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The logo features a stylized lowercase 'e' inside a circle, with three horizontal lines below it, resembling a lightbulb or a stylized 'e'.

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The mission of the **Journal of Ethics & Entrepreneurship (JEE)** is to publish (double-blind, peer reviewed) interdisciplinary scholarly research (conceptual, theoretical, empirical) or teaching cases that connect entrepreneurship and ethics and appeal to both the academic and the practitioner.

FUNDING OF JEE

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A LABOR OF LOVE: A BRIEF HISTORY OF THE FIRST FIVE YEARS OF THE JEE

The Journal of Ethics and Entrepreneurship was born in the fall of 2008, after a monumental gift from John and Linda Godbold to the School of Business at Gardner-Webb University provided funding for both a Center for Ethics and Entrepreneurship and a journal that would publish research about the intersection of ethics and entrepreneurship. The previous summer, while the gift was being planned, Donald W. Caudill was being considered for a faculty position at GWU, and the Dean of the School of Business, Anthony Negebenebor, the Associate Dean, Van Graham, and the Associate Provost, the late Gayle Bolt Price (who would do the hiring) all felt that Caudill, in addition to serving as Professor of Marketing, would be an excellent choice for editor of the new journal.

In the fall of 2008, when the Godbold gift was announced, Caudill began researching the feasibility of starting a journal. Caudill consulted with the editors of several journals (most published by universities) and researched the costs, pitfalls, and benefits of journal publishing. While Caudill found that there were numerous journals that catered to entrepreneurship and ethics research, there were, however, no existing journals that specifically addressed the intersection of the two disciplines. Indeed, Caudill's research revealed only one conference (2006) and one special issue of the *Journal of Business Venturing* (2009) about the convergence of ethics and entrepreneurship research.

Almost immediately after being tasked with editing the JEE, Caudill asked James Littlefield, one of his former doctoral professors from Virginia Tech, to serve as Associate Editor. Because Littlefield was preparing to retire after 28 years at Virginia Tech and 18 years at the University of North Carolina at Chapel Hill, he agreed. Both Caudill and Littlefield decided that the mission of the JEE would be to publish (double-blind, peer reviewed) interdisciplinary scholarly research (conceptual, theoretical, empirical) or teaching cases that connect entrepreneurship and ethics and appeal to both the academic and the practitioner and to offer a forum (non-refereed) for the reflection on contemporary issues related to the ethics/entrepreneurship interface. Most of all, the JEE would be "author"-centered and of high quality (JEE now has an acceptance rate of less than 20 percent). Both Caudill and Littlefield consider editing the JEE a service to the profession and "a labor of love."

In January 2009, Caudill attended the United States Association of Small Business and Entrepreneurship (USASBE) conference and found a receptive audience for the proposed *Journal of Ethics & Entrepreneurship*. Caudill spent the remainder of 2009 and most of 2010 distributing calls for papers, putting together an editorial review board, reviewing manuscripts and handling the myriad of details involved in publishing a journal.

The inaugural issue (dated Spring 2011) went to press in late 2010. You are now reading Vol. 5, No. 1 (Spring 2015).

As the JEE celebrates its fifth year of publication, the editors acknowledge that many people (authors, reviewers, readers, GWU administrators and staff, and others) have contributed to the success of the journal, and it is with profound gratitude that they submit this edition.

-- Amanda Wood Williams

Social Enterprise for Poverty Alleviation in an Era of Sector Convergence

Mark Peterson

ABSTRACT

This paper reviews changes in public-sector and citizen-sector aid programs and the concurrently increasing role of business in attempts to alleviate poverty. As a result of business's new leadership in poverty alleviation, social enterprises are adopting new structures in their efforts to improve the lives of those now living in poverty. Some of these hybrid structures combine elements of for-profit and non-profit enterprises. A typology of the emerging structures for social enterprise is developed based on two dimensions: 1) the upside potential for profit/social value of these enterprises, and 2) the non-profit/profit legal categorization of these enterprises.

Keywords: social enterprise, hybrid organizations, poverty alleviation, entrepreneurship

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Editor's Note: This paper won the *Journal of Ethics & Entrepreneurship* Best Paper in Ethics & Entrepreneurship Award at the 2013 United States Association for Small Business and Entrepreneurship (USASBE) Conference.

INTRODUCTION

Social entrepreneurship (focused on entrepreneurs) and social enterprise (focused on organizations) have their roots in the non-profit sector where the creation of social value—benefit to the public or society as a whole—is the underlying objective of NGOs (Bornstein, 2004; Bornstein 2010; Phills, Deiglmeier, & Miller, 2008). Toward the end of creating social value, NGOs have applied marketing principles in their social marketing campaigns—marketing behaviors that benefit society as well as the target audience (Kotler & Lee, 2009, p. 53). In development, NGOs such as Paul Polak’s International Development Enterprises based in Denver, CO have used social marketing to impart better farming practices to the rural poor.

As some social problems have proved difficult to eliminate and have actually increased in size and scope in many countries (such as poverty, malnutrition, energy resource depletion, environmental degradation, the trafficking of contraband and HIV/AIDS and flu pandemics), the limits of the non-profit—or citizen sector—to fully complement government in stemming these social problems have become evident. Business leaders have begun to realize that their businesses can have a role to play in addressing social problems. With the rise of corporate social responsibility in the late 1980s, founders of firms such as Patagonia, the Body Shop, and Ben & Jerry’s have viewed their businesses both as a vehicle to make money and as a means to improve society (Vogel, 2005).

Today, the boundaries between the non-profit, government and business sectors have become diffused and semi-permeable as ideas, values, roles relationships and capital flow more freely across these sectors (Phills, Deiglmeier, & Miller, 2008). Some describe this phenomenon as “sector convergence” (Coleman, Gulati, & Segovia, 2012, p. 7). In recent years, non-profit and government leaders have looked to businesses to learn about management, entrepreneurship and performance measurement. Government and business leaders increasingly turn to non-profit leaders to better understand social and environmental issues, and how to succeed in bottom-of-the-pyramid settings of developing countries. Finally, business and non-profit leaders both engage governments to shape public policy regarding social issues that somehow affect their missions or their customers.

THE SPOTTY RECORD OF AID IN POVERTY ALLEVIATION

Solutions to Poverty

Researchers have categorized fifty solutions to poverty (Kotler, Roberto, & Leisner, 2006). In the 1980s, international aid agencies introduced interventions or safety nets in developing countries hit by natural disasters. These relief interventions were intended to protect the poor—especially the

extreme poor living on \$1 per day or less. Some of these solutions focused upon providing cash, food, or public works. Other solutions comprised the “triple R framework” of relief, rehabilitation, and reconciliation in post-conflict situations. Still others featured social safety net programs intended to provide protection from deteriorated conditions of life the poor often experience. Healthcare for vulnerable populations complete the set of solutions that became popular in the 1980s.

In the 1990s, social protection services became popular as poverty solutions. These included social safety net measures but also covered longer-term solutions. Toward the end of the last century and in the first decade of the current century, empowerment solutions rose in prominence. These sought to expand individual freedom of choice for the poor in their lives. The World Bank made empowerment its primary strategy in “attacking poverty.” Many of these empowerment solutions focused on improving the poor’s ability to interact with institutions (such as business and government) that affect their lives and to hold these institutions accountable.

Overall, such “solutions” to poverty have posted a spotty record of success around the world since 1980 (Kotler, Roberto, & Leisner, 2006, pp. 237-238; Karlan & Appel, 2011, p. 5). Some have worked in some places, but not in others. The ones that have worked have not always sustained success.

Researchers have offered several reasons for the uneven outcomes of poverty solutions that have been tried. First, the poor are a heterogeneous group. This implies that segments characterize the population of the poor, and that field research where the poor live and work is needed to effectively understand these sub-groups of the poor. For example, those living on \$4 to \$5 a day might belong to the middle-class in some countries (Polak, 2008, p. 42). By comparison, extreme poverty would characterize those living on \$1 a day or less who would likely regularly suffer hunger and malnutrition. Second, poverty alleviation encounters a surprising degree of complexity. For example, poverty can come and go. Natural disasters and civil unrest can disrupt conditions where one lives, or alternatively, poor decisions, sickness or injury can degrade a person’s ability to earn a living. Third, rising from poverty might require accessing many institutions that function with varying degrees of effectiveness or corruption, such as governments, schools, international development agencies, and businesses.

Complexities of Aid

Almost all of the “solutions” to poverty invariably structure an unbalanced power arrangement between donors (the helpers) and receivers of aid (the helped). However, this power imbalance often creates problems if sustained over time for relief and rehabilitation (humanitarian aid) to

development situations (Corbett & Fickett, 2009, p.104). Following natural disasters or societal trauma, the provision of material assistance constitutes relief to reduce immediate suffering. Such solutions end after days or weeks. Rehabilitation begins after “the bleeding stops” with the goal of restoring people and their communities to positive aspects of their pre-crisis conditions. Such rehabilitation efforts often involve working with those afflicted (rather than doing things for or to the poor). Such solutions end after months or a few years. However, there are exceptions. The Canadian government estimated that returning Haiti to its pre-crisis conditions prior to its devastating January 2010 earthquake in which 200,000 died (including one-third of all senior civil servants) will take ten years (Wroughton, 2010, p. 1; Chung, 2010, p. 1).

Development between helpers and the helped represents longer-term projects extending for years. Here, the power imbalance between the helper and the helped can create serious problems. A “Samaritan’s dilemma” emerges where the help offered by the helper results in a reduced effort of the helped actively participating in their own development (Gibson, Andersson, Ostrom, & Shivakumar, 2005). While helpers receive a “warm glow” from helping, the helped receive more perceived value when they expend less effort to receive the aid they know will be forthcoming.

Paternalism characterizes such imbalanced relationships, as the helpers do for the helped what the helped could do for themselves (Corbett & Fickett, 2009, p. 115). The helpers have their feelings of goodness and superiority reinforced, while the helped have their feelings of inferiority underlined to them and to those in their communities. “NGOs flatter themselves into thinking that they save lives,” former Zambian Agriculture Minister Guy Scott said. “It is arrogant of the West to think that without whites, without pop stars, Africans would all be dead” (Astier, 2006, p. 2).

The helped may actually lose skill and motivation over time (Gibson et. al, 2005, p. 39).

In the remote, central-Sudanese region of the Nuba Mountains, Yousif Kowa led an insurrection against the Sudanese government that began in the 1980s and lasted until a tenuous peace-agreement in 2005. Kowa made it clear that unchecked humanitarianism was a threat to the self-reliant spirit of the Nuba tribe numbering more than one million (Fisher, 2001). According to Kowa, food relief—when continued—distorted farmer incentives and created dependence. Kowa recalled a trip he made in 1993 to an area in southern Sudan that had received much food aid from the United Nations. “The people of the area are great farmers,” Kowa said. “But because there is this relief food, they did not farm for three years. I could see the difficulty. It was spoiling people. They just sleep and have food. It is very bad” (Fisher, 2001, p. 3).

“It is axiomatic that flooding the market with food drives down the price for local farmers,” economist William Easterly said (Astier, 2006, p. 2).

Because of the problems that arise in long-term development, recent poverty solutions that have been tried emphasize empowerment of the poor. Despite this new emphasis, aid agencies—not the poor themselves—still decide how aid is given and in what form (goods, services, information, awareness-raising, and skills training). “Today, only a tiny amount of aid (almost certainly less than 10 percent) is given directly to poor people and poor communities for them to choose how to use it,” foreign-aid expert Roger C. Riddell said. “Even recipients who are committed to using aid effectively are not equal partners. They remain junior partners who have to struggle to make use of funds over which they have and retain limited control” (Riddell, 2007, p. 387).

Aid in the Context of Total Overseas Economic Engagement

Since 1950, support for aid has gone up and down. But since 9/11, support for aid has surged as governments of developed countries became keen to stabilize the development of poor countries during the fight against global terrorism (Riddell, 2007, p. 5). The total aid given by developed country governments to developing countries doubled from \$52 billion in 2001 to \$100 billion in 2005.

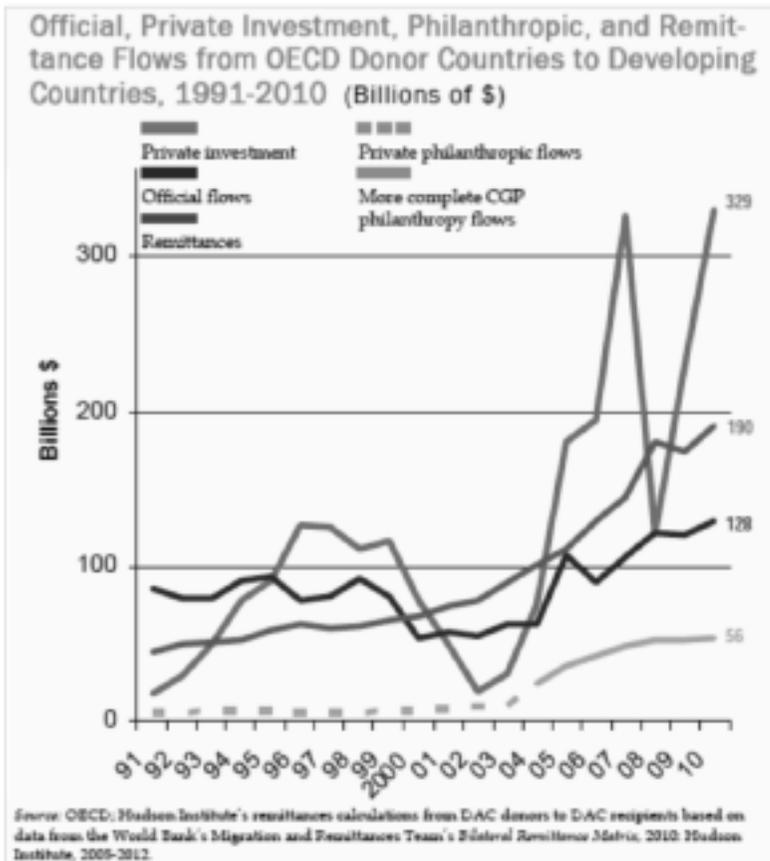
But government aid is just one part of the total economic engagement of developed countries with developing countries. Figure 1 depicts private investment, official flows, remittances, and private philanthropy of OECD Countries to developing countries from 1999 to 2009 (Hudson Institute, 2011, p. 15). As can be seen, official flows to developing countries was the top component in overall economic engagement in 1991, but in 2009 it was only the third-leading element in overall economic engagement at \$120 billion. Private investment (foreign direct investment by firms) topped all elements in 2009 at \$228 billion, while remittances (money sent back home from expatriates working overseas) came in second at \$174 billion. Private philanthropy came in fourth at \$53 billion in 2009 using the more complete data of the Hudson Institute’s Center for Global Prosperity (CGP).

The character of economic engagement of developed countries with developing countries can be better understood by examining the case of the US. US official development assistance (from the government) for 2009 accounted for 13% of total economic engagement with developing countries for the US. The remaining 87% of economic engagement with developing countries came from private sources. Private philanthropy in all its forms accounts for 17%, while remittances (going mostly to Latin America) accounts for the largest portion at 40%, followed by private capital flows at 31%. Behind the increase in private philanthropy is the proliferation and

strengthening of NGOs. Notably, giant aid agencies, such as Save the Children, Oxfam, the Red Cross, CARE, and Catholic Relief Services have budgets in the hundreds of millions of dollars each year (Riddell, 2007, p. 9).

Currently, less than 1% of the US budget goes to helping the world’s poor (Easton, 2011, p. 164). In economic and military assistance the US provided to foreign countries in 2010 (USAID, 2011), the US Agency for International Development (USAID) accounted for the largest portion of assistance the US gave at more than \$14 billion. Food aid came to more than \$2.3 billion, while State Department programs accounted for the second-largest portion at more than \$12.2 billion.

Figure 1



Other economic assistance included the Millennium Challenge Corporation (discussed below), the Peace Corps and voluntary contributions to multilateral organizations, such as the UN and the World Bank. More recently, the US directly funded 22% of the UN's budget (Better World Campaign, 2011), and provided \$2.3 billion to the World Bank in 2011 (Reddy, 2011).

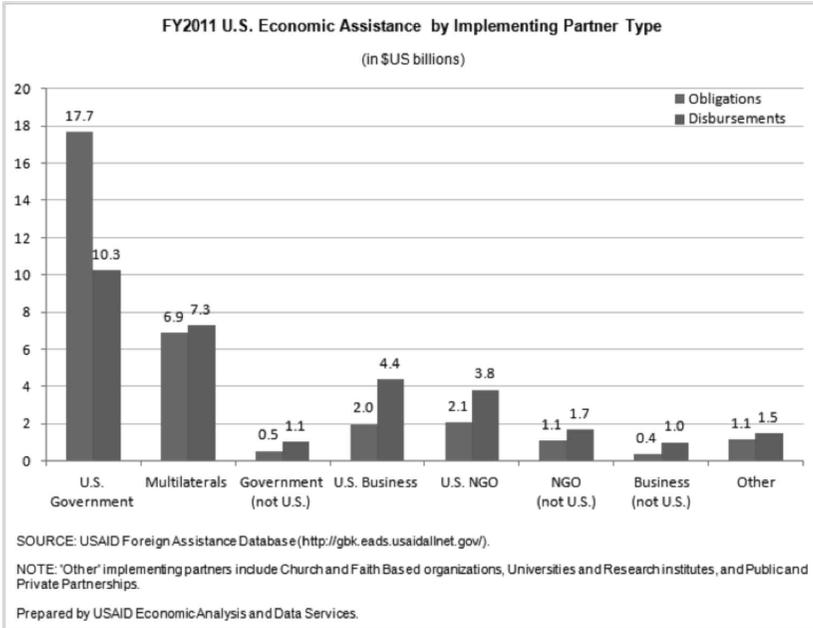
Innovation in Aid Focuses on Foreign Businesses

"I couldn't defend a lot of foreign aid over the past years, much of which disappeared into the pockets of corrupt foreign leaders," former US Secretary of State Condoleezza Rice said. "But foreign aid is one of the most important parts of diplomacy. We need countries that are responsible. A stable society is not going to become a failed state. But every taxpayer ought to be asking is it working?" (Easton, 2011, p. 164).

A critic of "big push" plans to alleviate poverty is economist William Easterly who dared to criticize the effectiveness of World Bank programs when he worked there. He lost his job for speaking out against the World Bank programs and agreeing with Rice's assertion that aid should be scrutinized by those funding it (Postrel, 2006). "This is the tragedy in which the West spent \$2.3 trillion on foreign aid over the last five decades and still had not managed to get 12-cent medicines to children to prevent half of all malaria deaths," Easterly said. "The West spent \$2.3 trillion and still had not managed to get \$4 bed nets to poor families. The West spent \$2.3 trillion and still had not managed to get \$3 to each new mother to prevent five million child deaths" (Easterly, 2006, p. 4).

Before 1982, USAID sent less than 15% of its annual spending through local and international NGOs and universities (Natsios, 2009). Facing the reality that sending aid during the Cold War to foreign governments, such as Zaire's anti-communist regime led by Mobutu Sese Seko, resulted in no public services or reform, USAID's leaders decided to pursue different ways to send aid to foreign countries. USAID began directing grants and contracts to NGOs, universities, and businesses. As a result, transparency, accountability, and performance of aid programs increased. Today, donor government aid agencies increasingly work with corporations and NGOs to encourage development in poor countries. Figure 2 depicts the different channels for aid delivery by obligations, as well as by disbursements (what was actually paid) in 2010. As can be seen, the US government accounts for the largest channel itself. Disbursements to foreign governments (third set of bars from the left) represent the smallest channel (tied with foreign businesses) now at \$0.9 billion in disbursements. Multilateral organizations, US businesses, US NGOs, foreign NGOs and other channels all account for more aid disbursements than foreign governments now.

