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What Business Ethics Can Learn from Entrepreneurship

Stephen R. C. Hicks

Rockford College, Illinois

Abstract

Entrepreneurship is increasingly studied as a fundamental and foundational economic phenomenon. It has, however, received less attention as an ethical phenomenon. Much contemporary business ethics assumes its core application purposes to be (1) to stop *predatory* business practices and (2) to encourage *philanthropy* and *charity* by business. Certainly predation is immoral and charity has a place in ethics, neither should be the *first* concerns of ethics. Instead, business ethics should make fundamental the values and virtues of entrepreneurs—i.e., those self-responsible and productive individuals who *create* value and *trade* with others to win-win advantage.

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I. Three Character Types: Carly, Tonya, and Jane

Entrepreneurship is increasingly studied as a fundamental and foundational economic phenomenon. Schumpeter (1950) and Kirzner (1978) were pioneers, and their successors have generated a sizeable literature. Yet entrepreneurship has received less attention as a moral phenomenon and, correspondingly, less attention in the business ethics literature.

Consider the moral status of the entrepreneur by contrast to two other types.

1. *Carly*: As a student, Carly worked hard and received good grades. Upon graduation she took a job, but at the same time saved money and worked on her business plan. When she was ready, she took the entrepreneurial plunge and started her own business, which she developed successfully, and then, a few years later, sold for \$10 million. She is now living the good life of travel, building her dream home, raising her family, and managing her portfolio of investments.

2. *Tonya*: Tonya also worked hard in college and, upon graduation, took a job in a financial institution. She discovered a flaw

in its funds-routing procedures, which enabled her anonymously to divert \$10 million to an offshore bank, from which it was quickly re-routed through several Caribbean and Swiss banks, ending up in an account known only to Tonya. One year later, Tonya resigned her position at the financial institution and is now living in discreet luxury somewhere in Europe.

3. *Jane*. While in college, Jane studied liberal arts and graduated with a good degree. Unfortunately, the summer after her graduation Jane's parents died suddenly. Fortunately, they left her \$10 million in their wills, of which Jane immediately donated \$9.9 million to charities devoted to the homeless, victims of floods, and to the planting of trees in the Brazilian rainforest. Jane invested the remaining \$100,000 in a certificate of deposit earning 8% annually, the proceeds enabling her to live frugally and without too much discomfort.

Let us now ask the ethics question: Which of the three is the most moral? Whom should we uphold as the ideal? Should we teach our children and students to admire and strive to be like Carly, Tonya, or Jane? All three require strength: It is not easy to build a successful business. It is not easy to figure out a con and get away with it. And it is not easy to give away all of one's money.

Tonya is representative of a predatory ethic: she harms others and uses the proceeds to benefit herself. She is representative of the zero-sum, gain-at-the-expense-of-others practices widely condemned in the business ethics literature.

Jane is representative of an altruistic ethic: she is selfless, and she places what she has at the disposal of others in society, keeping only the minimum for herself. She is representative of the "social justice" practices widely praised in the business ethics literature.

Carly is the prototypical entrepreneur and is representative of a self-realization, egoistic ethic. She creates value, trades with others, and lives her dream life. Yet she is not discussed in the business ethics literature. She is the invisible woman.

Yet the character traits and value-producing activities of entrepreneurs at least implicitly inform an ethic. To make this ethic explicit, let us begin with a standard description of the entrepreneur.

II. The Entrepreneurial Process

The entrepreneurial process begins with an *informed and creative idea* for a new product or service. The entrepreneur is *ambitious* and *gutsy* and takes the *initiative* in developing the idea into a new enterprise.

Through much *perseverance* and *trial and error*, the entrepreneur *produces* something of value. He or she takes on a *leadership* role in showing consumers the value of the new product and in showing new employees how to make it. The entrepreneur *trades* with those customers and employees to *win-win* results. He or she thus achieves *success* and then *enjoys* the fruits of his or her accomplishment.

To expand upon each of the italicized elements in this description:

Entrepreneurs generate business ideas and decide which ones are worth pursuing. In the process of coming up with *informed, creative ideas*, entrepreneurs speak of vision, "thinking outside the box," imagination, active-ness of mind, and "lightbulb moments." Having generated ideas, they speak of exercising judgment: Which ideas are actually good ones? Can the product or service be developed technically? Will it sell? What does the market research show? Entrepreneurs exhibit a commitment to cognitive achievement—intellectual playfulness, research, experimentation, and analysis.

Ambition is the drive to achieve one's goals, to be successful, to improve oneself, to be better off, to be the best that one can be. Entrepreneurs feel more than the often-abstracted and idle wishing—"Wouldn't it be nice if I were rich and independent?"—that many people experience. Ambitious individuals feel strongly the *need* to achieve their goals.

Entrepreneurship requires *initiative*. It's one thing to have a good business plan; it's another to turn the plan into reality. Entrepreneurs are self-starters who make the commitment to bring their good ideas into existence.

