes true (“Pygmalion Effects”). In other instances, “Dirty Hands”, alternative decisions may both be wrong. Finally, rule breaking may also be part of a cross-cultural tradition of the trickster, who is accepted, if not respected, for outwitting “the system” to promote some project or scheme (“Tricksterism”).

These sections both illustrate and argue that the rule-based view of an entrepreneurial ethics is mistaken. More directly, we recognize that relatively specific moral rules may fail by being too narrow. They may also conflict, leaving the rule follower without any clear idea of what to do. Further, no rule can anticipate each and every new circumstance a person (or entrepreneur) might face. In addition, rule-based accounts of morality and rules miss the dynamism, the uncertainty, the changes and challenges that occur in morality and in entrepreneurial endeavors. Finally the commitment of entrepreneurs to and enthusiasm for their projects is essential for their success and yet this colors their judgments, and often times leads to exaggerated representations of their businesses and projects. In fact, these projects may only succeed due to their biased commitment. A traditional moral account that emphasizes objectivity and rationality seems to miss this engaged nature of entrepreneurial endeavors.

In contrast, I defend a model of ethical decision making that looks beyond the rules that entrepreneurs break to the kinds of characters, businesses, and societies that are involved. We must particularly focus on the virtues that entrepreneurs may display in their moral and ethical choices. These virtues are part and parcel of our views of a good or flourishing society. This view does not deny that moral rules play a role in our behavior, but embeds them in the broader ethical dimension of a good or flourishing life in which virtues play a central role. Moral rules are derivative of such virtues.

On this view, entrepreneurs may break various moral rules, thereby doing what is morally wrong, even though from a broader, ethical perspective what they do may be acceptable. Nevertheless, breaking such rules is not simply something that can or should be done capriciously. I do not defend a view that exempts entrepreneurs from charges of acting immorally. Rather, I seek to create a space within the ethical for actions entrepreneurs (and others) may take that do violate moral rules, and should be said to be wrong, but which may from the larger ethical perspective be said to be permissible. Only such an approach captures the creative destruction that entrepreneurship represents. Moral change and progress do not occur merely smoothly, without actual moral transgressions. Still, these are (or should be) restrained within both moral and ethical considerations related to the virtues and considerations related to the good or flourishing life. For this, both moral imagination and moral wisdom are required. There are no moral rules or algorithms that will tell them what to do.

2. Introduction

Over the past several decades entrepreneurship has attracted increasing attention, not only in the United States but around the world, for its contribution to new products and services, employment, and the economy more generally. Both individuals and large firms are seeking to become more entrepreneurial. We have come considerable distance from the age of “the Organization Man” (Whyte, 1956).

Given the prominence of entrepreneurship these days, there is also the tendency to extol and even romanticize the entrepreneur. For example, George Gilder comments that the entrepreneur’s “success is the triumph of the spirit of enterprise — a thrust beyond the powers and principalities of the established world to the transcendent sources of creation and truth” (Gilder, 1992: 309).

And yet there is another side to the story. Though there are many examples of the benefits of entrepreneurship, there are also abundant examples of its misuse. Some employees of Enron engaged in a number of entrepreneurial undertakings that were illegal and unethical. And, on a far less grand scale, there are examples of entrepreneurs who brew whiskey illegally in the hills of Appalachia or who sell prescription drugs without a physician’s prescription on the Internet. In these and other cases, entrepreneurs have broken legal and moral rules.

It is not surprising then that a recent article, in a journal issue devoted to entrepreneurship and ethics, notes “an intense love–hate relationship” between the two: “On the one hand, entrepreneurs, who are regarded as creative innovators, are praised for their contribution to the development of society by creating new products, employment opportunities and thus opening new possibilities for all of us. On the other hand, entrepreneurs are often criticized for a one-sided pursuit of business success and being willing to compromise moral values if needed” (Fisscher et al., 2005: 207). In light of such criticisms and unsavory examples, some have contended that unless the moral status of entrepreneurship can be shown to be “morally worthwhile” and “ethically praiseworthy”, the status of the entrepreneur as well as “... the market itself become vulnerable to serious moral criticism” (Machan, 1999: 596).

In this paper, I want to examine one aspect of the ethics of entrepreneurship that relates to the changes and innovations with which entrepreneurship is frequently associated. It is often said that to be an entrepreneur one must break the rules, not accept conventional wisdom, but take advantage of the various opportunities that one identifies or can create. Following such injunctions may, of course, lead entrepreneurs to a number of moral dilemmas, especially when rule breaking takes place within legal and moral contexts. Still, such behavior fits with some descriptions of entrepreneurs being tricksters, wily competitors, and clever enterprisers. In fact, some of these rule violations, of the moral and legal sort, become part of their mythology. Without bold and/or devious acts, some of their products and companies would not have succeeded. Consequently, if entrepreneurs are viewed as engaging in creative destruction, there is no reason, a priori, why this notion might not apply to the law and morality as well.

I believe that by exploring the connections between this dynamic, boundary-crossing view of entrepreneurship and its ethical implications we can learn more about entrepreneurship as well as morality and ethics. Doing so may help us to develop an ethics of entrepreneurship, while better understanding the nature and role of moral change in morality. This focus of study is infrequently

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