

# Entrepreneurial Ethics in Developing Countries

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## Abstract:

Technological innovations, outsourcing of production to developing nations and their desire to improve business conditions often leads to compromising business and professional ethical standards in developing countries. Of course one of the problems arise from the fact that developing nations either do not have established ethical standards, or are rejecting the established ethics in favor of borrowing ethical standards from developed nations. The issue with the second approach is that those standards are either misinterpreted or implemented in a way they were not intended originally. Companies are often at loss on which ethical guidelines they should follow and workers struggling with often strange interpretation of those guidelines. Some of the issues arise when ethical standards and laws are at odds, or the laws are discarded that create a vacuum in enforcing ethical principles. A few of those misinterpreted principles are discussed in this paper. The data was collected from newly minted entrepreneurs in a developing country. The development of universal ethical principles is suggested to overcome some of the issues faced by developing nations. Such ethical principles have to take into consideration multiple cultural norms, individual belief systems and good business practices where all stakeholders' interests are considered.

**Key Words:** entrepreneurial ethics, ethical standards and laws, developing countries

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Ethical behavior in business and education is more important today than ever. Advances in communication provide us with instant information about what is happening on the globe. We have knowledge of corruption happening at home or in other parts of the world almost instantly, we know if an innocent family has been the victim of war, we know about war lords' control of a geographic region, white collar crimes, and countless other issues almost instantaneously. Therefore, it is the advantage of individuals in business and public life to project an exemplary life, for and maintain a good reputation. This paper will concentrate on the importance of entrepreneurial ethics, common misconceptions and suggests solutions to resolve ethical dilemmas.

Ethics is derived from a Greek word *ethos*, meaning character. In its original meaning it referred to the character of an individual. Another term used almost interchangeably is morality, which refers to the relationship between individuals (Thiroux & Krasemann, 2009, p.3). When we talk about ethical behavior, we usually refer to relationship between individuals or a group of people.

Ethics is a normative standard defined by a group of individuals, a culture, a profession, a political entity, religious entities, states, governments and any other organization interacting with each other. The multitude of ethical standards established by these entities creates a problem if and when their ethical standards differ from each other. For example, if one entity decides that it is acceptable to give expensive gifts to each other for the privilege of doing business together and another entity decides that that practice is wrong, it creates an ethical dilemma when the two entities are trying to do business together. The multitude of ethical standards throughout this world creates multitudes of ethical dilemmas, especially when those standards are unwritten expectations of behaviors.

In this paper we will focus on business or entrepreneurial ethics. We are witnessing another revolution in business, similar to the Industrial Revolution. As the result of technological innovations, outsourcing of production to developing nations and their desire to improve business conditions, the confluence of ethical standards play havoc with both industries and workers. Companies are often at loss on which ethical guidelines they should follow and workers struggling with often strange interpretation of those guidelines. Entrepreneurial ethics deal with the application of moral principles to business dilemmas. In addition, it tries to bring various ethical standards used in various cultures and integrate them into multi-national business enterprises. Some of the topics business ethics deal with the resolution between the law and ethics, accountability of businesses to their multiple

stakeholders, such as customers, stockholders, suppliers, distribution chain, and different internal entities of the organization. Businesses are also responsible for operating within the law of the land and last but not least maintaining environmental integrity.

Business ethics is grounded in law, in cultural norms and in various philosophical principles (Jennings, 2008). However, ethical thinking is considered to go beyond the law. Law may guarantee certain protections for customers, stakeholders and the greater society; however, good business end ethical principles may go over and above the law to protect those groups. A brief description of the most common ethical principles follows. The most common one used throughout the world are the Divine Command Theory (Thiroux & Krasemann, 2009, p.56), which is based on supreme beings as the origin of those principles. Variations of these principles are the foundations of the religions of the world. Although it would make sense that there would be a uniform theory throughout the various religions, it is not the case. Each religion developed its own way of dealing with ethical dilemmas. Another principle is based on Categorical Imperative view (Thiroux & Krasemann, 2009, p. 57). It dictates that one does not exploit others for their own benefits. The Rights Theory is a later development in ethical thinking, where we expect the government to protect our own individual rights, such as ownership of property, right to bear arms, freedom of speech, justice, and liberty. Contractarian theory is closest to the philosophy that law is all encompassing. If we have a legal agreement that is a social contract both sides should be able to live by it. There are several other philosophical principles that are beyond the scope of this paper.

In contemporary economics the ethical principles are often determined by and interpreted by the law. In case of developing nations where the speed of change is faster than the developed nations, ethical principles and even the law is often misinterpreted to the benefit of some entrepreneurs. This is almost always driven by greed and the striving for instant gratification. A few of the common misperception about the economy and ethics are discussed below.

*Free enterprise often confused with “anything goes”, lawlessness*

In many developing nations private enterprise is somewhat restricted. Businesses are either owned by governments (socialist countries in pre-1989 Eastern, Europe, Cuba, North Korea) or owned by few privileged individuals (Viet Nam, Mexico, and other developing countries.) In either case, the business environment is monopolistic and entry into businesses are cost prohibitive, and or restricted by government. Individuals in these environments very much aware of these restriction and many entrepreneurs are longing to establish a free enterprise system. They often interpret free enterprise as the removing all restrictions. This

happened in Eastern Europe after 1989, Iraq and Afghanistan after the falling of their governments due to war, which complicates the situation a lot more, because of wartime economies are different than economies during peace. This paper will restrict economies during peace.