Figure 2



The UN's Millennium Development Goals—the first being cutting in half the number of the poor living in extreme poverty by 2015 from 1990 levels—provide a useful frame for the aid efforts of both governments and NGOs in continuing their “big push” approach featuring aid. One different kind of government aid program is the Millennium Challenge Corporation (MCC), which U.S. President George W. Bush jointly announced at the White House with U2 star Bono in 2002 (Easton, 2011, p. 158). The focus of the MCC is funding private enterprises in developing countries which must have a democratic government, economic freedom, and lack of corruption. The MCC evaluates countries on 24 criteria using third-party social indicators to qualify them for large grants that would go to private business ventures or social enterprises in these countries (MCC, 2011). These criteria come under the headings of 1) ruling justly, 2) economic freedom, and 3) investing in people. With such criteria for society's performance in the public, private, and social sectors, the MCC approach resonates with research suggesting donors and international NGOs move “toward thinking about how they can support progressive forces of change, so that local NGOs can call their own governments to account” the Institute of Development Studies' Andy Sumner said (Ruvinsky, 2011, p. 9).

Developing countries have to compete for MCC funding of projects, so government leaders gain the impetus for curbing their anti-democratic impulses, as well as fighting corruption. More than \$8 billion in MCC aid has gone to countries, such as the Philippines, Georgia, and El Salvador. When Nicaragua suppressed the political opposition in local elections in 2008, it lost a \$62 million MCC grant. Likewise, when Malawi in southern Africa used violence to quell demonstrations there, it lost a \$350 million MCC grant.

The MCC takes a different approach than other aid agencies such as USAID or the World Bank that establish sizable staffs of expatriates in countries receiving aid. By comparison, MCC posts only two expatriates in a country, but these are backed by a team of engineers and auditors in Washington, DC. Projects are designed and administered by a coalition of host-country government officials, business and labor leaders, along with environmentalists. The coalition engages in hot debates about projects and funding in its own exercise of democracy.

Unlike other aid, the funding is designed to end. “My goal is to replace our money with private sector money,” MCC Director Daniel Yohannes said (Easton, 2011, p. 156).

In Ghana in western Africa, more than half a billion dollars has funded the training of 65,000 farmers, the construction of storage facilities, and the paving of gutted dirt roads to enable fresh produce to arrive to distant markets in a timely way (Easton, 2011, p. 156). Such accomplishments have enabled Ghanaian farmer Tony Botchway to develop a pineapple and mango processing plant in the central town of Nsorbi that pays 750 workers more than the minimum wage. Botchway’s firm, called Bomarts, is profitable, exports to Spain and Switzerland, and now serves as a supplier for MNE Dole. “We’re ready to compete with Costa Rican producers,” Botchway said (Easton, 2011, p. 156).

The MCC is daring because it promotes that economic growth is the best antipoverty tool making the MCC at odds with much of the donor community (comprised of governments, multilateral organizations, and NGOs), which views the marketplace with suspicions. “All humans need money—they need it to buy food and water every day,” UN deputy special envoy Haiti Paul Farmer said. “And no matter how hard the government or the aid industry tries, people will want for all three things until they are employed” (Easton, 2011, p. 164).

ENTREPRENEURSHIP IN POVERTY ALLEVIATION TODAY

A Typology of Structures for Social Enterprises

As a result of the increased interplay between non-profits, government and business, a variety of structures have emerged in recent years for social enterprises (Kelly, 2009). Current US law does not currently recognize any single legal entity that would allow receiving 1) charitable contributions that would be tax-deductible for donors, 2) invested equity capital which would require capital gains to be taken by investors, or 3) quasi-invested capital such as loans from foundations that do not expect a market rate of return (Bromberger, 2011). Some social entrepreneurs have found ways to integrate aspects of the for-profit and non-profit models for structuring their enterprises. Figure 3 depicts a matrix for these structures based on the upside potential for profit or social benefit, as well as the legal aspect of being a for-profit or a non-profit entity.

Figure 3

| Profit/Social Value Potential for Social Enterprise Structures | | |
|---|---|--|
| SOCIAL ENTERPRISE STRUCTURE | | |
| | For-Profit Structure | Non-Profit Structure |
| Upside Potential For | Profits ex: SKS Microfinance (foundation-owned) ex: Salesforce.com (business philanthropy) | Non-Profit with a Mission-Related Enterprise ex: Rwanda Partners (surplus revenues) ex: Fair Trade USA (revenue shortage) |
| | Social Value For Profit with a Social Overlay ex: Equal Exchange (worker co-op) ex: Organic Valley (producer co-op) ex: Grameen Bank (customer co-op) | Non-Profit ex: Acumen Fund, Kiva, Ashoka |

Figure 3 provides a valuable structure for the organization types now emerging in the current era of convergence of the public, nonprofit and business sectors. Importantly, Figure 3 highlights the critical aspect of the legal structure for social enterprises, and illuminates important distinctions among hybrid organizations in the upper-right and lower-left quadrants of Figure 3.

For-Profit

In the upper-left quadrant is the traditional for-profit model. Advantages for the for-profit model include the relative ease for raising money as equity or debt, and the ease of selling or shutting down (as long as creditors receive their due) (Fruchterman, 2011). Disadvantages for the for-profit model include being required by law to put the interests of the shareholders first meaning making money for them. Taxes on income and property must also be paid to governments and for-profit companies cannot accept foundation grants or nontaxable contributions.

An example of a for-profit corporation focused on alleviating poverty is SKS Microfinance of India. SKS distributes small loans that begin at Rs. 2,000 to Rs. 12,000 (about \$44-\$260) to poor women so they can start and expand simple businesses and increase their incomes (SKS, 2011). The micro-enterprises of these poor women range from raising cows and goats in order to sell their milk, to opening a village tea stall. A major challenge for social enterprises is scaling up their operations to influence more than just a locale or a region. SKS switched from a non-profit model to a for-profit model early in its existence in order to gain access to the financial resources that could come from being listed on the Bombay Stock Exchange, as well as the New York Stock Exchange. While this move resulted in millions of more dollars as a base from which to lend to poor consumers, the idea of profiting from poor people poses an ethical dilemma for some (Laczniak & Santos, 2011).

Creative business persons have tweaked the for-profit model in order to pursue different forms of philanthropy. For example, sales-support-software firm Salesforce.com's founder and CEO Marc Benioff developed a "1-1-1 rule" in which one percent of the firm's equity, one percent of its profit, and one percent of employees' time went into a non-profit, a 501(c)(3) public charity (Rose, 2011). Benioff said:

We run 10,000 non-profits for free. We do not charge universities for our services. We will deliver hundreds of thousands of hours of community service. Google copied our 1-1-1 model, and others have, too. That's been probably our most successful part of our business, far more than our business success—our ability to inspire others to do philanthropy. It's been a huge missing part of Silicon Valley. (Rose, 2011, p. 52)

Google's philanthropy is not structured as a charitable foundation, but as a division of the firm itself. In this way, Google declines a tax-exempt status for its "for-profit philanthropy," but gains full access to the Google's staff, technology, and products in the process (Kelly, 2009).

Large publicly-traded companies have integrated a social priority with their imperative for generating ongoing profits in several ways worth noting (Kelly, 2009). A dual-class governance structure at carpet-tile manufacturer Interface, Inc put super-voting shares in the hands of Chairman Ray Anderson and a few other top executives giving them control of 72% of votes for the board—although they own far less than a majority of publicly-traded shares. As a result, Interface has stayed focused on its drive toward sustainability. Google also adopted a similar dual-class stock configuration when it went public in 2004 that vested power with its founders. The New York Times Company is controlled by the Sulzberger family which has allowed The New York Times to stay focused on its mission of serving an informed electorate. A foundation controls Novo Nordisk, a Danish pharmaceutical company. This has enabled the firm to remain committed to its mission of defeating diabetes. Companies like these are termed mission-controlled companies.

For-Profit with a Social Overlay

The lower-left quadrant of Figure 3 represents the hybrid forms that have a for-profit legal structure with upside potential for social value rather than profits (Bromberger, 2011). These are for-profits with a social overlay (Fruchterman, 2011). Some of these structures have existed for decades. These include stakeholder-owned firms in the form of co-operatives. Such cooperatives might be formed by workers as in the case of Equal Exchange—a fair-trade food company—based in West Bridgewater, Massachusetts (www.equalexchange.coop). Alternatively, a cooperative might be formed by producers as in the case of Cooperative Regions of Organic Producers Pool (CROPP), better known by its brand name in grocery stores—Organic Valley—based in La Farge, Wisconsin. CROPP is owned by the 1,200 organic family farms that produce the dairy, eggs, and meat it distributes. "We don't have any need for profits much over 2 percent," CROPP CEO George Siemon said. "We'd just pay taxes on it. We'd rather give it to the farmers" (Kelly, 2009, p. 6). Finally, a cooperative can be owned by customers as in the case of Bangladesh's Grameen Bank that is owned by the poor people who are its depositors and customers (Yunus, 2010, p. 2).

For-profits with a social overlay now include new structures approved in some states that are now being adopted elsewhere. Instead of being either for-profit or non-profit, these new structures allow an enterprise to be "for-benefit" (Sabeti, 2011).

States such as California, Illinois, Michigan, Utah, Vermont, and Wyoming have enacted statutes allowing for the creation of for-profit corporations with a primary charitable purpose called benefit corporations. A branded form of a benefit corporation is the beneficial corporation—“B Corporation, or B Corp”—a new type of corporation that uses a business structure to solve social and environmental problems. B Lab, a non-profit organization, certifies B Corporations the same way TransFair certifies Fair Trade coffee or USGBC certifies LEED buildings. Annual scores for the more than 400 B Corps on B Corporations' legal structure expands corporate accountability so they are required to make decisions that are good for society, not just their shareholders. States such as Vermont, Maryland, New Jersey, and Virginia have passed laws backing B Corps. Seventh Generation is the nation's most recognized brand of natural household and personal care products. It became a founding B Corporation in 1991 because the firm believes it is critical that there be a standard for corporate responsibility in the United States (B Lab, 2011).

Each B Corporation has a rating page on the B Corp web site. Agora helps businesses in developing countries grow and prosper through business consulting and arranging financial assistance. Five dimensions comprise the B Corp score card 1) accountability, 2) employees, 3) consumers, 4) community, and 5) environment. Firms become certified as a B Corp when they achieve 80 points or more. Agora Management earned 105.2 points in 2010. It attained levels of excellence in accountability and consumers. Such ratings can be useful in demonstrating to employees, clients and investors the firm's success in creating social value.

In October 2011, California added the Flexible Purpose Corporation (FPC)—a new corporate form similar to a benefit corporation that allows a corporation to integrate the for-profit philosophy of the traditional corporation with a special purpose mission that is similar to a charitable purpose (Salceda, 2011). This special purpose might be promoting or minimizing short or long-term effects on 1) the FPC's employees, suppliers, customers, and creditors, 2) the environment, or 3) the community and society.

A low-profit limited liability company (L3C) is another version of the for-profit with a social overlay. For example, Maine's Own Organic Milk Company was created by family farmers and investors to sell the farmers' organic milk (Fruchterman, 2011). Because there were other owners than the producers' themselves, the L3C proved to be the best structure for this social enterprise.

In settings outside the US, an analog to the L3C would be what Nobel Peace Prize winner Muhammad Yunus calls a social business—a non-loss, non-dividend company with an owner and social objectives (Yunus, 2010, p. 4). “The existing company law in most countries is enough to create a

social business,” Yunus said. “That’s the beauty of the concept. The only thing is, it must be specified in the charter that the owners cannot take dividends. They only get back their investment” (Wimmer, 2012, p. 194).

Yunus sees social businesses as allowing owners to express their selflessness, and to attract investors—a feature unavailable to non-profits. In sum, the social business is run like a business with long-term planning. It generates income from business activities and focuses on long-term impact—rather than chasing donations year to year (Wimmer, 2012, p. 195).

Yunus’ Grameen Danone is an example of a social business. It is a joint venture with French MNE Groupe Danone that attacks the problem of malnutrition by selling affordable yogurt fortified with micronutrients in rural areas of Bangladesh (Yunus, 2010, p. 1). The joint venture, founded in 2006, produces a yogurt enriched with crucial nutrients at a price of 6 BDT (= 0.06 EUR), which even the poorest can afford. Grameen Danone Foods improves the lives of poor people not only by improving their health, but also benefits accrue to those manning the whole value chain. For example, the milk for the yogurt is purchased from small farmers. The production is designed in such a way as to give as many people as possible a job. Finally, sales ladies distribute the yoghurt door-to-door and receive a 10% commission.

In sum, for-profits with a social overlay have the same advantages as a standard for-profit. However, they have additional options for raising capital as it is easier for foundations to invest in an L3C. A disadvantage of for-profits with a social overlay is that investors may not want to invest in such a form without strong social motivations. In other words, investment financing may be limited.

Non-Profits with a Mission-Related Enterprise

The upper-right quadrant of Figure 3 depicts non-profits with a mission-related enterprise. Tax-exempt non-profits that have earned income that is clearly related to their social mission are non-profits with a mission-related enterprise (Fruchterman, 2011). While many types of non-profits earn income from selling goods and services (theaters, museums, colleges and used-goods stores), income cannot be distributed to investors or shareholders (but it can be used to repay loans for the non-profit).

Fair Trade USA is a non-profit, but obtains most of its revenues from service fees charged to retailers when they buy shipments of Fair Trade goods such as coffee, chocolate, and fruits. For example, 70% of the goods it sells are coffee, and ten cents of every pound of Fair Trade coffee goes to Fair Trade USA to help promote its brand (Haight, 2011, p. 77). In 2009, Fair Trade USA had a budget of \$10 million, and certification fees funded

70% of it. The remaining 30% came from philanthropic contributions—mostly from grants and private donors. In this way, Fair Trade USA is a revenue-shortage non-profit with a mission-related enterprise.

Seattle-based Rwanda Partners is a non-profit organization committed to fighting poverty and restoring hope to the poor and marginalized through economic and educational opportunities (Rwanda Partners, 2011). In a country impacted by genocide, Rwanda Partners grounds its work in the healing and reconciliation of the Rwandan people. Through its website (www.rwandapartners.org) and basket parties, this non-profit sells multi-colored, hand-woven baskets made by women artisans in Rwanda. These baskets are also sold at Costco stores.

In effect, the Rwanda Basket Co. is an international enterprise that employs over 2,000 rural women in Rwanda by providing a market for their strikingly-beautiful, handcrafted baskets in the US. Since one of the principal aims of this faith-based NGO is reducing poverty, the enterprise is mission-related because the weavers receive a steady income, as well as reconciliation training and leadership opportunities.

Non-profits with mission-related enterprises face no taxation on mission-related income (Fruchterman, 2011, p. 47). They also have the ability to raise philanthropic funds for any of their programs. Because of the charitable nature of the enterprise, the products and services offered by the mission-related enterprise usually have a selling advantage. However, non-profits with mission-related enterprises cannot raise capital in financial markets because of their status as a non-profit. Philanthropists and debt stand as the only sources for funding.

Non-Profits

The lower-right quadrant of Figure 3 depicts non-profits. The social mission of non-profits is their single most distinguishing characteristic. All resources for non-profits come from donations of money, products, or time (Fruchterman, 2011, p. 47). Non-profits do not have any earned-income enterprises. In the US, traditional non-profits carry the tax classification of a 501(c)(3) charity or a 501(c)(3) foundation.

The Red Cross and the Red Crescent are non-profits that provide relief after natural disasters (Red Cross, 2011; Red Crescent, 2011). Habitat for Humanity is a faith-based non-profit that seeks to eliminate poverty housing and homelessness from the world (Habitat for Humanity, 2011). Habitat for Humanity has helped build more than 500,000 decent, affordable houses around the world that now house more than two million people.

Jacqueline Novogratz founded the non-profit Acumen Fund as a venture capital fund for the poor in developing countries (Novogratz, 2011). Investors in developed countries avoid placing long-term bets in troubled regions of the world. They seek a quicker payback and less risk. By comparison, the Acumen Fund scours the world to identify worthy ventures that would benefit the poor in developing countries using “patient capital” that will allow up to 15 years for payback. Investments have included International Development Enterprises India (a subsidiary of Paul Polak’s IDE) and its water-saving drip irrigation system, WaterHealth International of Irvine, California’s water purification system, as well as d.light Design, a privately-held, San Francisco-based company that sells affordable solar-powered LED lights in the developing world. Ten years after its founding in 2001, the Acumen Fund had invested \$68.5 million in 65 businesses (Coster, 2011). Three have bought back their shares from Acumen, 11 have repaid loans and 10 are profitable. Five companies have been written off, versus the 50% a typical venture capitalist will bury.

Kiva is a non-profit organization that connects people through microfinance lending to alleviate poverty (Kiva, 2012). Using the internet and a worldwide network of microfinance institutions, Kiva lets individuals lend as little as \$25 to help create opportunity around the world. Since its founding in 2005, Kiva has helped hundreds of thousands lenders (similar to yourself) make \$293 million in loans. To date, the repayment rate for these loans exceeds 98.9 %. Kiva operates in more than 60 countries in conjunction with 147 partnering organizations in these countries. These partnering organizations identify and qualify potential borrowers for Kiva loans.

Some of the most exciting social innovations in recent years have resulted from social entrepreneurs sponsored early in their ventures by the educational foundation Ashoka, which was founded by Bill Drayton. Ashoka searches the world for social entrepreneurs gearing up to launch a social venture and then sponsors them for three years with a salary as Ashoka Fellows (Ashoka, 2011). Ashoka Fellows receive coaching to boost the success of their ventures. Being an Ashoka Fellow helped Rakhee Choudhury launch her venture to teach women in India’s far-northeastern Assam Valley the traditional weaving skills they need to earn income at the same time they deepen their pride in the Asamese culture.

Non-profits do not have a conflict between the venture and the social objectives like a for-profit enterprise might. Importantly, donors to non-profits receive a tax deduction for their donations in the US. A drawback to the non-profit model is that traditional fundraising is the only way to raise financial resources. Social business advocate Muhammad Yunus said,

Relying on charitable donations is not a sustainable way of running an organization. It forces NGO leaders to spend a lot of time, energy, and money on fund-raising efforts. Even when these are successful, most NGOs are perennially strapped for cash and unable to sustain, let alone expand, their most effective programs. (Yunus, 2010, p. 6).

CONCLUSION

Poverty makes itself present in almost all countries today. In 1990, 93% of poor people lived in poor countries (Ruvinsky, 2011). However, 75% of those who live on \$1.25 per day today live in middle-income countries, such as India and Nigeria. The implication is that ameliorating poverty used to be more straightforward with aid and resource transfers. Today, a more comprehensive approach is needed to impact poverty that would include government, NGOs, and businesses.

Researchers have listed 50 solutions to poverty that have been pursued since the end of World War II, but the record of success for these solutions is weak overall when these are applied outside of relief situations (after natural disaster or war) to development projects. Part of this is due to the contextual factors that have to be considered to understand poverty in each locale.

Social entrepreneurs such as Paul Polak have done extensive field research in the contexts of the poor in many Asian and African countries. He perceives commonality across the rural poor he has interviewed—poor farmers need more income. Toward this end, his International Development Enterprises have sought to boost the marketing effectiveness of poor farmers. Importantly, his market-based approach avoids the trap of paternalism (doing for others what they could do for themselves), as well as side-stepping corrupt government officials. Polak's wisdom about poverty alleviation approaches should encourage those taking "the biggest M" approach to marketing and to poverty alleviation. In light of business' leading role in cross-border financial flows from developed to developing countries—it appears that market-based approaches to poverty alleviation will grow in importance in the coming years. Evidence for this can be seen in the US' Millennium Challenge Corporation's new version of foreign aid that directs aid to private enterprises in qualifying countries rather than to foreign governments.

Implications

The review of the public and citizen sectors' use of interventions for poverty alleviation disclosed a spotty record of success leading some to conclude that direct interventions might not only lack effectiveness, but might actually make matters worse for the poor. Despite such sobering

conclusions about “solutions” to poverty, social entrepreneurs offer many reasons to be hopeful about poverty alleviation efforts in the future.