A new enterprise involves venturing into the unknown, a willingness to take on obstacles—including the possibility of disapproval and mockery—and the possibility of failure. Consequently, entrepreneurial activity takes *guts*—a willingness to take calculated risks, to be aware of possible downsides while not letting the fear of failure or disapproval dominate one's decision-making.

Entrepreneurial success is almost never easy and overnight; success is a result of sticking with it through the difficulties and over the longer term. That is to say, *perseverance* is essential. Entrepreneurs must persevere through the technical obstacles in product development, in the face of the naysayers who declare that it can't be done or who are otherwise obstructionist, and in the face of their

own self-doubts. Entrepreneurs must be good at short-term discipline and at keeping their long-term motivations present in their thinking.

The development process is almost always a *trial and error* process, requiring that the entrepreneur make adjustments based on experience. Successful entrepreneurs adjust to real-world feedback, which means being able to admit mistakes and incorporating newly-discovered facts, rather than pig-headedly ignoring anything that is a threat to their pet ideas.

Productivity: The development process hopefully culminates in a working product. If so, the entrepreneur has added value to the world by creating a new good or service, making it work consistently, producing it in quantity, and continuing to improve the quality.

Those who transact with the entrepreneur, whether as customers, employees, or venture capitalists, engage in *win-win trade*, exchanging value for value. Socially, trade is a process of dealing with others on a peaceful basis according to productive merit. It requires protecting one's own interests and respecting the other party's doing the same, exercising one's skills of negotiation, diplomacy, and, when necessary, toughness in order to achieve a mutually beneficial result. Entrepreneurs also add value by bringing *leadership* to the trade. Entrepreneurs are creating something new, so they are the first to go down a new path. Those who go first set an example for others to follow and, especially in the case of a new product and service, they must show new customers the value of the new product and service and must teach new employees how to produce the new product or service. Accordingly, entrepreneurs must exhibit leadership in showing others the new way, encouraging them through the learning process, and in marketing the new. Part of the trade, then, is that the customer or employee is shown a new opportunity and is enabled to take advantage of it, and the entrepreneur receives compensation for doing so.

Finally, the entrepreneur experiences *success* and the *enjoyment* of success. Entrepreneurial success yields both material and psychic rewards—both the goods that financial success can bring and the experience of financial independence and security that go with it. And of course there is the psychological reward of achievement: experiencing enhanced self-respect and the sense of accomplishment in what one has created.

III. Entrepreneurship and Virtue Ethics

So far I have sketched the entrepreneurial process in terms of the traits and actions that lead to entrepreneurial success. What does this have to do with morality?

One major approach to ethics is through virtue. Virtues are action-guiding character traits that aim at good results. The ethics literature is populated with many competing accounts of what the good results should be and, consequently, with competing accounts of what virtues we should uphold. Some virtue ethicists make the claim that a character has priority in ethical evaluation over rules or principles, actions, and consequences. Setting aside the issue of whether virtue has priority, my concern here is to connect entrepreneurial success traits to virtues.

If we cash out the above entrepreneurial character traits in terms of *virtues*—i.e., in terms of character traits and commitments that enable and constitute good action—then we make the following connections:

The entrepreneur's generating and evaluating informed and creative ideas connects to the virtue of *rationality*. Rationality is the commitment to the full exercise of one's reason. The entrepreneur's initial active and creative thinking are functions of reason, as is the exercise of evaluative judgment in determining which business ideas are actually good ones.

The entrepreneur's ambition and drive for success connect to the virtue of *pride*. Pride has forward-looking and backward-looking aspects (e.g., taking pride in what one *has* accomplished); it is the forward-looking aspect that is relevant here. Taking pride in oneself means wanting the best for one's life, which implies a felt commitment to achieving the best in one's life. For example, taking pride in one's appearance means wanting to look one's best, which implies a commitment to health, hygiene, and style. The entrepreneur's drive for success is a consequence of taking pride in the business part of his or her life.

The entrepreneur's showing initiative by being a self-starter and committing to bring the business plan into existence connects to the virtue of *integrity*. Integrity is the policy of acting on the basis of what one believes to be true and good. It is translating thought into practice. That is, one's thoughts are integrated with one's actions; or one's beliefs about what would be good are integrated with one's actions to bring that good into existence from planning.

The entrepreneur's commitment to action, despite the fear that comes from being aware of the risks, connects to the virtue of *courage*. Courage is the virtue of committing to an action that one judges to be right while being aware, both intellectually and emotionally, of the possibilities of failure.

The entrepreneur's perseverance through difficulties, disapproval, and other temporary doubts connects with the virtue of *independence*. Independence is the virtue of trusting one's own judgment and acting on the basis of one's best judgment despite short-term frustrations or the contrary opinions of others.

The entrepreneur's working through the trial-and-error process of product development connects to the virtue of *objectivity*. Objectivity is the policy of guiding one's thoughts by one's best awareness of the facts, of being open to new facts; or, to put it negatively, not wearing intellectual blinders and avoiding uncomfortable feedback from reality. A constituent element of objectivity is the virtue of *honesty*, the policy of not pretending to oneself or others that facts aren't facts.