Economies after the fall of communism went into disarray. Privatization of government enterprises went with relative ease, however complaints about people taking advantage not only legitimate opportunities, but peoples' naiveté took advantage of the general population by selling useless papers, creating and disbanding organizations where the only beneficiary was the entrepreneur. This situation is not unique to changing economies in the developing world, but also in developed economies such as the United States and France (Bernie Madoff) where people with entrepreneurial spirits, take advantage of the general population. The failure in most cases is the result of not communicating honestly about the risks and benefit of a new venture. People invest into or buy products or services where the advantages are highly exaggerated and the risks or disadvantages are often downplayed by the entrepreneur. The difference between growing economies and developing economies is often in the belief system of the enterprising individual. In gross generalization, in the developed economies, entrepreneurs know that they are doing something unethical or illegal and decided to do it anyway, because the rewards in their minds outweigh the risks. An example is Bernie Madoff, who was surprised that he was not caught earlier in his 50 billion plus dollar scandal. In developing economies, the reasons for the deception may be entirely different. There the entrepreneurs may think that since the system changed to free enterprise, it is OK to do whatever one pleases, because in their mind free enterprise means complete freedom to do whatever it takes to earn money and develop wealth. All previous rules are thrown out. This leads to the next misconception.

*New economy means rejecting every rule that has been established before*

It happened in Russia; it happened in Hungary, it happened in Czechoslovakia after the "velvet revolution" a time of lawlessness. This type of transitional period generally associated with rejection of everything in the present and great hope of change in the future. Unfortunately any kind of change, especially large scale economic change takes a long time to accomplish. In the meantime opportunists take advantage of the situation and take advantage of the unsuspecting. Stories of selling fake stock certificates, ownership in gold mines, oil wells are just a few examples of taking advantage of people's naiveté. Old rules and laws have been abandoned and new ones are not in place yet. There is no orderly transfer of power and rule. The majority of the population with strong ethical values survives this period of

transition without resorting to unethical behaviors, but some of the entrepreneurial types who lack strong moral and ethical values thrive on chaos and lawlessness. Solution, do not throw out the old until you have something to replace it with.

*Changing the name of the system will change the system*

Another misconception about economic systems is that by changing the name of the system or the name of the political party will change the system. That is not necessarily so. An example of Eastern European politics after the failure of the Communist Party. Some of the members of the old system reconstituted themselves under a different name and sought to rule the country under a different name, but with the same attitudes and methods. Going into a government office or a restaurant soon after the change resulted in the same service. Different government, same service. Different ownership, same service.

*Every ethical guidelines established in the developed world is “good”, all we need to do is copy them*

We often fall victims to this fallacy. There are some universal ethical guidelines, however, local customs and moral codes also should be preserved or at least be considered. An example of this would be the differing amount of respect we show for the elderly. In many Western civilizations the amount of respect is equal to the respect earned and not based on the age of the individual. In other countries, the amount of respect is shown to an individual based on their age, birth order, the family status, wealth, and other considerations. Neither of these attitudes is wrong and it would be difficult to impose upon the other group. Preserving those values in addition to embracing new ones are a respectable way to spread morality and ethics.

*Religion is the only source of ethical guidelines*

Those who use religion as the foundation of their ethics cite various texts, such as the Bible, Koran, etc. and have wide range of beliefs on behavior that is “right”. A commonality between all religions is their citation of a supreme being. The major issue with religions is that disagreements in interpretation of their message often lead to hatred and in extreme cases war.

*The way we do business is good, we always done it that way (payoffs)*

We hear the statement: “we always done it that way” to resist change. In some countries more than in others the way business is done is to pay off politicians, power brokers and others do business in the country, region, or village. In other countries this method is a lot more subtle than in others. Some places one provides funds for the election campaign, provides transportation, vacation expenses, antique furniture, boats, houses, in other cultures it is more overt and asking for payoffs for economic and political influence. The perpetrators

usually defend the practice, because that is the way it always been done. Racial, gender discrimination, sexual harassment were practices that goes back to centuries, and they are tolerated, because that is the way it always been done. We constantly need to review the way we conduct ourselves in order to improve and create a better social and business environment. Change usually follows advocacy for a cause and often changes in laws. Even changes in laws will not necessarily changes behavior, or it takes generations to change morals. An example of that is the US Civil Rights Law. Generations after the passing of the law, we still find plenty of examples of discrimination.

*So, what can we do to fix/improve our imperfect moral system?*

Business leaders as well as philosophers are working on solutions that would solve ethical dilemmas and identify behaviors that would be beneficial to all. Laura Nash identified nine steps to go through to resolve ethical dilemmas (Goodpaster, Nash, & deBattignies, 2006). Although it is a great way systematically solve the problems, in most cases individuals demand a simpler solution. Peter Drucker advocates that the number one goal of businesses and entrepreneurs should be “above all, do no harm” (Cohen, 2010). If businesses would live up to that, ethical dilemmas would be solved easier. Other philosophical ideas look at deeper structure of our social structure and ask questions such as “Am I willing to live in a world I created?” (Hooker, 1996). This statement warns us all that the consequences of being ethical effects us all, not just the ones directly involved with a business transaction. Warren Buffet’s statement is almost as profound “Am I willing to put my action on the front page of a newspaper?” (Jennings, 2008). Are we being open with our dealings and willing to take the consequences of our actions? If we can do that we will live in a world with a lot less corruption and more consideration to other human beings. If we are confronting ethical dilemmas, are we approaching them with open mind and a goal of resolving them without hurting others? These ideas are transcending national borders, cultures, religions, and diverse ethnic groups. We need to take responsibilities for our actions and lead the march for a more humane and ethical world order.

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