With societies increasingly turning to businesses for helping in the alleviation of poverty, many different forms for social enterprise have emerged in recent years. Some of these hybrid structures combine elements of for-profit and non-profit enterprises. This surge in the launching of social enterprises directed at poverty alleviation has resulted in a confusing situation not only for entrepreneurship scholars, but for practitioners, as well. To address the need for sorting the types of social enterprises that have proliferated, this study developed a typology of the emerging structures for social enterprise based on two dimensions: 1) the upside potential for profit/social value of these enterprises, and 2) the non-profit/profit legal categorization of these enterprises. This is the major contribution of the study.

With the typology offered in this study, scholars and practitioners can more readily understand the unfolding story of social enterprise. Because of the increasing interplay between governments, NGOs, and businesses in poverty alleviation, new hybrid forms of social enterprise that combine aspects of for-profits and non-profits have become more important in recent years. “For-profits with a social overlay” include co-operatives, benefit corporations, beneficial corporations (B corps), flexible purpose corporations, and low-profit limited-liability companies (L3C). “Non-profits with mission-related enterprises” have businesses as subsidiaries that contribute to the budget of the non-profit, or in some cases provide surplus funds that are then re-invested in the programs of the non-pr ofits.

As a result of the study’s review of the shortcomings of aid from governments and NGOs in effectively and consistently alleviating poverty, the reasons for business taking more of a leadership role in alleviating poverty can be better understood. Additionally, the development of a typology for social enterprise in the alleviation of poverty offers scholars and practitioners a tool for orienting themselves when considering innovative efforts to benefit the poor in the future.

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Commentary

The Role of Entrepreneurship in Transitioning from Communism to Capitalism: A Qualitative Assessment of Mixed-Motive Cases

Elizabeth C. Hirschman and David L. Kendall

ABSTRACT

One of the most significant economic and political events of the past two decades has been the transition of two formerly communist countries—Russia and China—toward various forms of capitalism. In both cases, entrepreneurs have played critical roles in enabling this process, and in both countries population living standards have increased dramatically. Yet these same entrepreneurs have come under intense scrutiny, criticism and even imprisonment for reportedly engaging in smuggling, market manipulation and bribery. In virtually all of these instances, the key players appear to be operating using a pattern of mixed motive ethics.

Our research examines cases based on first-hand observational reports of specific entrepreneurs who were active during these transitions. We argue that time span is essential in evaluating the ethicality of mixed-motive entrepreneurial activities. In some instances, one or even two decades may be required to arrive at sound evaluations as to whether the entrepreneurs' actions were, on balance, positive or negative in terms of social welfare outcomes.

Keywords: Communism to Capitalism, mixed-motive ethics, entrepreneurship

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INTRODUCTION

“The revolutionaries were young men in their thirties, self-confident, untested in power and confronted with a task far beyond their imagination or practical experience. For years, as assistant professors and little known specialists, they had been dreaming about marginal incremental changes to the stagnant Soviet system... Now as they gathered at a government house... they were facing an entirely new world... They would be called not to save [the system], but to bury it.” (Hoffman, 2011, p. 177)

In their lead article in the premier issue of this journal, Harris, Sapienza and Bowie (2011) provided a thought-provoking review of the extant literature on ethics and entrepreneurship and put forward a research agenda designed to remedy key gaps in current knowledge. Our present purpose is to investigate a series of entrepreneurial cases that relate to two of the primary areas they identified: (1) Are there ethical patterns that characterize entrepreneurs, and (2) what is the appropriate role for new ventures in the relationship between business and social welfare. Our focal set of entrepreneurial ventures consists of firms founded during the late 1980s to 2000s in Russia and China—a highly significant period in the history of global political economy, because both these countries made significant transitions toward free market capitalism.

METHOD

Several first-hand accounts of events in both Russia and China were consulted for the present study (Bardhan, 2010; Gaidar, 1999, 2003; Hoffman, 2011; Hsu, 2007; Huand, 2008; Ledenova, 2006; Osburg, 2013; Shevtsova, 1999). Some were written by policy-makers (e.g., Gaidar, 1999), some by entrepreneurs (Shevtsova, 1999), others by journalists and social scientists possessing ‘insider’ information as confidants of the policy makers and entrepreneurs (e.g., Osburg, 2013). By comparing these accounts across their diverse vantage points, we are able to construct robust descriptions of “what” happened in specific entrepreneurial ventures. By comparing these cases to contemporaneous economic data on employment and income in Russian and China, we are able to make inferences about their positive and negative impacts on social welfare for the population as a whole and specific segments within it.

Such micro-level, case-based analyses are valuable in the fields of entrepreneurship and economics where the vast majority of research is based upon quantitative samples collected at the national level (see e.g., Aidis, Estrin, & Mickiewicz, 2008; Bevan, Estrin, & Meyer, 2004; Boettke, 2002; Boettke & Coyne, 2003; Earle & Estrin, 2003; Estrin, 2002; Estrin, Hanousek, Kocenda, & Svejnar, 2009). Such samples, while desirable for developing metrics of overall structural patterns, inevitably tend to wash

out the specific actions of individual entrepreneurs and individual entrepreneurial ventures. Ethics are grounded at the level of individual and corporate decision making, and it is at that locale that inquiries should be initiated.

RECENT ECONOMIC HISTORY IN RUSSIA

From 1927 to 1987, the Russian economy—and that of the Soviet Union which it led—operated as a centrally-planned economy (Hosking 1992). Under Stalinist communism, annual and five-year plans for production, consumption and pricing were developed by the State Planning Committee (Gosplan). These plans were further refined by the regional planning committees and presented as expected productivity levels to extractive and manufacturing units, as well as collective farms.

The entire state apparatus was based on the assumption that if the plan were properly implemented by each producing unit, then supply and demand would exactly balance (Hosking, 1992). For sixty years, this anticipated equilibrium failed to occur. By 1987, the Soviet Union was crumbling both economically and ideologically. Russia's production system was antiquated and its political structure rife with corruption; the populace was falling farther and farther behind the West in terms of purchasing power and living standards (Hosking, 1992).

A more enlightened Russian president, Mikhael Gorbachev, attempted to restructure the country both politically and economically, but largely failed (Hoffman, 2011; Hosking, 1992). In 1991, during a failed coup attempt against Gorbachev, Boris Yeltsin seized power and served as President of the Russian Republic from 1991 to 1999 (Shevtsova, 1999). It was during Yeltsin's era that the economic transition from communism toward capitalism took place. Remarkably, the genesis was guided by just a handful of policy-makers and entrepreneurs who made choices and undertook actions that spanned the ethical continuum from purely self-serving to genuinely altruistic (Shleifer & Triesman, 2000).

What is perhaps even more remarkable is that—two decades after it began—the transition actually succeeded. Remarkable because the Russian population had never before lived under a democratic or capitalistic regime. Indeed, the country had never experienced the institution of private property or marketplace competition. Russia had lurched from centuries of royal rulers, the Czars, to six decades of socialism (Hosking, 1992). There was no prior roadmap or cultural legacy for either entrepreneurs or policy makers to follow to establish free enterprise.

CASES OF RUSSIAN ENTREPRENEURSHIP

The Russian economy circa 1987 was not devoid of entrepreneurial ventures. Throughout the communist era, an active “underground economy” or “black market” operated in the country. In the larger cities, the goods to be found in this illegal market included drugs, alcohol, cigarettes, western apparel, chocolate, tea, music tapes, forbidden books, religious materials, batteries and similar contraband (Hoffman, 2011). Often these items were smuggled into the country by bribing low-level governmental officials, resulting in wide-spread corruption. Concurrently, in the agricultural communes, vegetables, grain, fruits and meats would be bartered among neighbors (Hosking, 1992). Officially, all of this surreptitious commerce was condemned and those unlucky enough to be caught or who did not bribe the appropriate official were made examples of and sentenced to long prison terms.

Russian entrepreneurs who succeeded very well at these illegal endeavors were viewed as “gangsters” by many in the population: Russian citizens were taught from childhood that “making money” and “profiteering” were social diseases and indicators of personal immorality (Hoffman, 2011; and see also Aidis et al., 2008 for commentary on continuing corruption in Russia).

Under Gorbachev’s relaxation of strict adherence to socialist principles, this black market grew into an enormous enterprise, complete with rival gangs of smugglers who frequently resorted to violence in order to protect their profits and trading territories (Hosking, 1992). Significantly, though, none of the persons who ultimately developed large-scale entrepreneurial ventures after the fall of Gorbachev originated in this underworld milieu. It seems likely that this rough and tumble, violent form of capitalism did not serve as an appropriate training ground or attract those with the personal traits necessary to succeed in the “new Russia.”

Let’s now take a look at five mixed-motive Russian entrepreneurial ventures that contain elements of both self-serving and altruistic behavior. After examining these, we develop a set of theoretical propositions for evaluating their long-term impact on social welfare.

Transforming a Co-operative into a Commercial Bank: Alexander Smolensky

Our first entrepreneur example, Alexander Smolensky, was the son of an Austrian Jewish woman and a Russian father. As such, in post-World-War II Soviet Russia, he was blocked from entering many socially-accepted paths to upward mobility. Once economic reforms were initiated in the late 1980s, he began to work in the new Cooperative Movement, which sought to encourage group endeavors in capitalism at a local level. According to

Hoffman (2011, p 41), Smolensky was an exceptionally hard worker, highly ambitious, capable of organizing people and willing to take risks. With a novel opportunity for success now available in the new Russian economy, he jumped in.

The cooperative group he headed began by making useful items from scrap building materials, soon expanding to constructing cottages (*dachas*) outside of Moscow as second homes for city dwellers. Smolensky and his cooperative group prospered, but were constantly aware that if the new economy failed and political power reverted back to communism, they would not only lose their livelihood, but “perhaps their lives,” as well (Hoffman, 2011, p. 43).

As the movement toward capitalism continued, Smolensky and his co-op became richer and richer. However, not trusting the traditional Soviet banking system, he kept all his wealth in cash (rubles). Then in 1988, Smolensky discovered that new privatization laws now permitted cooperatives to open their own “commercial accounts,” i.e., they would be able to set-up their own self-operated banks. Although unsure of just what a commercial bank was or how it operated, Smolensky forged onward, teaching himself and his employees how to engage in pricing arbitrage and currency speculation.

Smolensky was innovative in designing the interiors of his banks to resemble the décor of Western commercial banks and staffing them with young, ambitious men for whom he smuggled-in western-style business apparel. Smolensky’s banks, and the other newly founded, newly funded banks created by other entrepreneurs, soon were discreetly channeling funds into off-shore accounts, often with the assistance of Western investment corporations, such as Merrill-Lynch. At the macro-level, Boettke and Coyne (2003) propose that such “capital flight” in transitioning economies is attributable to the insecurity of property rights and weakness of the judicial system, as assessment that is certainly accurate in Smolensky’s case. As noted above, Smolensky feared that the novel Russian experiment in privatization might easily collapse and prepared himself for possible immigration elsewhere. Smolensky also initially engaged in some illegal currency laundering activities. Yet Hoffman (2011) asserts that while at the outset of his banking efforts, Smolensky would work with gangsters, a decade down the road he, and his banking business, had “largely cleaned up their act” That is, as privatization continued to progress and a return to socialism faded as a possibility, Smolensky’s activities evidenced a stronger confidence in the soundness of the Russian economy and his ability to function successfully within it.

Smolensky’s business unfortunately went bankrupt in the 1998 economic crash in Russia (Johnson, 2000). The financial sector’s currency speculation

(in which he was an active participant), coupled with the over-estimation of asset value in several industries, led to a general “meltdown” of the economy in August 1998. Smolensky is, of course, culpable in part for the collapse. As macro-economic studies of the Russian economy have indicated, the 1990–1998 period of economic transition in Russia was marked by the formation of a corrupt elite consisting of early entrepreneurs and high-level government officials who profited personally from privatization, yet failed to create a stable economy (see e.g., Aidis et al., 2008).

Yet, as we shall show, all was not lost nor destructive to Russia’s future. A capitalist banking sector had been formed and persons had gained knowledge of financial markets and currency transactions that had never previously been present in Russia. By 1999, the Russian economy (under the guidance of Vladimir Putin) was again moving forward and, as discussed in detail later, is now the ninth most productive globally (Westin, 2012).

The Young Communists Enter Banking: Mikhail Khodorovsky

A second example of entrepreneurial behavior in the financial sector is provided by the career of Mikhail Khodorovsky, whose father was Jewish, also placing him at a political and social disadvantage in Russian society. In 1987, despite his religious handicap, Khodorovsky had become deputy chief of the Young Communist League (Komsomol) at his university. Thus he began his career “inside” the existing political system. According to Hoffman (2011), Khodorovsky was essentially “hand-picked” by the Party officials to be a showcase example of the Party’s entry into capitalism.

Under communism, the Russian economy operated with two sets of financial accounts: cash accounts, termed *nalichnye*, which were used to pay wages and similar transactions, and another account termed *beznalichnye* which existed only as bookkeeping entries and transfers, usually between “units” such as farms, factories and mining operations. The latter could be transferred from one organization to another as “credits,” but not converted to hard currency.

In 1987, Komsomol was given new operating rules which permitted the organization to exchange *beznalichnye* for *nalichnye*, i.e., credits for cash. Khodorovsky at his university, which possessed ample *beznalichnye* but little *nalichnye*, saw the opportunity which no one else did. He organized his local Komsomol university group into a bank—one of the first commercial banks in Russia. Khodorovsky was largely altruistic to those around him; he spread the cash to the university workers, providing much-needed financial support to the research institutes, science centers and to Komsomol. A Russian sociologist noted at the time “The process of privatization has begun—the first kind of privatization was that of money, itself” (quoted in Hoffman, 2011, p. 112).

Despite his “sharing the wealth,” what is important to grasp about Khodorovsky’s venture is that it was not making profits by the actual production of goods or services, as was Smolensky’s initial “discards to dachas” cooperative. Rather his enterprise was essentially one of currency exchange. By 1994, 5,000 people were employed by Khodorovsky, most of them at academic research institutes. They received belichnaye funds from the government which Khodorovsky converted into cash currency. Hoffman (2011) notes that while this activity was beneficial for those Khodorovsky employed, in truth the institutes were not doing substantial levels of research. By 1988, Khodorovsky formally created a commercial banking enterprise, Bank Menatep. He stated the ethics underlying the bank’s operations as, “Ourselves for ourselves; being wealthy is a [normal] way of being. We are advocates of the right to be rich (Hoffman, 2011, p. 121).”

Khodorovsky and Bank Menatep were especially liberal with respect to who was allowed to utilize their bank’s services: “A bank is like a waiter. Its business is to cater to clients independently of their political beliefs or affiliation with this or that camp...” Under this operating philosophy, Bank Menatep was not only extremely profitable, but also representative of the “dark side” of Russian entrepreneurship. As Hoffman (2011, p. 232) notes, the “bank was largely funded by a web of corrupt contacts within the former Soviet state ministries. The bank thrived on government lending programs... The Finance Minister was one of [the bank’s] major clients and loans to the state made up more than half” of Menatep’s lending in 1995.

Here is how the corrupt system worked: typically the central government ministries would place their funds on deposit at Bank Menatep for later disbursement to regional ministries and citizens to whom payments were owed. However, the monies were never distributed, but rather invested in various international projects having high yields (for the bank and government officials). The profits largely went to Khodorovsky, whose personal fortune made him one of the world’s richest men (Freeland, 2000; Johnson, 2000)

Indeed, from 1990 to 1998 the entire Russian government was riddled with corruption, and bribery was an accepted way of conducting business with it (Klebnikov, 2000 and see also Aidis et al., 2008). Yet, as Hoffman (2011) observes, there never had been a historical period during the past several centuries when Russia had a functional system of justice, an equitable legal system, or functional norms of political morality. These are the elements which macroeconomist researchers have noted are significant variables in transitioning economies (Boettke, 2002; Boettke & Coyne, 2003; Estrin, 2002) Thus judgments of ethicality must be formed within this context.

The Moscow Real Estate Market: Vladimir Gusinski

An unsuccessful theatrical producer, Vladimir Gusinski, was earning a living in 1988 by driving his personal car as a Moscow taxi, when he stopped by an electrical streetcar depot. There he saw an enormous reel of unused copper cable. Though such reels were officially state property, Gusinsky was able to pay the warehouse manager a small price for three of the reels. He next located a metal stamping factory that was closed down and some unused military metal stamping molds. Gusinsky then rounded up some local workers and opened a cooperative called simply “Metal”; the cooperative began stamping out thousands of copper bracelets which were then in great fashion. As Hoffman (2011, p. 151) reports, “in a single day, his revenues were 259,200 rubles, more than 500 times the monthly salary of a [PhD scientist] at a leading institute.”

The metal stamping venture produced Gusinsky’s first fortune. As with most entrepreneurs, he was an “outsider,” resourceful, creative, optimistic—and willing or able to locate loopholes in the law. Gusinsky was also very loyal to and supportive of his friends. He also quickly learned to cultivate relationships with key people in the regime. This, as we noted with other Russian entrepreneurs, e.g., Khodorovsky, was often an essential ingredient in successful ventures during the communism to capitalism transition (and see also Aidis et al., 2008).

A second project of Gusinski’s, which also serves as an important case for our consideration, was renovating the abandoned buildings which were found throughout Moscow. By the 1990s, rents for commercial and residential real estate in the city were very high, due a shortage of quality buildings. The Mayor of Moscow, Yuri Luzhkov, desiring to improve the city’s housing stock and overall economy, formed a mutually beneficial alliance with Gusinsky. Gusinsky was given ownership of all the dilapidated buildings for free, in return for renovating them and returning 75% of them to the city. Gusinsky was allowed to keep the proceeds from the sale of the other 25% for himself and his company—yielding huge profits. Concurrently, Moscow benefited by having much needed prime office and residential space. This type of quasi-legal, localized bartering transaction between government and an entrepreneur is an example of the types of mixed-motive ventures that would be “washed out” in a macro-economic analysis, yet are theoretically challenging for ethicists.

Anatoly Chubais and the Voucher System:

Perhaps one of the most novel cases of Russian entrepreneurship was developed in 1992 by Anatoly Chubais, the leading governmental reformer and policy-maker. Within the new governmental administration, there was growing concern that the majority of privatized Soviet resources would end

up in the hands of a few entrepreneurs, rather than be distributed widely throughout the Russian population. To combat the concentration of wealth in the hands of a few businessmen, Chubais devised a plan which gave each Russian citizen a “voucher” of 10,000 ruble value which could be purchased at any local bank for about 10 cents. The vouchers could then be used to purchase shares in the worker’s factory, placed into a mutual fund or sold/exchanged with someone else.

Remarkably, even though most Russians had never heard of vouchers or shares, the plan actually worked, albeit imperfectly. Hundreds of unregulated mutual funds soon sprang up across the country. Unfortunately, many of these turned out to be “get-rich-quick” schemes for the unscrupulous fund managers who promised profitable returns, but instead ran off with the money and disappeared (Johnson, 2000). Despite this, however, the core objective of the voucher venture was achieved; approximately 14,000 state-owned enterprises were privatized in 20 months, as well as thousands of small businesses that became owned by those who worked in them. Altogether, about 70% of the Russian economy was placed in private hands—an extraordinary accomplishment for a country that had been run as a socialist state for over six decades. Chubais was jubilant, “I have privatized power,” he stated. The government no longer controlled the economy (Hoffman, 2011, p. 208). Notably, there is macro-economic research support for the success of the voucher scheme. Estrin (2001, p.13) for example states “Mass privatization was an excellent solution” for ensuring that the vast majority of Russians had an opportunity to participate in the transition to a market-based economy.

ALTERNATIVE REFORM IDEOLOGIES

One of the primary persons responsible for policy decisions leading to the transformation of Russian socialism to free market capitalism was Yegor Gaidar, an economist and acting prime minister of Russia from 1991–1993 (Gaidar, 1999, 2003). He outlines the three options available to the country in 1987 and provides his rationale for choosing the third option, “shock therapy,” below.

“Opinions on market reform can be divided into several categories. Some [planners] completely rejected the need for radical market reform of the Russian economy. Most of those holding this view were socialist economists.”

“There were also economists and politicians who believed that market reforms...were necessary, but should be less abrupt and radical...{They believed] greater state participation was needed in the economy...to protect state property and defend domestic producers.”