The entrepreneur's productivity connects to the virtue of *productiveness*. Productiveness is a commitment to the creation of value, to being self-responsible for bringing into existence that which one needs and wants.

The entrepreneur's trading value for value with customers and employees connects to the virtue of *justice*. Justice is a commitment to evaluating and interacting with individuals according to their merit, and a correlative commitment to being *oneself* evaluated and interacted with on the basis of one's own merit. Justice applied to business trades means that trades are entered into voluntarily, that is, on the basis of each party's independent judgment, and that the terms of the trade are established by each party's independent judgment of the merits of the trade.

And, finally, the entrepreneur's achieving success, including the financial and psychological rewards of creating a flourishing business, connect to the general moral values of *flourishing*, *happiness*, and *fulfillment*. Flourishing, or happiness, is the state successful living. As one's business life is a component of one's overall life, the entrepreneur's engaging in the actions that lead to flourishing in business is a component of an overall flourishing life. The entrepreneur's actions both constitute and lead to a life that is fully realized.

Summarizing all of the above in a table, we get the following:

Table 1:
Entrepreneurial Character Traits and Related Moral Virtues

Entrepreneurial Trait:	Moral Virtue:
Knowledge and Creativity	Rationality
Ambition	Pride
Guts	Courage
Initiative	Integrity
Perseverance	Independence
Trial and error	Objectivity (including Honesty)
Productivity	Productiveness
Trade value for value	Justice

Entrepreneurial Consequence:	Moral Value:
Experiencing and enjoying success	Self-esteem, Pride, Flourishing

IV. An Entrepreneurial Code of Ethics

The virtues and values listed in the right column of the table together constitute *an entrepreneurial code for business ethics*. That set of virtues is an abstraction on a description of entrepreneurial activity. The thoughts and actions of entrepreneurs are particulars of a general set of success traits. Those success traits of entrepreneurs are particulars of a general set of virtues.

In historical context, the list of virtues is very Aristotelian (Aristotle, 1984; see especially Aristotle's discussions of courage in Book III, pride as the "crown" of the virtues, truthfulness, and liberality with respect to money in Book IV, justice in Book V, and *phronesis* or practical wisdom in Book VI of *Nicomachean Ethics*) and very Objectivist (Rand, 1964).

One important implication of the above is that an entrepreneurial ethic contrasts strongly to the ethics codes prevalent in the traditional and current business ethics literature. An assumption of much of the literature is that that success according to business criteria and success according to ethical criteria are different things. A consequence of that view is that business is amoral and ethics is something that has to be imported into or grafted onto it—or, in

more extreme views, that business is inherently immoral and the purpose of ethics is to rein in or restrain business.

By contrast, the above entrepreneurial code of virtues connects business to ethics positively. It sets a foundation for a business-friendly ethic based on the assumption that successful business practice has *within* it the resources to develop an ethic. Entrepreneurs are individuals who are oriented toward practical success. The commitments and traits that enable them to achieve the good, i.e., success in life, are virtues. And virtues are the subject matter of morality and ethics. Entrepreneurship is a particular vehicle for moral activity.

Or to put the point another way: When we teach the skills for practical business success, the list on the left side of the table is what we teach. When we teach moral virtue, the list on the right is what we teach. And they come to the same thing—the moral is the practical.

Another implication of the above involves making the full case for the free society. The ethicist must be an ally of the economist and the political scientist in making that argument. Economists work out the commercial mechanisms of a free society, and political scientists work out its constitutional and limited government requirements. Yet while the economists and political scientists of the free society have done excellent work, less has been accomplished in articulating, advocating, and defending a free society's ethic, including its business ethic.

James Buchanan made the following observation:

“We true liberals are failing to save the soul of classical liberalism. Books and ideas are necessary, but they are not sufficient to insure the viability of our philosophy. No, the problem lies in presenting the ideal. My larger thesis is that classical liberalism cannot secure sufficient public acceptability when its vocal advocates are limited to ‘does it work?’ pragmatists. ... A vision, an ideal, is necessary. People need something to yearn and struggle for. If the liberal ideal is not there, there will be a vacuum and other ideas will supplant it. Classical liberals have failed in their understanding of this dynamic” (Buchanan, 2002).

Entrepreneurial success is not the whole of ethics, but it is a good start for business ethics. Ethical codes matter *socially*: We develop

political and economic systems to produce and protect what we think is the good, and what we think is good depends on our moral code. And moral codes are crucial *personally*: one's moral code is one's spiritual drive—it is that which one thinks best, highest, and most noble that says who one is and which brings out one's best. We need a moral code that idealizes the Carlys—not one that urges us to be Janes or that is limited to attacking the Tonyas.

The key thesis of an entrepreneurial code of ethics is that business ethics should focus first on creativity, productivity, and trade. Creative, productive traders are highly-realized moral individuals. That is to say that business ethics should take entrepreneurship seriously and foundationally as a moral phenomenon.

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