“The third group [had]....solid reformist leanings. This group reasoned that privatization, de-monopolization and the formation of market structures should [be] undertaken first and only then should financial stabilization measures and economic liberalization [be introduced]” (Gaidar 2003, p. 46).

Gaidar’s policies were solidly in the third group, an approach that was termed “shock therapy” by the media. It required essentially tossing the entire economy and the entire population into the capitalist sea and hoping that they could learn to swim. There was to be no possibility of returning to socialism; and the entrepreneurial models generated by Gusinsky, Berezovsky, Khodorovsky and the like were permitted to launch and operate. Let us now take a look at the results.

1998: Results at the End of the First Decade

On August 17, 1998, the economically-reformed, proto-capitalist Russian economy collapsed, the victim of a dramatic decline in world oil prices, currency speculation, and oligarchic manipulation of the banking system (Johnson, 2000; Klebnikov, 2000; Shleifer & Triesman, 2000; St. Petersburg Times, 2000). Left-leaning academic commentators were quick to denounce the capitalist reforms as the primary cause. Silverman and Yanowich (2000), for example, took the opportunity to declare, “little attention was given to the real possibilities that changes initiated by radical reformers were creating highly unequal social, economic and political structures inimical to stable democratic reforms” (p. xix).

They claim, accurately, that the reform process created conditions of hyperinflation, a reduction in real wages, and production declines. What they advocated as a remedy was a centralized government that would exert control over the economic system. Yet this was exactly what had led to the collapse of the Soviet Union ten years earlier and the decline of Russia as a world economic power during the 1980s. They argue, however, that socialism at least had provided a “floor” upon which most Russians could rely: they would be paid some wage, albeit low; they would work at some job, although unsatisfying; they would have some health care, albeit of poor quality. Now all of these meager, but palpable, life supports were gone. In essence, the country and its inhabitants—who had previously only been expected to tread water to get by—were now in a situation where they had to learn to swim, and swim effectively, or sink.

Silverman and Yanovich (2000, p. 80) recognize that, “Decades of state socialism had created a state-dependent worker reluctant to break rules, to take risks, to display initiative, to assume responsibility, to make independent decisions—that is, to exhibit a market mentality.” The ethical issue facing policy-makers was how to create a competitive marketplace when the majority of workers were unable, or unwilling, to compete. Calls

for re-introducing governmental supports came from several quarters in late 1998 after the financial collapse (Hoffman, 2011), but remained unimplemented, because the governmental apparatus was incapable of implementing them, even if it had the will to do so, which it did not (Hoffman, 2011). However, predictions of Russia's imminent demise (see Silverman & Yanowich, 2000) proved unfounded.

2010: The Second Decade Revival

A decade later, the Russian economy had turned itself around completely. As Aris (in Westin, p. 19) states, "After a decade of negative GDP numbers in the 1990s, the economy grew by 10% in 2000 alone... Both incomes and household spending, which had been falling for 10 years, reversed and began to rise strongly. People had cash in their pockets..." Perhaps even more amazingly—given his track record as a predatory oligarch—"it was Khodorovsky, now head of Yukos Oil, who personified the turnaround... In the spring of 2000, he launched the most ambitious corporate governance program Russia had ever seen. Yukos Oil's share price climbed from 20 cents in 1999 to a peak of \$15 a little over three years later... making him the richest man in the world under 40."

Aris (p. 20 in Westin 2012) also makes a cogent socio-evolutionary observation about the behavior of the Russian entrepreneurs. "From about 2000 onward, the game changed. The boast in the 1990s was to flaunt your millions in public [through conspicuous consumption], but after the financial crisis [of 1998], it became possible to make money simply by running a good business." The quasi-criminal entrepreneurship of the first decade gave way to more mature, financially responsible and socially beneficial business practices during the second decade. The reckless and self-indulgent patterns of behavior evolved into corporate governance where, it was hoped, Russians "would want to live, work and raise a family" (Aris, p. 20 in Westin, 2012).

This new entrepreneurial maturity was encouraged by a central government (under Vladimir Putin) that began jailing those who continued to flout the rules and attempted to renege on tax obligations. Khodorovsky, who (despite his protestations to the contrary) was still engaging in corrupt practices, was jailed in October 2003 by Putin. This signaled to the other oligarch entrepreneurs that conducting a legal business was essential to their continued prosperity. After a decade spent in prison, Khodorovsky was released by Putin in December 2013. As several macro-economic studies have indicated, transitioning from collectivism to capitalism requires both the establishment of individual property rights and a judicial system which will rigorously enforce them (see e.g., Boettke 2002; Boettke & Coyne, 2003; Earl & Estrin, 1998; Estrin, 2001, 2002).

A COMPARISON TO CHINESE ENTREPRENEURSHIP

We now look at the role of entrepreneurship in the transition from a centrally-planned economy toward a more capitalistic economy in China. China differs from Russia in several ways that are significant for our study. First, the history of communism in China is substantially shorter than that in Russia. The revolution led by Mao Tse Tung resulted in the implementation of a communist government in 1949 (Bardhan, 2010; Feenstra & Wei, 2010). A centrally planned economy was in place in China from that time forward to 1980, a period of around three decades (Naughton, 2007). The relative brevity of the socialist era in China can play an important role in the resurgence of entrepreneurship as econometric analyses have shown (Bevan et al., 2004; Estrin, 2001; Estrin et al., 2007).

In the early 1980s, the Chinese government began experimenting with economic reforms, permitting the marketplace to determine the price of many consumer products. Despite this, the prices of most major goods produced by State Owned Enterprises (SOEs), together with grain sales, were still controlled by the central government (Walter & Howie, 2011). Incomes of Chinese consumers increased dramatically during the 1980s, as profit incentives were entered into the production of goods and services. New opportunities for earning money appeared and many Chinese pursued these to improve their standard of living (Naughton, 2007). The banking system was also freed from its former constraints and this made consumer credit more available (Huand, 2008).

By 1987, China began to pursue international trade, especially through markets in Singapore, Malaysia, and Hong Kong. Individual entrepreneurship and profit-making were encouraged and looked upon as signs of the country's growing strength in the global economy (Hsu, 2007). An American sociologist, John Osburg, arrived in China in 1991 as an English instructor at a small college in Guangdong Province. Over the next 12 years, Osburg conducted research on "the rise of elite networks composed of nouveau-riche entrepreneurs, state enterprise managers, and government officials" (Osburg, 2013, p. 3). We will use these networks as examples of entrepreneurial activities in China.

Notably, during the 1980s the Chinese developed an innovative business structure analogous to the cooperative system which arose in Russia during that same time period. Termed Township-Village Enterprises (TVEs), these evolved from the collective industries already organized on a local level, just as the co-ops in Russia grew out of local groups already accustomed to working together in some type of collective enterprise (Walter & Howie, 2011). The TVEs and co-ops seem to be a hybrid form of production unit—a melding of collectivism and capitalism—that is likely to arise during collectivist to capitalist transitions.

Analogous to the Russian co-ops, TVE entrepreneurs were often those who were social outsiders or marginalized in some way, yet who possessed the initiative and risk-taking traits necessary to see an opportunity and grasp it (Osburg, 2013, p.6) And just as in Russia, unprofitable state facilities were often sold to the friends and relatives of those government officials responsible for administering the sale—usually at below-market prices. By 1992, foreign investment in China, especially from Hong Kong and Taiwan, shot up, turning China’s Special Economic Zones into centers of new wealth (see e.g., Bevan et al., 2004). This economic boom expanded throughout the country during the 1990s and 2000s (Bevan et al., 2004; Walter & Howie, 2011).

At variance with Russia’s entrepreneurial history, though, the Chinese capitalist ventures were undertaken by “members of nearly all occupational groups and economic strata of China’s cities” (Osburg, 2013, p. 7). Yet as he (and others, e.g., Huand, 2008) notes, the “entrepreneurs with official connections succeeded at a much higher rate than ordinary citizens.” As was the case in Russia, many of the most successful Chinese entrepreneurs initially engaged in currency manipulation, smuggling and other illegal activities to establish their fortunes (Goodman, 2008).

Today the Chinese landscape differs from that in Russia, because virtually all entrepreneurial ventures still remain in some form of cooperation with the government. This structure, as Osburg (2013, p. 10) notes, has created a dual set of very wealthy persons in China: one consisting of entrepreneurs, the other comprised of top government officials. Additionally, although 50,000,000 persons lost their governmental jobs during the Chinese transition toward capitalism, most of them quickly found employment in newly established private businesses and the standard of living in China increased dramatically over the past two decades. From 1990 through 2012, GDP in China rise from \$344 billion to \$8.2 trillion (World Bank <http://data.worldbank.org>). Over the same period, per capita GDP in China rose from \$303 per year to \$6,089 per year, serving as a quantitative indicator of the dramatic improvement in living standards attributable to the movement toward capitalism. China now ranks as the second largest economy in the world (Freeman, 2012).

THE CHINESE GUANXI

One key element separating the Chinese entrepreneurs from their Russian counterparts is what Osburg (2013, pp. 22–23) calls the *guanxi*, a social network that combines elements of self-interest, friendship and ethics. A *guanxi* serves as a means for achieving business success and personal wealth, and also as a forum for establishing personal bonds and ethical behavior. Members of a given *guanxi* desire to become successful,

but also want the affection, respect and trust of the other members. A pattern of reciprocating favors is created which extends across time to the mutual benefit of all parties.

We include an extensive quote below from Osburg (2013, p. 32) to document the reasoning used in conceptualizing the ethics of the Chinese entrepreneur:

The moral economies of elite guanxi networks are at the very heart of capitalist development in urban China... These networks are institutions with their own rules, roles, obligations and entitlements that structure business transactions... [They] serve to exclude outsiders and consolidate power. They create a limited network of exchange that disadvantages competitors... [The guanxi] often combine individual enrichment with state-sponsored development goals... [They] are the networks through which the state-driven goals of economic growth are achieved.

Osburg's study makes two key propositions regarding Chinese entrepreneurship and ethics that are summarized below:

1. Notions of ethics in business cannot be dehistoricized from their social and cultural contexts. As the goals of society change, practices that were once seen as disruptive, selfish or corrupt may become viewed as valuable and helpful—and vice versa. For example, displacing millions of persons from their government jobs or collective homesteads as the economy transitions toward capitalism may create insecurity and poverty among those who are displaced, while creating opportunities and wealth for those members of society who start new businesses and real estate developments in their stead.
2. Notions of ethicality must also grapple with cooperative endeavors between illegal or quasi-legal operations that effectively employ large numbers of people who would otherwise be unemployed, socially disruptive or criminally violent. For example, the guanxi often utilize large numbers of young, uneducated men who have migrated to the cities. These young men may be employed as smugglers or “enforcers” to remove unwilling tenants from properties the state has sold to an entrepreneur for development. The young men, if not “gainfully employed,” might resort to violent crime and drug use, disrupting the security and economic productivity of the cities. Thus the ethicality of a given venture may have both positive and negative dimensions.

ETHICAL FRAMEWORKS FOR ASSESSING ENTREPRENEURSHIP

Let us now consider some ethical frameworks for assessing entrepreneurship and determine if and when they may be appropriate for evaluating the Russian and Chinese transitions from communism toward capitalism. Hogan (2013) presents four ethical frameworks derived from economic and legal theory.

1. *Utilitarianism* advocates that actions should be evaluated according to which will produce the greatest benefit for the greatest number of people. Problems with applying this ethical model to economic contexts include: (1) determining what constitutes “benefit;” for example should benefit be measured by income, job security, health care quality, or access to education; and (2) the importance of not ignoring those minorities whose welfare may be reduced in order to benefit the majority, e.g., the use of African slaves to produce economic benefits for white landowners, the classification of women as unfit for certain jobs or positions, so that those jobs are available only to men.

2. *Individualism*. Under this normative structure, ethical actions are those which promote the long-term welfare of each individual. Individualism enshrines self-development as the moral ideal, but overlooks the reality that obtaining desired social positions is usually competitive. For example, many may desire to obtain an MBA from a celebrated university, but few will actually be chosen to attend.

3. *Natural Rights*. Championed by Rousseau and Jefferson, this reasoning asserts that individuals have natural or inalienable rights that must not be abridged by government. These are said to include freedom of speech, freedom of religion, and freedom to own property. In practice, these rights may be abrogated; for example, in many countries the press is not free. In both Russia and China, the right to own private property was not present until the recent transition toward capitalism.

4. *Equality of Justice*. This position proposes that societies must be based on standards of equal opportunity for all; persons are not to be discriminated against based on their gender, race, religion, sexual preference, or other ascribed characteristics. In communist Russia, for example, persons of Jewish ancestry were excluded from certain cultural, educational and military positions, placing them at an economic disadvantage.

When we consider Harris et al’s (2011) review of the ethics and entrepreneurship literature, we find several analytical directions we can take in light of these ethical positions. These include positive ethical deviance, creative destruction, long versus short term assessment, the

morality of meritocracy, and the need for a virtuous cycle of entrepreneurship. We will discuss each of these in turn with the aim of laying the foundation for a theory of ethical entrepreneurship in practice.

Positive Ethical Deviance

Normative positions are always relative to the viewer. Policies and actions that are beneficial to one group of stakeholders may be detrimental to another (see e.g., Freeland, 2012). In the transition from communism toward capitalism in Russia and China, the earliest entrepreneurs often engaged in a variety of quasi-legal behaviors to successfully launch their companies, for example, purchasing spools of government-owned copper cable at very low prices, “requisitioning” unused equipment from idle factories, employing out of work scientists to help set up financial cooperatives, and so forth. While these actions were not legal, they may be construed as ethical in that they helped to achieve the larger goal of a more democratic, competitive, market-based society—factors that econometric models have found associated with improvements in economic growth (see e.g., Earle & Estrin, 1998; Estrin, 2001).

Similarly, many of the early entrepreneurs in Russia were under-employed, well-educated Jews prohibited from taking traditional career paths to success, due to state-sponsored anti-Semitism. Their success in gaining social power, affluence and political influence enabled this entire ethnic group to become more prosperous under capitalism than would have been possible under communism.

One important challenge for an ethics-of-entrepreneurship-in-practice, especially for transitioning economies, is consideration of the society’s prior condition. The country undergoing transition may have legally been engaging in immoral behaviors toward some or all of its citizens, as for example, the case of legal apartheid in South Africa. Entrepreneurs who are willing to engage in illegal acts to end immoral conditions perhaps may best be viewed as heroes, not criminals.

As another example, consider the role of entrepreneurs in both China and Russia who helped serve as behavioral models in demonstrating self-determination to a citizenry who had spent lives of passivity and dependency on the meager rations of centrally-planned economies. The early entrepreneurs in both these countries served as moral change agents (Harris et al., 2011, p. 10), demonstrating actions embedded in self-reliance, creativity and upward mobility.

Creative Destruction

During Russia’s transition from communism toward capitalism, three possible “roads” could have been taken. As already described, the first road was one of minimal modifications to the centralized Soviet structure; the

second was a moderate program beginning with the privatization of a few factories and the gradual freeing of prices; the third course of action was to immediately and irrevocably sell-off all state-owned factories, extractive industries and natural resources, while simultaneously permitting prices to “find their own level” in the open market. This third option was the one chosen by the Reformers, principally Gaidar and Chubais.

Their goal was to produce a tidal wave of privatization that would sweep through the state-supported structure so as to wash away any possibility for returning to centralized control. There was to be no turning back to communism; the Russian Republic would have to sink or swim. After a decade of desperate splashing by many, it started swimming and now has a higher standard of living for its citizens than was ever present under the Soviet system (Hoffman, 2011), the GDP growing from \$516 billion in 1990 to \$2 trillion in 2012 (World Bank, 2013). Economists working with structural data from this time period have come to the same conclusions (Estrin, 2001); additionally noting that “the positive effect of privatization to domestic owners...takes a number of years to materialize (Estrin et al., 2007, p. 37).

Long Versus Short Term Assessment

Those who construct theories about the ethical impact of entrepreneurial activities on societal welfare must be cognizant of drawing conclusions over varied time frames. The experience in Russia is especially compelling. For the first decade of privatization, 1987-1998, the results appeared disastrous: real income fell, inflation was exorbitant, health statistics declined, a handful of oligarchs became billionaires by manipulating financial and natural resource markets, and the entire economy crashed in August 1998. Silverman and Yanowich predicted certain ruin for the country. As we now know, the dire prophecies were inaccurate. Between 1999 and 2000, the Russian economy found its footing in capitalism; most entrepreneurs “cleaned up their acts,” and the country reconstructed itself into a global competitor.

The lesson to be learned from this is that ground-level macroeconomic transitions take time (see e.g., Estrin, 2007). It takes years, even decades, to dismantle obsolete governmental structures and to alter the attitudes and behaviors of populations who have only known passivity and dependence during their lifetimes. Additionally, in communist Russia and China, those persons who took the initiative, broke the rules, and made money were culturally viewed as gangsters, renegades and outlaws. They were resented and regarded with suspicion. It is likely that changing social attitudes with respect to entrepreneurship by viewing it as a positive activity and the possession of private property as desirable likely does take 20 years—a generation.

Morality and Entrepreneurial Meritocracy

Freeland (2012), who has been observing extremely wealthy entrepreneurs in Russia and China for the past two decades, writes detailed analyses of their ethical status. As she states (pp. 29 -30), “Globalization may widen inequality within certain national borders, but on a worldwide basis, it has been a huge force for good, narrowing inequality among people on an unprecedented scale. Tens of millions of people from the BRICs and beyond are being taken out of poverty by the growth of their economies... It should not be forgotten that in the past 15 years or so, 300 million Chinese have been lifted out of poverty.”

In constructing normative theory, then, we propose that to the extent a given entrepreneur’s efforts have “increased the size of the economic pie” for others, especially those with the fewest resources, then his/her activities should be judged as ethical; they have increased societal welfare and not merely enriched the entrepreneur. Further, as Freeland (2013, p. 45) observes, the majority of entrepreneurs in China and Russia are themselves deserving of their newly-generated affluence, having achieved it through genuine creativity, risk taking, intelligence and hard work. Most are truly “self-made” and especially in Russia, originated in lower status, outsider groups.

Status Seeking and the Promotion of Virtuous Entrepreneurship

Most careful observers of newly-rich entrepreneurs in both Russia and China (see e.g., Freeland, 2012) have noted that they are extremely status-conscious; that is, they evaluate themselves and each other according to how much money they have and what possessions they acquire. Among both the Russian and Chinese oligarch class, desired possessions usually include multiple estates in international locales such as Hong Kong, London, Moscow, New York City, Shanghai and Paris, which serve as tangible signals of their success. Veblen (1889) and multiple other sociological theorists have noted this phenomenon among the newly-wealthy and term it *conspicuous display* or *conspicuous consumption*. Other sought-after status items may include jewelry, rare, antique and exotic automobiles, haute couture apparel for wives and mistresses, custom-built yachts, and a variety of aircraft, all of which serve as emblems of their new social status.

What some of the super-wealthy entrepreneurs are now beginning to grasp, however, is the inevitability of their own mortality. Faced with the certainty of death, their quest now becomes a series of efforts to leave a permanent mark on the world, and this is perhaps best achieved, many are now realizing, by leaving markers of their existence in the form of philanthropies, educational endowments, medical research programs, and

cultural preservation projects. The ultimate achievement is to be remembered as a great individual, not merely a very rich one. It would likely be a very positive ethical turn if the global class of very affluent entrepreneurs would begin competing among themselves to produce the greatest achievements in social welfare. If they could find value in leaving legacies through beneficial ventures, whether in the arts, medicine, technology, education, environmental sustainability or other altruistic endeavors, certainly they would be closer to achieving a measure of immortality not available to most of us.

TOWARD A THEORY OF ETHICAL ENTREPRENEURSHIP-IN-PRACTICE

Our present effort is intended to construct a foundation for ethical theorization about entrepreneurial ventures, especially those being undertaken in settings where economies are transitioning from socialism toward marketplace forces of supply and demand. It is probably fair to say at this point in economic world history that capitalism has ‘won the war’ against socialism in serving as a model for long-term economic development at the national level. Yet we are still at some intellectual distance from being able to form judgments about what forms of capitalism, especially venture capitalism, are most ethical not only in theory, but especially in practice.

It is fairly easy for academicians to construct elaborate check-lists of desirable features that entrepreneurial activities “should” have in order to be considered ethical. Yet in actual ground-level practice few, if any, entrepreneurial businesses, conform to our models. We propose that short and long-term external assessment procedures be adopted that examine primarily the system-wide, external outcomes attributable to the venture(s), as opposed to atomistic short run evaluation of individual companies.

This is especially true when an entire social system, such as a nation or world region, is experiencing transition toward capitalism. In such cases, it is likely to be the unforeseen and unforeseeable synergies among the set of individual ventures that will produce large-scale outcomes we can evaluate as to ethicality. In Russia’s case, for example, the early foundations of the present commercial banking system were laid by entrepreneurs who began with mixed-motives and created a system that first failed abysmally and then succeeded spectacularly. Along the journey some individuals and segments may have benefited more than they “should” have, some suffered more than they “should” have, but a generation later virtually the entire social system benefited.

In our view, one of the most promising routes for enhancing the probability of ethical entrepreneurial outcomes is to create a social climate in which individual entrepreneurs are given ample recognition for activities they undertake on behalf of the countries in which they operate. If fame, glory and success for these individuals could be seen—by them—as best measured through philanthropy, public works, and improvements to human welfare, the entrepreneurs themselves could compete with one another in terms of who has done the most Good, rather than who has acquired the biggest collection of material assets.

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Commentary

“Loving the Stranger”: The Key to Prosperity

Hershey H. Friedman and Miriam Gerstein

ABSTRACT

To love the stranger is a core biblical imperative. This paper examines the meaning and implications of this unusual precept. It demonstrates that the prosperity of all nations is contingent on their embracing and their institutionalization of this principle. As history testifies, hatred of strangers lay at the heart of countless wars and the demise of numerous ancient and modern nations and empires.

Keywords: stranger, oppress, handicapped, immigrant, racism, religious symbols.

INTRODUCTION

There have been numerous attempts to answer the question as to why some nations flourish and others fail using geography, economics, culture, religion, weather, and other factors. So far, there is no conclusive answer to this question that everyone is willing to accept. Based on years of original research, Acemoglu and Robinson (2012: 73-83) feel that the answer to the question has to do with man-made

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economic and political institutions; it is not about natural resources. Acemoglu and Robinson (2012) make distinctions between inclusive economic institutions that provide incentives for people to work hard and encourage economic activity. This means that a country must have secure property rights and strong, equitable laws. In such countries, people know that if they are industrious, they can keep their wealth and it cannot be taken away from them for spurious reasons. This is why people living in these countries are willing to invest in order to increase their wealth. These countries have relatively level playing fields and allow people to obtain an education, choose careers, and enter any business they want. Innovation and entrepreneurship are encouraged in these countries; incentives are provided for people to better themselves.

On the other hand, the countries that tend to decline and stagnate have extractive economic institutions. In these countries, power is concentrated in the hands of the few. The “political institutions enable the elites controlling political power to choose economic institutions with few constraints or opposing forces” (Acemoglu and Robinson, 2012: 81). In effect, these elites use economic and political institutions to enrich themselves at the expense of the rest of the population. Acemoglu and Robinson (2012: 83) aver that “nations fail when they have extractive economic institutions, supported by extractive political institutions that impede and even block economic growth.” They use this distinction between inclusive and extractive institutions to contrast South Korea with North Korea and Nogales, Arizona with Nogales, Mexico (a single city cut in half by a fence). Similar regions with different types of institutions may end up with very different economic outcomes. Acemoglu and Robinson (2012: 426) discuss how China became a huge economic success when it moved from an extractive to an inclusive economic system. If an economy is to grow, it needs a system where there are incentives for people to use their abilities and talents to acquire wealth. Because Soviet communism did not provide such incentives, it became a failed country, which is the usual fate of nations with extractive institutions. Even Cuba, one of the last of the Marxist countries, is now allowing entrepreneurial citizens to open small businesses. There are currently 450,000 registered self-employed people in Cuba (Feinberg, 2014).

One characteristic of countries with inclusive economic/political institutions is the level playing field. Every country has to ensure that every person who is willing to work hard will succeed. There is a “determined backlash by the 1 percent against class-based appeals on income inequality and soaking the rich, dubbed the ineffective ‘politics of envy’ by Larry Summers” (Dowd, 2014). Binswanger (2013) defends laissez-faire capitalism with the following argument:

That oft-heard claim assumes that the wealth of high-earners is taken away from “the community.” And beneath that lies the perverted Marxist notion that wealth is accumulated by “exploiting” people, not by creating value.

Even Binswanger would agree that it is in the interest of everyone to fight for an inclusive society that helps everyone who wants to achieve success should be given the opportunity. This paper will examine one way to be inclusive: embracing the stranger. This paper will examine the Bible and see what valuable lessons can be derived from it.

One of the surprising facts about scripture is its oft-repeated mandate to refrain from abusing a stranger, to protect him from injustice, and to love him and to deal with him kindly. The following is a small but representative sample:

“You shall not maltreat or oppress a stranger, for you were strangers in the land of Egypt.” (Exodus 22:20)

“Do not oppress a stranger; you know the feelings of the stranger, for you were strangers in the land of Egypt.” (Exodus 23:9)

“When a stranger dwells among you in your land, you are not to maltreat him. The stranger who dwells with you shall be like a native among you; you shall love him like yourself, for you were strangers in the land of Egypt: I am the Lord your God.” (Leviticus 19:33-34)

“You shall strengthen him, whether he is a stranger or a native, so that he can live with you.” (Leviticus 25:35)

“One law and one ordinance shall be both for you and for the stranger who sojourns with you.” (Numbers 15:16)

“He defends the cause of the orphan and widow, and loves the stranger giving him bread and clothing. You shall love the stranger for you were strangers in the land of Egypt.” (Deuteronomy 10:18-19)

“Thus said the Lord: Perform justice and righteousness and rescue the robbed from the hand of the oppressor; and to a stranger, orphan, and widow, do not maltreat, do not cheat; and do not shed innocent blood in this place.” (Jeremiah 22:3)

“Do not oppress the widow, the orphan, the stranger, or the poor, and do not think in your hearts of doing evil to another.” (Zechariah 7:10)

“Have we not all one Father? Has not one God created us?”
(Malachi 2:10)

“The Lord protects strangers, the orphan and the widow He upholds, but the way of the wicked He makes tortuous.” (Psalms 146:9)

Note that there is even a special Golden Rule for the stranger (Leviticus 19:34). The Bible dictates the love of God (Deuteronomy 6:5), but not nearly as many times as it dictates love for the stranger. Surprisingly, the Bible does not obligate one to love one's parents; whereas honor (Exodus 20:12) and reverence of parents are biblical commandments (Leviticus 19:3), their love is not. Likewise, there is no biblical requirement to love one's spouse or children, yet we are obliged to love the stranger. It is probable that the Scriptures are presupposing the love of parents, spouse and children as innately human instincts which do not have to be legislated, and mandating love for those members of society whose love is not intuitive. Indeed love for a stranger is not only not an intrinsic human impulse but actually runs counter to human nature. Hence the ubiquitous biblical injunction to counteract the human tendency to mistreat, deride or denigrate the stranger. Without doubt, there is a natural tendency for individuals to deride and look down on those that are different from them.

The Bible is concerned about the plight of the stranger and stresses that this law requires more than not taunting or oppressing strangers; there is an active component which involves loving and strengthening them. After all, God Himself declares that he loves the stranger and provides them with food and clothing (Deuteronomy 10:18-19). This means that society has the same obligation to support the stranger with the necessities of life because the Bible requires that man emulate the ways of God. The entire legal system of a country must be proactive toward the national goal to make the stranger feel welcome and integrated into society. The principle of having “one law and one ordinance” for the indigenous and the stranger is also stated several times in Scripture (Exodus 12:49; Leviticus 24:22; Numbers 9:14; Numbers 15:15; 15:16). Monotheism makes it somewhat more difficult—but not impossible—to dismiss foreigners as inferior. However, in every culture other than in the biblical world-view we find that “the stranger,” co-religionist or not, is disdained.

Hertz (1959: 90-91) declares:

No command is repeated as often as the law not to oppress the stranger; not to injure, annoy or grieve him. These commands are without parallel in the legislation of any ancient people; and in the practice of modern peoples, the duty of loving the alien is almost universally unheeded... The alien was to be protected not because he was a member of one's clan, community or people; but because he was a human being. In the alien, man discovered the idea of humanity.

To appreciate how seminal the biblical concern for the welfare of strangers was one has only to contrast it with the stance of the ancient Greeks and Romans. The Greeks referred to the entire non-Greek world as "barbaroi," meaning stranger or foreigner, from which the word barbarian is derived. The ancient Greeks believed that whoever was not Greek was inferior and should be conquered and enslaved. Subsequently, the Romans exhibited the same disparaging and scornful attitude toward non-Romans. In ancient times, these feelings were probably exacerbated by the polytheistic religions. Every country had its own deities and there was a natural tendency for each country to believe that its gods were superior to the gods of other nations. Needless to say, despite the Bible's solicitude for the stranger, the ancient attitude of hatred has dominated history through modern times. It was epitomized by the German sadism toward alien races. The German Nazis proclaimed that German Aryans constituted a superior "master race" and that all non-Aryans were inferior. They murdered millions of men, women and children solely on the grounds that they were of a foreign and hence inferior race, whom these accursed murderers called "untermenschen," or sub-humans.

WHO IS THE STRANGER?

The Foreigner

Let us examine what Scriptures means by the word "stranger." Precisely whom does the Bible single out as the alien who requires protection and kindness?

Scripture states (Exodus 23:9): "Do not oppress a stranger; you know the feelings of the stranger, for you were strangers in the land of Egypt." Thus Scripture defines the stranger by analogy as having the status that the children of Jacob and their descendants had in the land of Egypt, i.e., immigrants to a foreign land. Scriptures provides this rationale for the moral imperative to love the stranger numerous times. It would seem that the ancient Israelites were subjected to "strangerhood" and subsequent enslavement and abuse in a land that was not their own so that they would

forever identify and empathize with strangers in their midst once they were securely ensconced in their own homeland. Whereas Scripture rarely provides a rationale for its commandments, in this case the rationale serves to jog the national memory of a people who were once themselves the aliens. The stated rationale is crucial because the indigenous instinctively resent the foreigner, whose language and ethos may be totally foreign to his or her own. To counter the natural inclination to feel justified in the maltreatment of the immigrant or foreigner, Scripture repeatedly engraves the Israelites' own history of maltreatment at the hands of the natives of another land on the national consciousness.

Another instance of a biblical stranger who is defined as an immigrant or foreigner is Abraham in the land of the Hittites. When Abraham has to buy a plot from the Hittites to bury his wife Sarah, he says (Genesis 23:4): "I am a stranger and a foreigner among you. Grant me ownership of a burial site among you so that I may bury my dead from before me." Efron the Hittite stipulates the exorbitant price of 400 silver shekels (Genesis 23:16) for the cave of Machpelah, land that was unsuitable for farming and hence economically worthless. Hertz (1992: 81) notes that the annual wages of a typical worker at that time and place were between 6 and 8 shekels. A price of 400 silver shekels for the cave of Machpelah, was clearly exploitative and the incident hence demonstrates that the ancient Hittites were no strangers to taking advantage of the stranger in their midst.

The stranger denotes an immigrant also in the case of Moses, who was forced to flee from his country of birth, Egypt, and live in the land of Midian. He named his first born Gershom (*ger* means stranger and *shom* means there) because "I have been a stranger in a strange land" (Exodus 2: 22). Moses lived in Midian until the age of 80. As his choice of name for his son attests, Moses was acutely conscious of his status as stranger in a land not his own and considered it to be a fundamental and defining life experience.

The Bible depicts the hatred of the inhabitants of the cities Sodom and Gomorrah for strangers and the punishment that God visited upon them for their cruelty toward those who intruded on their space. The incident involved (Genesis 19) Lot, a nephew of Abraham, whom the Bible earlier describes as epitomizing hospitality for strangers and who had been Lot's mentor and own savior prior to his sojourn in Sodom. Two strangers arrived in Sodom and, emulating his uncle Abraham, Lot invited them to his house. When the citizens of Sodom learned that Lot was hosting two strangers, "young to old" Sodomites converged on his house, demanding that Lot hand over the strangers to them so that they could "know," i.e. rape, them. Clearly, their goal was the ultimate humiliation of the strangers and indeed, the verb "sodomize" derives from this incident. The Sodomites hatred for

strangers was an overriding passion that straddled the generations and characterized the evil of the entire society. The “pride,” referred to by Ezekiel (16:49), as the sin that resulted in the destruction of Sodom related to the fact that Sodom was a wealthy country and had “plenty of bread and untroubled tranquility” yet its citizens did not “strengthen the hand of the poor and needy.”

Josephus (1998), Jewish historian who lived about 2,000 years ago, states:

The Sodomites grew proud, on account of their riches and great wealth: they became unjust towards men, and impious towards God, insomuch that they did not call to mind the advantages they received from Him: they hated strangers and abused themselves with Sodomitical practices (*Antiquities of the Jews*, 1.11.1).

In the *Wisdom of Solomon* (19:14), which is part of the Apocrypha, the sin of Sodom is described as follows: “Others had refused to receive strangers when they came to them, but these made slaves of guests who were their benefactors.” According to legend, the citizens of Sodom had a special bed (similar to the Procrustean bed described in Greek mythology) for strangers. If the stranger was too tall for the bed, his legs were amputated so that he would fit; if he was too short, he would be stretched out (Book of Jasher 19:3-6). The Book of Jasher (18:16-17) relates that if a stranger came to Sodom to sell merchandise, all the citizens would get together to steal the goods, each one stealing just a little. The citizens of Sodom would then taunt the merchant showing him that each of them took a very trivial amount (e.g., one grape) claiming that it was given to them as a gift or sample. Eventually, they would drive the merchant out of Sodom amidst great rejoicing (Book of Jasher 18:16-17). The Sodomites were quite successful in keeping strangers out; the Book of Jasher avers (19:7): “And when men heard all these things that the people of the cities of Sodom did, they refrained from coming there.”

It is not coincidental that the most important Jewish family in Jewish history, the House of David, stemmed from a woman who was a stranger to the land and race of Israel. God saw to it that Jewish royalty would not be “pure” in an ethnic and racial sense because such “impurity” engenders royal humility and empathy for strangers in the midst of Israel. King David was a descendant of Ruth the Moabite. The Moabite nation was despised by the ancient Israelites because of what their ancestors’ had done to them in the days of Moses. The Israelites, about to enter the Promised Land, were in the town of Shittim (a town in Moab opposite Jericho). The Moabites and Midianites sent their women to seduce the Israelite men and entice them to

worship foreign deities (Numbers 25:1-9). The results were catastrophic for the Israelites; a divine plague killed 24,000 of them as punishment. Several hundred years later, Ruth the Moabite immigrated to the land of Israel as a penniless, childless widow. She was the quintessential “stranger” who needed protection and she also sought a spouse who would perpetuate the name of her deceased husband. The book of Ruth does not describe her as beautiful, but rather as a “virtuous woman” (Ruth 3:11). Exhibiting great courage and virtue, Boaz, who was a prominent leader, married Ruth and this union laid the seed of the Davidic dynasty. His empathy with the plight of the Moabite stranger, his pity for a woman who was totally bereft in a land not her own, was rewarded by his becoming the progenitor of everlasting royalty.

Soerens and Hwang (2009) posit that the Hebrew word *ger* (meaning stranger) in the Bible specifically refers to immigrants and that Christians therefore have a religious obligation to ensure that immigrants are treated fairly and compassionately by the legal system. In fact, Scripture demands that “strangers” be provided with the same legal rights, opportunities, and benefits as the native-born.

The Case against the “Stranger” – Preconceptions vs. the Facts

A number of states are passing (or trying to pass) legislation that will make it easy to deport undocumented immigrants. These laws modeled after Arizona’s infamous S.B. 1070 law that was passed in 2010 make it clear that immigrants are no longer welcome here. Fortunately, the U.S. Supreme Court struck down some key provisions of SB 1070; they did, however, allow some of it to take effect. Law enforcement officers have the right in many circumstances to stop people to check their immigration status if they suspect the person is in the United States illegally. Such legislation is often based more on unfounded fears rather than facts. One prevailing myth is that the federal government is extremely lax in enforcing immigration laws. Another is that the number of illegal immigrants entering the United States annually continues to skyrocket; it is actually shrinking and now stands at about 11.2 million (Downes, 2012).

A further myth about immigrants is that they are a burden. According to a recent study by the Fiscal Policy Institute (2012), immigrants are extremely entrepreneurial: 865,791 immigrants owned small businesses in the United States—18% of the total. These immigrants came from countries such as Mexico, India, Korea, Cuba, China, and Vietnam. It is also of interest that about 29% of immigrant small business owners in the United States are women. The states with the highest percentage of small businesses owned by immigrants were: California (33.4%), New York (29.4%), New Jersey

(28.0%), and Florida (26.1%). In the words of Frank Mauro, executive director of the Fiscal Policy Institute:

In some communities, we see a political climate that creates a hostile environment for immigrants. This report shows that, as a country, we can't go down that path. With immigrants making up one in six of all small business owners, a climate that is hostile to immigrants is also a climate that is bad for business.

The report concludes: "Immigrant small business owners contribute to economic growth, to employment, and to producing the goods and services that support our standard of living" (Fiscal Policy Institute, 2012). Apparently, immigrants have a great deal of drive, determination, and ambition to succeed. Only 34% of immigrant small business owners identify themselves as white. Most are members of minorities: 31% identify themselves as Asian, 28% as Latino, 5% as black, and 2% as other.

A study by the partnership for a New American Economy found that immigrants are vital for innovation. They applied for more than 75% of patents at the leading universities in the United States (Martin, 2012). Most of these patents were in STEM (science, technology, engineering, and math) areas that help create jobs and stimulate economic growth (Martin, 2012). There is evidence that overall diversity and a large population base of foreign-born people is correlated with success in high-technology areas (Florida & Gates, 2001). According to Robert Litan, research director at the Kauffman Foundation, "Roughly 25 percent of successful high-tech startups over the last decade were founded or co-founded by immigrants." Litan also notes that "Between 1980 and 2005, virtually all net new jobs created in the U.S. were created by firms that were 5 years old or less." A simple way to ensure that our economy thrives is by encouraging capable immigrants to come to the United States (Friedman, 2010).

A study by Harvard Medical School researchers found that immigrants paid in more than they withdrew from Medicare. Between 2002 and 2009, immigrants generated surpluses to Medicare of \$115 billion (Tavernise, 2013). One reason for this is that immigrants tend to be much younger than the rest of the population: the median age for non-Hispanic whites is 42; for Hispanics, who make up the majority of immigrants, it is 27. Leah Zallman, the lead author of the study, concluded that the study "pokes a hole in the widespread assumption that immigrants drain U.S. health care spending dollars" (Tavernise, 2013). Not only are immigrants not takers, but they are paying into the system at a time when many natives are retiring and thereby benefitting everyone. Moreover, there is some evidence

that immigrants are healthier than native-born Americans and therefore use less (possibly 14% to 20% less) health care than the rest of the population (Tavernise, 2013).

The “Stranger” in Race and Other Personal Aspects

Racism is another tool used to hate the “stranger,” especially if the stranger has a difference skin color. Malachi (2:10) stated that all of humankind has “one Father” so it is morally wrong to look down on anyone simply because they are of a different race. Indeed, the idea of the brotherhood and unity of all humankind derives directly from the verse in Genesis (1:27) in the story of the creation of Adam and Eve: “And God created man in His own image, in the image of God created He him; male and female created He them.” All of mankind can be traced back to Adam and Eve who were endowed by God with dignity and reason. If all of humankind is molded in God’s image and has a common ancestor, then a believer cannot make the claim that any race is superior.

The biblical antipathy toward racial slurs is illustrated by an incident regarding Moses’ sister Miriam. Miriam disparaged Moses “because of the Cushite woman he had married (Numbers 12).” The Cushites (Ethiopians) were very dark-skinned. The commentaries disagree as to whom Miriam was slandering. Some claim that Moses had taken another wife, a Cushite woman (see Rashbam, Ibn Kaspi). Others believe that the Cushite woman referred to in the verse was Tziporah who was actually a dark-skinned Midianite (see Ibn Ezra, Redak). Miriam seems to have used a racially insensitive term to describe this woman and Miriam’s punishment was that she became leprous, “white as snow.” There is a great deal of irony in the fact that Miriam’s punishment for making critical remarks regarding a dark-skinned person consisted of her becoming deathly white. Indeed, Miriam is the first individual cited by the Bible as having been punished by God for making a racist remark.

President Barack Hussein Obama’s middle name has been used to undercut him. In fact untrue rumors were circulated that he was a Muslim and not born in the United States (Waismel-Manor & Stroud, 2012). There is evidence that an obvious African American sounding name such as Deshawn or Shanice are negatives on a resume and will result in fewer callbacks than the same resume with a white-sounding name (e.g., Emily and Greg). One study showed that white-sounding names received about one callback per 10 resumes vs. black names which received one callback per 15 (Pope, 2009; Bertrand & Mullainathan, 2004).

Racism had a negative effect on economic growth in the United States and resulted in a 4% reduction in GDP (Friedman & Amoo, 2002). One can imagine what effect it has in countries where it is tolerated and even

encouraged. The same can be said at the corporate level. Companies dominated by white men often make it difficult for those that are different to succeed. Recently, Merrill Lynch agreed to pay \$160 million to settle a racial bias lawsuit brought by black brokers. George McReynolds, the lead plaintiff and a broker in the Nashville office of Merrill Lynch, asserted that “black brokers received little help from their managers early on and were often ostracized by co-workers. The unequal treatments compounded their disadvantages year after year” (McGeehan, 2013). Linda D. Friedman, an attorney for the plaintiffs, told the judges that the system in effect at Merrill Lynch in which departing brokers would provide their customers to other brokers who were part of their team had a “disparate effect on black brokers” since they were almost never invited to join a team (McGeehan, 2013).

Skin color is not the only “strangeness” that serves as the basis of discrimination. There is a prevailing bias against what is considered “normal” weight. A study by Judge and Cable (2011) found that overweight men and very thin women did much better financially in the workplace than skinny men or plump women. Good looks are also important when it comes to being hired and making a good salary (Judge, Hurst, & Simon, 2009; Hamermesh & Biddle, 1994). Those rated below average in attractiveness earned 7 to 9 percent less than average; men and women who were rated as attractive earned a premium of 5 percent. It has been noted by pundits that it is usually the man with the more hair who will win the presidential election.

The Stranger as the Handicapped

The Bible makes it clear that handicaps are not impediments to greatness; Moses, the greatest prophet and Jewish leader of all times, may have had a speech handicap (Exodus 4:10). He told God that he was “heavy of speech and heavy of tongue” and hence unsuited to confront Pharaoh in order to obtain the Jews’ freedom. It is not clear what type of speech problem he had but it was sufficiently severe for Moses to believe that it should disqualify him from the leadership role for which God had tapped him. Nevertheless, it was precisely this man with a speech disability who was divinely chosen to lead the nation and to receive the Torah at Sinai.

The Bible dictates the protection of the weak and the handicapped. One example is the biblical prohibition of the cursing of the dead and the tripping of the blind (Leviticus 19:14). Micah (4:6) foresees when the handicapped will be given special treatment by the Lord. He declares: “On that day [Messianic times], declares the Lord, I will assemble the lame and gather those who have been driven away and those whom I have afflicted.”

In contrast to the biblical precepts, people with disabilities are often shunned by the rest of society. Even in modern societies, the disabled may be treated as “the stranger” since they may not fit in. This may be especially true of people who are developmentally disabled or physically disabled. Friedman, Lopez-Pumarejo, and Friedman (2006) provide a strong case that marketing to the disabled is a good business decision. They refer to the disabled as the “largest minority group” and that it is a growing market. As the baby boomers age, large numbers of them will inevitably become disabled, further swelling the ranks of this huge minority group. The disabled constitute a market that had more than \$1 trillion in aggregate income about 7 years ago. The size of the disabled market worldwide is about one billion people. It makes no economic sense to ignore a market of such huge proportions. A number of companies have been hiring the disabled and have found them to be dependable and loyal employees (Friedman, Lopez-Pumarejo, & Friedman, 2006).

Garb of the Stranger

People who wear different clothing are sometimes shunned by others. The United States Army recently granted exceptions to several Sikhs to allow them to wear turbans. The argument against allowing turbans is that “uniformity of appearance is essential for unit cohesion” and that it is an “outward symbol of a disciplined military.” The Pentagon is being urged to change its rules so that Sikhs do not have to file petitions in order to be granted special exceptions from the rules on a case-by-case basis. Major Kalsi, a Sikh who was granted an exception and has a beard and turban, had this to say about the Army’s rule: “Asking a person to choose between religion and country, that’s not who we are as a nation” (Dao, 2013).

There is an interesting case involving British employees to be heard later in the year at the European Court for Human Rights dealing with the wearing of a crucifix in the workplace. Several people wearing crucifixes lost their jobs for displaying what they feel is a symbol of their faith. The government claims that wearing a crucifix is not a “requirement of the faith” and thus not protected by the European Convention on Human Rights (Article 9). The Archbishop of Canterbury may have weakened the case of the plaintiffs by saying that crosses and crucifixes have become little more than jewelry and a “religious decoration” for many Christians and are essentially “substitutes for true faith.” Interestingly, British law does protect the wearing of a Sikh turban and Muslim hijab are protected as religious symbols (Brennan, 2012).

In 1997, President Clinton issued the following set of guidelines for federal agencies (Gordon, 2008):

Executive departments and agencies shall permit personal religious expression by Federal employees to the greatest extent possible. An employee may keep a Bible or Koran on her private desk and read it during breaks. An employee must be permitted to wear religious garb, such as a crucifix, a yarmulke, or a head scarf or hijab, if wearing such attire during the work day is part of the employee's religious practice or expression, so long as the wearing of such garb does not unduly interfere with the functioning of the workplace." The guidelines even state that federal employees may proselytize to each other in the workplace, as long as the confronted person does not explicitly request the activity to stop.

Despite these guidelines, there have been cases where Jewish men wearing kippahs (yarmulkes) and Jewish and Moslem women wearing headscarves were discriminated against.

CONCLUSION

The Bible—the greatest best-seller of all times that has influenced the lives of billions of people—has been referred to as “The Beginning of Wisdom” (Kass, 2003). It has many important lessons to teach humankind. One of its most important lessons is the importance of taking care of the stranger. In God's eyes, we are all strangers. God declares (Leviticus 25:23): “the land is mine; for you are strangers and settlers with Me.” Every person who lives on Planet Earth, in effect, is a “stranger” since the entire universe belongs to God.

The stranger in our society might be a foreigner, a person of a different skin color, someone wearing strange clothing, or a person with a disability. If a society wants to thrive, it has to open its doors and welcome the stranger. There is no question that the United States became great because it opened its doors to immigrants from many different countries. Sacks (2008) makes the following point about loving the stranger: “There is only one reply strong enough to answer the question: Why should I not hate the stranger? Because the stranger is me.” The color of one's skin may not change with time but we all expect to get old. Many elderly people will also suffer from all kinds of disabilities associated with old age. People often gain weight as they age and become less attractive. If we focus on differences, then we are all strangers.

Emma Lazarus (1849-1887), a Sephardic Jew, was concerned about the plight of disenfranchised immigrants and the persecution of Jews abroad. She died at the young age of 38, but no one will ever forget these lines from her most famous sonnet, *The New Colossus*:

Give me your tired, your poor,
 Your huddled masses yearning to breathe free,
 The wretched refuse of your teeming shore.
 Send these, the homeless, tempest-tost to me,
 I lift my lamp beside the golden door!

This poem helped make the Statue of Liberty a symbol of immigration.

Friedman and Amoo (2002) present many arguments demonstrating that sensitivity to the needs of minorities and women is the key to economic prosperity in the global Internet age. They aver that countries that discriminate against women seriously hurt their economic growth rate. In fact, a company that wants to thrive in the multicultural, global marketplace has to be serious about diversity. Needless to say, the key reason is that it is immoral (and often illegal) to discriminate against any person.

Diversity, inclusion, and love of the stranger are values that all organizations must cherish; employees who show contempt for people that are different should not be tolerated. Organizations have to create a healthy environment where all kinds of people can work together and prosper. Discrimination on the basis of nationality, race, religion, background, mental handicaps, physical handicaps, etc. may not always be illegal, but it is certainly a serious violation of biblical law. A country that hopes to prosper has to embrace the stranger. The Sodom-like belief that all aliens are inferior and will tax the resources of a country is a view that can only lead to catastrophe. It is certainly contrary to the biblical view that all of humankind was created in the "image of God." Note how many prophets starting with Moses decried the plight of the weak and helpless. Humankind has a special mission to imitate God and take care of the stranger. And by so doing it will increase its prosperity rather than diminish it.

The Messianic prophecies of Isaiah and others require a world of truth, justice, equity, and peace. A great society cannot be built on selfishness and greed. It is not about the 99% vs. the 1%, but about a society that shows compassion to the stranger, one where everyone who works hard will have the opportunity to succeed, a society built on love, tolerance, and respect for those that are different. Sadly, research by Susan Fiske indicates that America has become a place where we have incredibly negative stereotypes

of the poor and homeless and those “perceived as undocumented immigrants.” Fiske contends: “It seems like Washington is a place without pity right now. A town without pity” (Blow, 2013).

Last year, the desire of House Republicans to undo Obamacare, led to a government shutdown that had ugly consequences: programs that helped the poor had to be cut and as many as 800,000 government employees were temporarily laid off. Regarding this, Friedman (2013) stated: “What is at stake in this government shutdown forced by a radical Tea Party minority is nothing less than the principle upon which our democracy is based: majority rule.” Gerrymandering has resulted in the creation of “safe, lily-white” Republican strongholds that do not reflect the diversity of the real America (Friedman, 2013).

Isaiah and the other ancient prophets would agree with Blow (2013) about Washington becoming a “town without pity.” In fact, Isaiah criticized the leaders of ancient Judea, prior to the destruction of the First Temple, and referred to them as the “chiefs of Sodom” (Isaiah 1:10). He knew that the direction the leaders were taking the country, built on greed, corruption, and indifference to the plight of the weak and helpless, could only lead to destruction and exile. He also provided the solution (Isaiah 1:17): “Learn to do good; seek justice, and support the oppressed. Defend the orphan, and plead for the widow.”

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Commentary

Culturally Relevant Strategies for Supporting American Indian Entrepreneurship

Charles F. Harrington

ABSTRACT

Any discussion of Native American entrepreneurship is unfinished without consideration of the necessity of culturally appropriate entrepreneurship development strategies. Typical entrepreneurship development strategies will not prove beneficial for American Indian entrepreneurs without taking the differences between Native and non-Native cultures into account. The complexity of and differences among tribal cultures also should be considered and incorporated into culturally relevant entrepreneurship development strategies. This paper provides a cursory overview of such strategies that can be leveraged to support and sustain Native small business development and entrepreneurship.

Keywords: business development strategy, entrepreneurship, American Indian

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INTRODUCTION

Providing support for small business development and entrepreneurship in Indian Country has been a subject of significant discussion in recent years, and there remains considerable difference of opinion relative to the services such enterprises need to be successful. Research suggests that Native entrepreneurs confront several barriers in developing small businesses (Adams & Pischke, 1992; OECD 1994; OECD 1998; Aspen 2000c). Among the most frequently cited are: limited access to credit and financial capital, a lack of information and knowledge as to how best to use available resources, and a lack of indigenous networks or peers who can provide support (Shorebank Advisory Services, 1995).

Generally speaking, issues of financing, a lack of business expertise, and limited tribal support are important (Garsombke & Garsombke, 1998; Lansdowne & Bryant, 1999; Pavel & Timmons, 1996). A study of Native entrepreneurs in Minnesota and Wisconsin found, for instance, that “aspiration” level, lack of formal business education, and lack of access to financial resources were rated as significant barriers to start-up businesses (Garsombke & Garsombke, 1998). Discrimination is also perceived as a factor as well. A series of interviews with Native entrepreneurs conducted by Lansdowne & Bryant, indicated that the availability of start-up capital, the presence of partners or mentors to provide support, and the role of tribal government codes and ordinances to provide a supportive regulatory environment to the small business sector were critical factors in business success (Lansdowne & Bryant, 1999). Central to uncovering the challenges of entrepreneurship and economic development in rural Native communities is understanding the economic and cultural context in which Native entrepreneurs live and operate their businesses.

Native American Entrepreneurship

Entrepreneurship among Native American populations has been viewed as one means of raising economic conditions for these indigenous groups. For the purposes of this paper, the Native American entrepreneur is defined as an owner of an enterprise rather than Schumpeter’s (1934) definition of the entrepreneur as the bearer of new or creative products. This is in part due to the scarcity of business ownership among Native Americans where only one of 100 Native Americans can be considered a small business owner. Across the U.S., there are estimated to be only 170,083 reservation based micro-entrepreneurs. Thus, for Native Americans, being a business owner is, by itself, a creative endeavor that breaks from the normal economic activity of this population.

This condition may be in part due to social and cultural factors that create unique barriers to would-be Native American entrepreneurs. For example,

there is a scarcity of entrepreneurial role models within the Native American community, in part, a consequence of the legacy of westward expansion and the Indian Wars of the nineteenth century when Native Americans were forced upon tracts of reservation land where dependence upon the U.S. government for resources became the tradition.

Still, other social and cultural differences have also been found to create distinctive barriers to Native American entrepreneurship. Studies have shown that many Native American entrepreneurs view themselves as generally having less business education, lower aspirations, poorer communication skills, and experience more racial discrimination than non-Native American entrepreneurs (Garsombke & Garsombke, 2000). Consequently, Native American entrepreneurs see themselves as having greater barriers to entrepreneurial success than do non-Native Americans.

These obstacles do not appear to be uniformly experienced within the Native American community. That is, there appears to be differences in beliefs between Native American entrepreneurs who are independent of tribal funding and those that are tribally funded. For example, Stewart and Schwartz (2007) found that Native American entrepreneurs that were supported with tribal funding perceived they received higher levels of technical and cultural support than did their counterparts that were independent. However, the quality of technical support available was perceived to be relatively low. In contrast, other findings (e.g., Adamson & King, 2002) found that access to financing coupled with limited business expertise and experience were significant barriers for Native American entrepreneurs that were reservation-based. Likewise, several other studies including the Harvard Project and a CFED study on Native American entrepreneurship (Malkin et al., 2004) have concluded that business training and technical support are some of the most important yet most underdeveloped aspects of entrepreneurship development programs in Native American communities.

Access to financial resources continues to be a major obstacle to Native American venture success. There are several factors that contribute to this circumstance. One problem relates to the consequence of reservation geography. Most reservations tend to be rural. Therefore, access to lending institutions tends to be more restricted than is found in more urban areas. In addition, relatively few reservations have on-site financial institutions and those that do tend to lack competition. Consequently, Native American entrepreneurs located on reservations tend to receive loans from these institutions (to the degree that they are given) with interest rates that are prohibitively high. Moreover, many commercial institutions will not serve Native American entrepreneurs who live on tribal reservations due to the perception that they represent a higher risk, in part due to their general

lack of collateral. In that tribal land is held in trust by the U.S. government, Native Americans living on reservations cannot access their land for use as collateral for common forms of business financing.

Other research appears to reinforce the notion that Native American entrepreneurs face unique cultural challenges with respect to entrepreneurship that are not faced by non-native entrepreneurs. Native American culture tends to be more collectivistic in point of view (Stewart & Schwartz, 2007). That is, Native American entrepreneurship is often motivated by economic (as well as non-economic) benefits that may accrue to the extended family as well as to other community members (Malkin et al., 2004). Maintaining harmony within the community is of primary importance in some tribal communities. For example, Native American entrepreneurs are more likely to excuse poor employee performance in order to maintain harmony with family members or the tribal community.

This more collectivistic view toward business practice may put the Native American entrepreneur at odds with the more conventional business goals of the traditional entrepreneur. In fact, even the accumulation of wealth, a common entrepreneurial objective, may conflict with traditional Native American aspirations. For instance, Malkin et al. (2004) found in their study that tribal members reported uneasiness with accumulating greater wealth than other tribal members. Consequently, it is not uncommon for a Native American business to extend credit or even sales revenue to extended family members at the expense of profitability.

Other perceptual differences have been noted by Native American entrepreneurs. They often see themselves as less objective and less individualistic than non-Native American entrepreneurs (Garsombke & Garsombke, 2000). These entrepreneurs report themselves as having lower aspiration levels, less business education, experiencing more racial discrimination, and poorer communication skills than non-Native American entrepreneurs. As a result, Native Americans see themselves as having greater barriers to business success than do non-Native Americans. Thus, it should be beneficial to examine sources of support that are available to help Native American entrepreneurs overcome barriers to SME success. Three categories of support that have been shown to be important to Native American entrepreneurs and include: technical, financial, and cultural support.

What is Native Entrepreneurship?

While the following discussion informs efforts to promote culturally appropriate entrepreneurship strategies, it is not exhaustive and does not attempt to portray the findings as universally held across all Native communities. Native Americans are not a homogenous group and there are significant differences among tribal cultures.

In the national report, *Native Entrepreneurship: Challenges and Opportunities for Rural Communities* (Malkin & Aseron, 2006) defined entrepreneurship as the process by which an individual creates and grows an enterprise. The definition is purposefully broadened to include the full spectrum of entrepreneurs including, aspiring, survival, lifestyle, growth, serial, and social. Building on this broad definition of entrepreneurship, the report also defined Native entrepreneurship to include an emphasis on the role of cooperation; value of group goals; and the importance of placing material success after emotional, family, or community relationships.

In their report, *Native Entrepreneurship in South Dakota: A Deeper Look* reinforced this idea of a culturally relevant definition for Native entrepreneurship. A common sentiment was that people who owned their own businesses were not solely seeking personal financial gain, but showed initiative and utilized their strengths and abilities. As the authors conducted interviews for the report, the terminology “entrepreneurship” evoked discussion, confusion, and at times, resistance over a sense of what entrepreneurship represented to tribal community members. In many instances, when asked, “What is Native entrepreneurship?” many respondents expressed uncertainty in either defining or identifying themselves as entrepreneurs. For many, the move from abject poverty and the survival mode to entrepreneurial vision and success was daunting. Very few people claimed outright to be Native entrepreneurs. Despite this perception, the majority of those interviewed also noted that entrepreneurship plays an important role in their tribal past, present, and future and that entrepreneurship activities and engagement are increasing.

The national report, *Native Entrepreneurship: Challenges and Opportunities for Rural Communities*, also explored perceptions about Native culture as it relates to entrepreneurship development strategies. Those interviewed for the national report, mostly Native and non-Native leaders of national nonprofit organizations, offered the following distinctions with regard to Native culture and entrepreneurship:

- The issues of control and use of Native assets are critical to any Native entrepreneurship development strategy or discussion;
- While the traditional Native model of business development may differ from mainstream models, Native communities have had a long history of trade and commerce (entrepreneurship);

- For many Native Americans, entrepreneurship is about utilizing individual initiative to benefit the whole community. Part of this community interest includes sustainable utilization of natural resources;
- While a lack of experience in business development and entrepreneur role models is not unique to Native communities, it is particularly prevalent on many reservations today; and
- Native entrepreneurship development includes holistic support strategies that deal with both personal and economic empowerment.

Understanding the Centrality of Cultural Context

Any discussion of Native American entrepreneurship is incomplete without addressing the issue of culturally appropriate entrepreneurship development strategies. More than 20 years of study by the Harvard Project on American Indian Economic Development revealed that one of the three components that underlie Indian nations' ability to build sustainable economies is "institutions that operate consistently with indigenous beliefs about how authority should be organized and exercised (cultural match)" (Harvard Project for American Indian Economic Development, 2000). (The other two factors, sovereignty and capable governing institutions, are touched on in the policy section of the 2000 Harvard report.) There is still some debate about the cultural appropriateness of individual entrepreneurship (versus tribally owned enterprises) in Native American economic development strategies (Flora, C., & Bregandahl, C., 2002). However, available research and interviews confirm that tribal elders and policymakers, economic development practitioners, and researchers believe that individual entrepreneurship is compatible with past and present Native culture and can be an important vehicle for expanding tribal economic sovereignty.

Underlying this general agreement, however, is the acknowledgement that Native American entrepreneurship development strategies will not succeed without taking the differences between Native and non-Native cultures into account. The complexity of and differences among tribal cultures also must be considered. Native Americans are not a homogenous group and do not hold the same values. Still, general differences between Native and non-Native cultures need to be recognized and incorporated into culturally relevant entrepreneurship development strategies. Corporation For Enterprise Development's interviews and analyses of available research on cultural perceptions of Native entrepreneurship revealed the following initial considerations:

The issues of control and use of assets are critical in any Native entrepreneurship development strategy. Tribes own lands rich in resources, such as timber, range and crop land, oil and gas reserves, uranium deposits, and water reserves, yet most tribes and individual Native Americans have little or no use of or control over their own assets (Adamson, 2001). Because much of the land on Indian reservations is held in trust by the federal government, either for the tribe or for private families, it is difficult for aspiring entrepreneurs to use their trust land as collateral when working with banks to gain access to credit. And because of flawed accounting by the federal government, many individuals with trust land do not have a clear accounting of the land they own. Educating tribes and individuals about regaining control and/or using their assets is critical to any effort to promote entrepreneurship in Native American communities (Deweese, 2001).

Native Americans have had a long history of individual entrepreneurship, which continues today. Despite general misperceptions that Native culture (past and present) is not consistent with private entrepreneurship, Native peoples have had a long history of engaging in trade and commerce. The traditional Native American model of entrepreneurship differs from mainstream models in that it acknowledges and encourages the role of trade and individual product development while respecting the preservation of natural resources (Miller, 2001).

This remains true for many Native entrepreneurs today, who note that Native American business models value sustainable utilization of natural resources over profit (Flora & Bregandahl, 2002). While Native entrepreneurs may vary in their incorporation of traditional tenants, all of them play an increasingly important role in diversifying the economic base of local rural economies.

For many Native Americans, entrepreneurship is about utilizing individual initiative to benefit the whole community. In many Native communities, entrepreneurship has a broader meaning than mainstream definitions, such as “the process of growing and creating an enterprise for personal economic gain.” As noted by Johnnie Aseron, founder of the social entrepreneurship venture Rediscovering the Seventh Direction, entrepreneurship means, “having the boldness and insight to begin something new and recognizing one’s strengths and abilities as well as the abilities of others in order that the entire community may benefit.” (Meeks, 2007). To some, a Native entrepreneurship development strategy means emphasizing the role of cooperation, valuing group goals, and placing material success after emotional, family, or community relationships. This

includes taking the time to receive feedback on plans or ideas not only from a board of directors or business mentor, but also from tribal elders and the larger community. On the other hand, this community-oriented approach creates discomfort for some Native entrepreneurs. They sometimes feel uneasy about as the appearance of “having something,” as it is sometimes met with jealousy or resentment from the community. As noted by Elsie Meeks, Native entrepreneur and advocate, “contributing to the community is part of doing business for us, but people also need to recognize that they must give from their net profits, not their gross, if they want to survive in the long run.”

Native entrepreneurship development is a holistic strategy. Native and non-Native American cultures “conceptualize” differently. While non-Native cultures may conceive in a more segmented and linear fashion, Native cultures think and plan holistically. They often take into account personal or community issues that may not be perceived by others as directly related to entrepreneurship development (Harvard Project for American Indian Economic Development, 2000). A survey of Native and non-Native American entrepreneurs quantitatively documented this difference, finding that a greater percentage of Native American entrepreneurs identified themselves as “subjective thinkers” or as people “thinking with their hearts,” whereas non-Native entrepreneurs saw themselves more often as objective thinkers (Garsombke & Garsombke, 1998). According to some, this difference in thinking, combined with the current state of poverty and its accompanying social ills on reservations nationwide, means entrepreneurship development programs may need to employ holistic strategies that deal with both personal and economic empowerment. This is not to say that Native American business development programs should not assist entrepreneurs with careful analysis of market demand, business plans, and financial management. Rather it means that that simply implementing a model focused solely on linear business development techniques into Native American communities will not necessarily be well received or effective.

Native Americans who live and work on reservations often have little experience working in, managing, or owning businesses. Whether it is due to a lack of political, economic, or social support for reservation-based entrepreneurs, industry leaders convey that many Native Americans lack exposure to or experience in business, and are therefore hesitant to pursue or follow through on entrepreneurship opportunities. A report that examined differences between Native and non-Native American entrepreneurs in Minnesota and Wisconsin found that only 13% of Native Americans have parents who are entrepreneurs compared to 75% of non-Native American entrepreneurs (Garsombke & Garsombke, 1998). Without

a strong base of existing businesses on reservations or support from role models, aspiring Native entrepreneurs lack opportunities to gain experience in or be exposed to entrepreneurship. In many cases, Native Americans feel marginalized and convey the feeling of being “left behind” and needing to “catch up with the rest of the world.” (Flora & Bregandahl, 2002).

Cultural Differences and Orientation toward Entrepreneurship

The family structure varies from tribe to tribe including gender roles, from the matriarchal structure seen in the Navajo to patriarchal structures. For example, among the Haudenosaunee people, women are regarded as powerful physical beings in their matriarchal family structure (George-Kanentiio, 2000).

Family practices within the Native American culture are as diverse as among the different Asian groups' family practices and traditions. Yet, despite this enormous diversity, there seem to be common core values and beliefs that characterize traditional Native American culture across tribal groups and geographic regions. Most Native American families are extended and often include mothers, fathers, grandparents, aunts, uncles and cousins. It is not uncommon to have adopted relatives in the household and all living in very close proximity to one another (Allison & Vining, 1999). Native Americans tend to have strong roles for women and families headed by a single mother or another family female adult (Sue & Sue, 2003).

Native Americans highly value traditional beliefs concerning relation, harmony, balance, spirituality, and wellness; as part of valuing "relation" all these beliefs are interrelated. Central to Native American spiritual traditions is the importance of “relation” as a way of existing in the world. The power of relation is symbolized by the Circle of Life, represented throughout the traditions, customs and art forms of Native people (Dufrene, 1990). This Circle of Life is believed, in many tribal traditions, to consist of the basic elements of life: fire, earth, water and wind. These four points also denote, as for example in Cherokee tradition, spirit, nature, body and mind, referred to as the Four Winds (Dufrene, 1990).

Also life, from a traditional Native American perspective, is viewed as a series of concentric circles. The first circle is the inner circle, representing our spirit. The next circle is family/clan. The third circle is the natural environment and all our relations. And the fourth circle consists of the spirit world. Considering the power of relation, all life exists in an involved system of interdependence in a dynamic state of harmony and balance (Garrett & Carroll, 2000).

Among the many aspects of Native American culture is the emphasis on unity through seeking harmony and balance both inwardly and outwardly. Generally, Native American traditional values reflect the importance placed upon community contribution, sharing, cooperation, being, noninterference, community and extended family, harmony with nature, a time orientation toward living in the present, preference for explanation of natural phenomena according to the spiritual, and a deep respect for elders (Garret, 1999).

Traditional Native American views of healing and wellness emphasize seeking harmony within oneself, with others and with one's surroundings (Garrett & Carroll, 2000). In the traditional Native American way, medicine can consist of physical remedies, but medicine is also much more than a pill you take to cure illness or correct a physiological malfunction. Medicine is everywhere; it is the essence of their inner being that gives inner power (Garrett, 1999). The Native American elders often hold healing positions such as medicine men and other authoritative positions in the community due to their highly valued wisdom and experience.

Unlike Western spirituality, religion is a way of life for Native people (Atwood, 1991). In many Native American languages, there is no word for "religion" because spiritual practices are an integral part of every aspect of daily life; spirituality is necessary for the harmony and balance, or wellness, of the individual, family, tribe and community (Locust, 1988).

As in every culture, it is important to consider the stage of personal identity development when looking at family practices, values, beliefs and attitudes. Although many Native American elders assist in encouraging the identity development of their children, there is still a growing disparity of identity development within the Native American people. Colonization greatly harmed the Native Americans' cultural identity adoption. Like most bi-cultural identity development, Native Americans are often living in two different cultures. Often, individuals intertwine the dominant culture and their Native American identity together. For example, Native American museums such as the Barona Native American Museums display the traditional ceremonies that were originally taught to colonize. However, current groups now recreate these original non-native traditions with their Native American influence. Native American identity development is also connected to their religious practices and spirituality. Today, Native American families may identify themselves as either traditional, bicultural, or assimilated, which is largely based on the location of the household, language spoken at home, and the participation in religious events (Allison & Vining, 1999).

Communication in Native American culture is quite different from the "usual" American competitive-style communication. Their style values

cooperation over competition, which reflects in many areas of their lifestyles. When many Native Americans engage in conversation they listen intently, usually looking down and not establishing eye contact, until the person speaking is completely finished talking. Then the other person talks and fully expects to be able to completely finish his or her thought without interruption or before the conversation turns to another person. Native Americans' communication style is influenced by values that emphasize humility, respect for elders, learning through storytelling, intuitiveness, and concern for group harmony (Chiang, 1993).

“The honor of one is the honor of all” is a basic principle that symbolizes the underlying values in most Native cultures. In their study (Malkin & Aseron, 2010) noted that many Native people revealed that many aspiring entrepreneurs question their entrepreneurial identity—defined as the cultural appropriateness of being an entrepreneur and one’s perceived entrepreneurial abilities. Their interviews revealed an underlying theme that excessive personal prosperity conflicts with an overall sense of Native cultural identity. Entrepreneurs noted that they experience both internal and community pressures to consider the needs of the general community as they strive to achieve personal success.

Furthermore, they expressed a belief that defining economic success as maximizing financial benefit to themselves over maximized benefit to the community would result in a potential loss of cultural identity— they would be made to feel that they are no longer Indian. This attitude can leave a gap when aspiring entrepreneurs try to reconcile personal and economic progress with their cultural identity and relationship to the larger community.

Recommendations for Action

- Utilize culturally relevant materials that reflect the realities facing Native entrepreneurs doing business on and off of the reservation.
- Develop entrepreneurship educational seminars and workshops for tribal policymakers and community and economic development personnel.
- Learn from other current efforts to foster greater cooperation among tribes, individually owned Native businesses, and tribally owned businesses.
- Encourage policymakers, entrepreneurship support organizations, and the local media to serve as champions of entrepreneurs by publicly recognizing the contributions of entrepreneurs to the local economy.

- Increase investments by tribal governments in collaborative efforts to provide entrepreneurship education and coordinated services to aspiring and existing entrepreneurs.
- Facilitate dialogue among tribal leaders, tribal members, and outside investors and financial institutions to share knowledge, identify challenges and opportunities, and pursue mutually beneficial investment strategies.
- Provide guidance to local banks on strategies to increase their provision of financial products and services to Native entrepreneurs.
- Allocate funding to support and expand local and culturally relevant training and technical assistance services.
- Support training and technical assistance models that require collaboration and networking among service providers and all sectors of the local and regional community.

CONCLUSION

Standard entrepreneurship development strategies will not prove beneficial for American Indian entrepreneurs without taking the differences between Native and non-Native cultures into account. The complexity of and differences among tribal cultures also should be considered and incorporated into culturally relevant entrepreneurship development strategies. American Indian entrepreneurs face unique conditions, challenges, and even barriers in developing and sustaining entrepreneurial and small business start ups. Understanding cultural context, cultural differences, and Native entrepreneurial identity are critical elements to successful support strategies.

Supporting Native American entrepreneurship requires thoughtful consideration of culturally differences between Native and non-Native cultures and the need for appropriate entrepreneurship development strategies. Despite the clear need for increased investments in entrepreneurship development for Native communities, an inadequate network of support exists for Native businesses, particularly new business startup. Mainstream economic development programs or nonprofit organizations largely overlook opportunities to strategically support Native entrepreneurs yet there are creative public-private partnerships that are emerging to better support them. Tribal elders, Native and non-Native policymakers, economic development practitioners, and researchers posit that culturally appropriate entrepreneurship is not only compatible with Native culture (past and present), but can and should serve as a vehicle for expanding tribal economic sovereignty and reducing poverty among Native peoples.

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Commentary

How Variations in Perceptual and Actual Measures of Risk Influence the Variation Between Perceptual and Actual Measures of an Entrepreneur's Ethics

Jay J. Janney

ABSTRACT

One reason why some entrepreneurs may seem less ethical than their peers may lie with how risk is conceptualized by people transacting with the entrepreneur. When risk premiums are modest, and the risk is well understood, then variations between perceived and actual ethic levels of entrepreneurs will be relatively lower. When either the risk premium increases or the level of risk understanding decreases, then that variation will increase. Seven potential reasons which can contribute to the increase in ethical variation are explored. Entrepreneurs who can successfully address these concerns will likely be viewed as more ethical than entrepreneurs who cannot.

Keywords: perceptions, risk, signaling, information asymmetry, fiction

INTRODUCTION

Are Entrepreneurs Less Ethical, or are They Perceived as Less Ethical?

Are entrepreneurs less ethical than their non-entrepreneurial peers (Teal & Carroll, 1999)? It is a confounding question, with support that they are/(are not) as ethical as peers (Hannafey, 2003). Many of the better known definitions of entrepreneurship center on opportunity (as a good thing), yet at the same time to act opportunistically is seen as an unethical behavior. Several examples of the past decade include famous entrepreneurs who have engaged in questionable business practices (Steinbauer, et al., 2014). And Kuratko and Goldsby (2004) suggest that entrepreneurs may be motivated to cut corners, or engage in other questionable behavior. Conversely, extant literature suggests entrepreneurs have an incentive to engage in ethical behavior in order to stay in business (Hisrich, 1998) by building a positive reputation (Brass, Butterfield, & Skaggs, 1998). Numerous examples abound of nascent entrepreneurs formally engaging in positive ethics (Chakrabarty & Bass, 2014). Taken together, there is anecdotal evidence to support both positions. This creates a dilemma in assessing the relative ethical standards of entrepreneurs.

Rather than argue whether entrepreneurs are less ethical than other actors, we'd like to unpack the issue by instead examining perceptions of entrepreneurs ethics. That is, rather than asking if an entrepreneur's behavior is more/(less) ethical than a non-entrepreneurial peer, we'd like to ask if the people with whom entrepreneurs interact perceive a difference in their level of ethics (Collewaert & Fassin, 2013).

Janney and Dess (2006) found that people's perceptions of risk often vary from the actual risk found in any given new venture. They found that informational differences can contribute to the deviation between actual and perceived risk. We suggest that similar informational differences might also influence perceptions of an entrepreneur's ethics. Hawley (1893) argued that all new ventures bear risk and transactions involving an entrepreneur have an implied risk premium built in. Because the risk premium is rarely formally stated, it is primarily a perceptual measure, subject to deviation from the actual levels of risk it addresses. As the size of the risk premium grows, the potential for variance between perceived and actual risk will grow. If the reason for this variance is not understood, it increases the likelihood that others will attribute that variance to differentiated (good or bad) ethical behavior on behalf of the entrepreneur.

Our roadmap for this paper is as follows: to develop a definition of entrepreneurship, we begin with a brief history of commerce, paying attention to its emphasis on the role of risk in entrepreneurship (e.g., Defoe, 1726, Cantillon, 1755). These works largely treat risk as something which is transactable—where entrepreneurs accept risk as part of the transaction. In the

second section, we examine a paradox about risk transactions; both parties have an incentive to reduce actual risks, yet one party pays the other to assume greater risk. We believe this paradox can create doubts about ethical behavior. In the third section we expand on one element of unethical behavior; Collewaert & Fassin's (2013) category of unfair communication, as evidenced in risk premiums. We consider the effect that three conditions (concerning risk premiums) have on perceptions of an entrepreneur's ethics: a) the decision to reveal the riskiness of a venture, b) an assessment on how risk may be reduced, and c) on variations as to the actual level of perceived risk in the venture. We follow that with a discussion on how four other elements of risk may influence perceptions of ethics, including the role of fiction as it portrays entrepreneurs. Although Defoe (1697) wrote one of the earliest treatments about entrepreneurship, he is better known for his business-based fiction. In the fifth section, we provide a comparison and contrast of two vignettes to how the aforementioned risks may influence perceptions of ethics, and conclude with a discussion on how other aspects of information asymmetry may affect perceptions of entrepreneurial ethics. We then conclude with a discussion of tactics entrepreneurs may employ to enhance perceptions of ethical behavior, as well as future directions for future exploration.

How Defining “Entrepreneurship as Risk Taking” Emerged

Conceptually, three major entrepreneurial constructs can be loosely described as: a) entrepreneurship as pursuing opportunity (Timmons, 1989), b) entrepreneurship as shifting resources to higher value-added usage (Schumpeter 1942) and c) entrepreneurship as risk-taking in a new venture (Cantillon, 1755). All three to some extent stress the value of opportunity, though none are diametrically opposed to each other. This paper emphasizes the third definition of entrepreneurship as risk-taking in a new venture, as we believe that perceptions of how risk is managed can influence perceptions of entrepreneurial ethical behavior.

Although new venture formation dates to BCE times, it was largely associated with the original specialization of labor (e.g., farmers, millers, etc.), and with local marketplaces, which today would be described as small businesses. About the same time there arose “merchant businesses,” which conducted trading between local markets, and handled logistical concerns for goods as well. One characteristic that separated the merchant businesses from extant small businesses was the types of risk that they bore. Small businesses had to contend with unforeseen weather conditions, other environmental conditions, as well as some uncertainty about their final sales price. Merchants had to contend with some additional risks as well, including taking ownership of goods (buying from one party and then

selling to another) for a non-insignificant period of time (Massachusetts Historical Society, 1914). Their doing so incurred risks from travel, including heightened concerns from the spoilage of goods, as well as piracy. In addition, they faced risks arising from having to finance the venture, as well as some market risk based on unknown future prices (Knight, 1916). We make this point to underscore how risk-taking takes on a meaningful distinction between merchant businesses and small businesses. While the two overlap, they often describe two different phenomena, where the former is more commonly identified as entrepreneurship (Webb, 1888).

Entrepreneurship began to shift from solely the domain of merchant traders to those who started new ventures, as found in Defoe's work (1697). Defoe's project-oriented entrepreneurs would feel at home in Silicon Valley today, with their emphasis on both technology and entrepreneurship, as well as the technical feasibility risk they bore. As Defoe's (1697) work came at the beginning of the industrial revolution, the explosion of new ventures at that time began to stress their entrepreneurial nature. Cantillon's 1755 classic definition of an entrepreneur codified the relationship between entrepreneurship and risk, with the entrepreneur becoming someone who bought at a fixed price and sold at uncertain ones.

Implicit in Cantillon's work is the idea that other actors were satisfied with the risk taking role the entrepreneur provided. Because merchants operated in a marketplace, their trading partners had a "make-buy" choice available to them: they could transact with the entrepreneur, or they could take responsibility for trading their goods and services themselves. But doing so meant assuming the risks the entrepreneur had offered to assume, for a price. That so many chose to transact with entrepreneurs indicates that in general small business owners thought the risks entrepreneurs faced were both real and substantial. Rather than being exploited, they saw value in the transactions (Miller, 1977). This has important implications for perceptions of ethics.

The Entrepreneur's Paradox: a Desire to Both Accept and Reduce Risk

The small business owners transact with the entrepreneurs because they prefer less risk to greater return. In doing so they accept (relatively) lower prices by trading with the entrepreneur rather than end customers directly. The transaction has an implied risk premium built into it. In weighing their own risk/return calculus, they prefer not to try to manage their own risks, and will pay a risk premium for someone else to do so.

But entrepreneurs equally also have an incentive to be creative in lowering their risks, as doing so can increase their overall profits. And because the risk premium is often not explicitly stated, its value is

perceptual. And both parties recognize this. The difference is that by accepting the risk, the entrepreneur would appear to know more about the risks involved, and how best to manage them, relative to their transaction partners. But their transaction partners will know this as well. This will lead to an information asymmetry (Akerlof, 1970), where the entrepreneur possesses information about the risk that their transaction partner does not.

Knowing there is information asymmetry present in a transaction leads us to contend that differences in perceptual values can lead to different perceptions of what constitutes ethical behavior. When the implied risk premium is modest, the impact on ethical perceptions will be minimized. *But as the perceived size of the risk premium increases, the variance in perceptions (as to what constitutes a fair premium) increases as well.* Hence perceptions of larger risk premiums will likely engender diminished perceptions in entrepreneurial ethics. Similarly, perceptions of entrepreneurial ethics are not diminished when the risks are perceived as being well understood, and that the transaction partner, despite understanding the risk, still prefers for the entrepreneur to accept the risk. It is when the risk premium is high and the risks involved are not well understood that perceptions of risk are more likely to be diminished.

Specifically, differences in risk perceptions held by entrepreneurs and their transaction partners will diverge when three conditions exist, a) The entrepreneur not revealing how risk will be reduced, b) How the other party perceives the legitimacy of the tactics involved in reducing risk (when that plan to reduce risk is revealed), and c) How the other party discerns the fair value of a risk premium (when the plan to reduce risk is revealed). We'll discuss the effect of each on perceptions of entrepreneurial ethics.

How Perceptions of Risk Premiums Affect Perceptions of an Entrepreneur's Ethics

How the "Decision to Reveal" Influences Perceptions of Entrepreneurial Ethics

Inherent to this discussion is the idea that, all else equal, an entrepreneur will prefer to accept less risk for any given level of risk premium. The entrepreneur's transaction partners will recognize this as well, and it influences the level of risk premium they deem appropriate for a given transaction. One reason the transaction partner may want to transact may risk may be because they perceive their ability to accurately assess risk is unclear. They may recognize that there exists an information asymmetry (Akerlof, 1970). How might this influence perceptions of an entrepreneur's ethics?

If the entrepreneur chooses not to reveal the plan for reducing the risks embedded within the transaction, then the other party to the transaction must decide for themselves if that unrevealed risk reduction tactic is legitimate or illegitimate. Partly this may depend upon the type of risk reduction strategy the partner guesses will be employed. A risk reduction strategy based on the entrepreneur's previous experience, is less likely to be second guessed. That is, if the entrepreneur seems to be seasoned with sufficient experience, most transaction partners will prove less concerned with understanding how the entrepreneur actually reduces the risks involved. A transaction partner need not understand how the entrepreneur will specifically reduce the risk of a given venture, only that the entrepreneur has experience in doing so. The other party may accept the entrepreneur's existing reputation at face value, and not attribute ethical concerns to the risk reduction tactic.

But what if the entrepreneur's transaction partner does not know enough to know if the entrepreneur's experience is the primary source of risk reduction? Akerlof (1970), in describing the "market for lemons" suggests that if consumers cannot differentiate between high quality and low quality suppliers, they will assume a given supplier is low quality, absent any relevant evidence otherwise. We contend this insight is applicable here as well; if the entrepreneur doesn't reveal how risk is to be reduced, the other party must guess the contents of the entrepreneur's plan. Those guesses are more likely to assume the risk reduction plans are not high quality (i.e., is not ethical), and assume that the entrepreneur is somehow cheating, or taking an inappropriate "shortcut." As the level of information asymmetry surrounding the unrevealed knowledge grows, suspicions about the ethics of the transaction will grow as well. In addition, if the entrepreneur chooses not to reveal the risk reduction tactic, transaction partners must also estimate how much risk will be reduced, and those estimates will likely err on the low side (assuming the transaction has less risk than the entrepreneur has revealed). When that happens, those transaction partners are likely to believe the differences in risk estimates are due to the entrepreneur engaging in opportunism, based on unfair communication (Collewaert, & Fassin (2013), which again diminishes perceptions of ethical behavior.

Assessing the Legitimacy of Risk Reduction Tactics

Once the decision to reveal information has been made about how the entrepreneur will reduce risk, perceptual concerns shift to other areas. When the entrepreneur reveals how risk will be reduced, the other party to the transaction must now decide if that risk reduction tactic is legitimate or not. How then might someone perceive the legitimacy of the tactic? We

contend that as the implied risk premium increases, there exists a curvilinear explanation to perceptions of ethics. If the risk reduction tactic is very well known, there exists a potential mismatch between the real and perceived risk to the transaction, and rarely in the entrepreneur's favor. If the risk reduction tactic is moderately familiar and understandable to both parties involved, it is likely to be seen as more legitimate. But as the level of familiarity with the tactic falls low enough, the lack of familiarity affects negatively effects perceptions of ethical behavior. When the tactic is less understood, an entrepreneur's trading partners typically lack the requisite knowledge to discern if the tactic is legitimate or not.

As an example, travelling as part of a larger group may reduce the perceived risk of piracy along a trade route. Adhering to a familiar route may as well. Similarly, prior successful experience with a given transaction type will endow the transaction with greater levels of legitimacy as well. This is especially true if the merchant has relatively more experiences with the tactic (and better if the other party has as well). As an example, a caravan going along the Silk Road entails some risk, that many small business owners might prefer to avoid. The first time someone created that trail, it would have been novel (and risky), but generations later, the risks to traveling the Silk Road were well known and understood. In addition, a merchant who had travelled the route many times would have an accurate assessment of what was likely to occur. Hence traveling the Silk Road as a risk reduction strategy might have seemed much more reasonable than say, traveling west from España to get to the Far East.

If the small business owner transacting with the entrepreneur doesn't understand the risk reduction tactic, that tactic is less likely to be viewed as a legitimate tactic (Akerlof, 1970), and more likely to be viewed as illegal, or unethical. Initially, sailing west to go east might have been seen as some sort of a scam! Accordingly, when entrepreneurs reveal how they plan to reduce risk, if their plan for doing so does not possess sufficient legitimacy, then their transaction partners are more likely to assume the entrepreneurs are less ethical.

Discerning the Fair Value of a Risk Premium

Finally, and similar to the previous paragraph, assuming the entrepreneur reveals the risk reduction tactics, and assuming the other party believes the risk reduction tactics were legitimate, the small business owner must decide if the entrepreneur is accurately pricing the level of risk built into the final transaction. Is it a fair price the goods and services being supplied, or is the entrepreneur engaging in less ethical behavior? In this situation, it is clearly to the entrepreneur's advantage if the other party is able to estimate a similar amount of risk (and thus an appropriate risk premium) as does the entrepreneur.

Here, the level of familiarity might not work to the entrepreneur's benefit. If the risk reduction tactics revealed by the entrepreneur are perceived as being too obvious, perceptions may emerge that everyone would the others may then the other parties there is a concern the other party may feel it was something they already knew, or knew how to address themselves. Should this occur, people are more likely to assume the entrepreneur was trying to pull a fast one, and has engaged in unethical behavior. Returning to the example of the Silk Road, once travel along the road is viewed as relatively common or ordinary, what is perceived as an appropriate level of a risk premium will drop in the perceptions of those transacting with the entrepreneur. Hence if the entrepreneur tries to charge a larger risk premium than others have while traveling the same path, it will seem opportunistic, and lead to diminished perceptions of ethical behavior on the part of the entrepreneur. Similarly, over time, familiarity with a given risk will reduce the risk premium being offered. This suggests trying to demand the same risk premium as previous entrepreneurs may be viewed as trying to take advantage of others.

On the other hand, should the entrepreneur's tactics have too little familiarity with the transacting party, their lack of knowledge about the risk premium is likely to be greater. Like with too much familiarity, what constitutes an acceptable risk premium may vary in perception between the entrepreneur and the other transacting party. We contend that in assessing the relationship between risk premiums and perceptions of entrepreneurial ethics, that they may follow a curvilinear function, where too little familiarity is as bad as too much familiarity. For an entrepreneur then, the "sweet spot" appears to be sufficient knowledge to understand how the risk premium is calculated, but not so much that it actually diminishes perceptions of risk in the transaction.

Consider the venture capital industry. VCs make numerous investments knowing most will fail (a complete loss of invested capital); successful investments must cover those losses as well (Atanasov, Ivanov, & Litvak, 2012). As a whole the industry has been in decline the past decade, off nearly 2/3rds in the number of firms in existence. Most of the failed VC firms failed to earn a profit. Overall, VC funds frequently fail to beat market averages, and investors would be better off purchasing index funds. Yet when a VC invests in a portfolio company that generates a successful return (often worth billions), people focus on just that success, and overlook the numerous failed investments the VC made. The few outsized returns lead people to claim there is something "rigged" or unfair about venture capital, or how they must be cheating in order to do so well.

Four Additional Considerations of How Risk may Influence Perceptions of Ethics

In the above section the emphasis has been on revealing information about the risk, and its effect on perceptions of ethics. There are four additional considerations to note. They can be viewed as a) conflating fiction with reality, b) risk as variance, c) risk as gambling, and d) risk and rent extraction. We'll discuss each of these in greater detail.

The Romance of Entrepreneurship: Conflating Fiction with Reality

The first involves the “romance of entrepreneurship” found in the literature at the time, whereby entrepreneurship attracted a positive affect in its description. Although Daniel Defoe wrote several books on business and entrepreneurship, he is best remembered as a novelist of fiction (e.g., *Moll Flanders*, *Robinson Crusoe*). Merchants figure prominently into his stories, and in the fictions of a great many other writers of his time. Their stories are exciting, more exciting than are the lives of the small shopkeepers who transacted with the entrepreneurs. But do those heroes seem real, or romanticized? Defoe was perceived as writing fiction, not historical accounts. Similarly, The tales of Marco Polo (about a merchant travelling the Silk Road), while written as a true story narrative, are clearly embellished, to the extent that taking his tall tales at face value may seem gullible. How does being associated with fiction affect perceptions of ethics? We raise this point because a substantial amount of fiction of that time involved merchant trading, and it described the risks and dangers the entrepreneurs would face. Someone claiming then to being an entrepreneur was in effect claiming lineage to fiction.

In general, we believe that it follows a curvilinear function. For an entrepreneur's trading partners with limited or no knowledge of the popular merchant stories, their entrepreneur's stories would seem unfamiliar and as such lack legitimacy. And at the other end, when the entrepreneur tries to explain the risks they are taking, if those risks are too similar to the extant fiction storylines, their explanations are more likely be viewed as fiction, or lying. To overcome this they need evidence that their explanations are true, which often is not available. Absent evidence to the contrary, an entrepreneur's story which sounded like the extant fiction is more likely to be viewed as lying. The sweet spot then, is some familiarity with the extant fiction, but with clear differentiation from anything that appears implausible. Entrepreneurs do best when their stories are familiar but leave out the most fanciful details (especially the parts of stories involving mermaids and dragons).

Risk as Variance, and When Outcomes are Better Than Expected

Janney and Dess (2006) note that risk can be viewed in terms of both variance and downside loss. Most of the aforementioned discussion stresses downside risks. Variance risk, however, is also an element of Cantillon's (1755) definition, as entrepreneurs do not know what return they will get when they initiate a transaction. As the level of variance increases, both the relative size of downward losses and upside gains should increase (but not necessarily symmetrically). If there is downside loss, parties to the transaction will recognize the risks involved. But what happens if there is a tremendous upside gain, one that benefits the entrepreneur?

Knight's (1921) work on the difference between risk and uncertainty may prove helpful in understanding this concern. Knight understood that one element of risk involved losses from probabilistic outcomes. Insurance is seen as a reasonable means for reducing probabilistic risks. A trader might know that a storm could sink a trading ship, and that such storms were likely to happen X times over a period of time, but not know whether this particular trip was more/(less) likely to suffer storm based losses. Because the loss potential (from a single event) is so great, pooling interests via insurance is perceived as an ethical means of reducing risk. Pooled interests will also exhibit a higher understanding of the potential risks involved, reducing the variance of risk perceptions. This also means that any favorable economic variance that occurs (due to avoiding an insurance claim) is more likely to be understood by the parties involved. Entrepreneurs fortunate enough to avoid storms will simply be seen as being fortunate, not unethical. The variance (to the entrepreneurs' benefit) would be seen as being in line with potential outcomes which are reasonable. Entrepreneurs can explain their returns are both favorable and fortunate.

But if the risks undertaken are not well understood, outsized gains are less likely to be understood, and the person who transacted with the entrepreneur must decide upon an internal attribution (something the entrepreneur did), good fortune or an external attribution (Jones & Kelly, 1965). There are three potential outcomes that could be perceived here: The entrepreneur was fortunate and got lucky (an external attribution), the entrepreneur's skill generated the higher returns (a positive internal attribution), or the entrepreneur cheated (a negative internal attribution). Lacking evidence to the contrary, if entrepreneurs cannot convince others that they are the beneficiaries of good fortune, then lacking a track record will likely lead to perceptions that the entrepreneurs engaged in unethical behavior to obtain favorable outcomes (Akerlof, 1970).

But Knight's work (1921) also addressed non-probabilistic uncertain outcomes, events that are unknowable. These types of outcomes are less

readily understood, and more difficult to articulate. At the same time they too must have some risk premium built in to accommodate them. With these types of events, however, if a negative outcome didn't occur, it might be perceived as the entrepreneur taking advantage of the other party in light of their risk premium. This concern may be illustrated by a risk businesses faced not too long ago.

Back in 1999, people began to pay attention to concerns that archaic information systems might fail to accurately recognize the appropriate date, due to the difference between 2-digit year and 4-digit year nomenclature was built into their code. No one at the time knew if the "Y2K" bug was a serious problem, or no more than a minor glitch. But because it had potential to be a major catastrophe, firms hired contractors to re-write code, and stave off a major bad outcome. As 01/01/2000 rolled onto digital calendars, nothing happened. Were the efforts of all those independent contractors heroic actions that staved off crises, or was it specialists taking advantage of business owners? Glass (2000) suggests that many businesses felt the latter more than the former. There was a belief that many of the software vendors who sprang up in this time frame did so to act opportunistically against business owners, and were somehow unethical. Ironically, if there had been one major glitch occur, people would more readily accepted the Y2K issue as being real and not a potential scam.

Similarly, although software viruses have been around for decades (Cohen, 1984), for years anti-viral programs were suspected to be "scaremongering", and people asked if the firms who sold this software were trying to "scare up business". It was only after many people had their computers infected by viruses that they recognized the risk was real, not imagined, and the anti-virus software to combat it was ethical.

When Risk-taking is Perceived as Gambling—An Unethical Attribution

Another outcome of risk as variance can be seen in the work of March and Shapira (1987). In a survey, they presented subjects with a scenario concerning decision analysis, and asked if the decision made was a good or bad one. Such a study is designed to detect effects of an "outcome bias" (Baron & Hershey, 1988) where subjects conflate the quality of actions with their outcomes. Specifically March and Shapira (1987) found that a decision which turned out well was identified as a "calculated risk," and a decision which turned out badly was seen as a gamble. And to these survey respondents, taking a calculated risk had a positive patina, while gambling had a very negative connotation (Borna & Lowry, 1987). In light of their distinction between risk taking and gambling, if people associate gambling with unethical behavior, then entrepreneurs who take a risk and fail would be seen as less ethical than entrepreneurs who succeeded, simply because

that a positive outcome didn't occur. The entrepreneur's gamble is likely to be perceived as inappropriate (as evidenced by its failing). The term "calculated risk" is now frequently employed as a justification for making a decision which turned out well. And the language of a calculated risk is viewed more favorably than is a gamble.

Risk Premiums and Rent Extraction

Finally, one last concern may affect perceptions of risk and ethics: the perception of rent extraction (Barney, 1986). Rent extraction refers to the idea that suppliers or customers have greater bargaining power over the buyer than the buyer would prefer. In some ways it is when the firm "gets mugged," either by suppliers or customers. One way to engage in rent seeking behavior is to increase the risk premium demanded of partners. When this occurs, the partners have less ability to negotiate, and may find themselves having to accept a larger risk premium than they would prefer to pay. An entrepreneur who knows her ship will be the last one to set sail may have greater bargaining power if the other parties have to take (or leave) the entrepreneur's offer. As the perceived risk premium increases, increasing concerns that rent extraction is occurring will lead to diminished perceptions of ethical behavior on the part of the entrepreneur.

A Comparison of Two Vignettes on Perceptions of an Entrepreneur's Ethics.

To illustrate in practical terms many of the perceptual issues raised already, we present two very short vignettes that arose from classroom discussions, where students shared their own experiences. After class the authors interviewed both the entrepreneurs involved, as well as the other parties to the transactions.

One student is a commercial electrician, specializing in "wiring hot." Industrial businesses will pay a premium for hot wiring, because they do not have to close operations while the new wire is being run, saving them tremendous money and preserving productivity. This electrician bid a job to run new wire, but did not call out removing the old wire (it was not uncommon to leave the old in place). The factory owner asked the electrician, while on the job to remove the old wire, and the electrician did so, without charge. He asked the factory owner if he wanted the old wire, and explained its worth, both with insulation on and off (about 3x more). It would take the owner all day to manually strip the wire. The factory owner offered the electrician the wire for free if he discarded it properly. The electrician took it home, ran it through a wire insulation stripping machine in an hour, and doubled his profits on the job. Was the entrepreneurial electrician unethical?

In interviewing the factory owner, the owner was not surprised that the electrician had access to the wire insulation stripping machine, and did not begrudge him the additional profits it brought him, for multiple reasons. One, the factory owner felt he saved far more money by hiring the electrician to “wire hot,” that the benefits from recycling the wire were “petty cash.” Second, the factory owner, did not have the stripping machine, so the value of the wire to him was much less than to the electrician. The factory owner said that by the time he paid his workers to strip the wire, their labor costs would have eaten away all the financial benefits of doing so. Finally, the electrician disclosed the value of the wire, both in stripped and unstrapped condition; the owner did not feel any necessary information was withheld. That the electrician had resources to extract the higher value was not seen as unethical to the factory owner. The owner assumed recycling centers had such machinery, and others would as well. In contrast:

In the late 1990s a former student ran an informal business, claiming it paid her way through three years at a state university. Her family were collectors of a particular “knick knack” collectible, and went to flea markets and antique stores in search of the collectibles. This student began searching eBay, and identified a quasi-arbitrage opportunity. Collectors in other parts of the country were willing to pay more for the collectibles than what the local antique stores were charging. So she visited 15-20 stores, and took pictures of their collections, and posted them on-line. She set the minimum reserve at the store’s price, and once it was met, bought the collectible. Once the auction was over her profit was the difference between the final bid and what she paid the antique store owners. She did this for over three years, until one of the antique owners figured out what she was doing, and banned her from the store, and called the other antique owners to warn them about her. All followed suit, except for one who hired her to list all the collectibles at that store. Was the entrepreneur unethical?

In interviewing three of the antique store owners, two felt they had been ripped off, even though the entrepreneur typically bought it for the price they requested. The two felt her behavior was opportunistic, and took advantage of their hard work of gathering the collectibles, and pricing them. They felt it was wrong to sell it without first having bought it, and one felt that even if she had paid for it prior to listing, she was taking advantage of their lack of knowledge. This despite the fact that eBay, while still nascent, was rapidly growing with a reputation of interest for collectors. The more they learned about how she did business, the more they felt taken advantage of for not first having it done it themselves.

The third antique store owner, the one who hired her, felt the entrepreneur had behaved ethically. This store owner recognized that the entrepreneur increased inventory turnover, so the antique store owner monetized the collectibles they had acquired more quickly. Because she didn't haggle much (which appears to be how she was found out), the store owners enjoyed higher profit margins selling to her and not other collectors. This owner was learning about eBay, and saw its potential, but felt they lacked the knowledge about how to build a business on eBay. This owner hired her, and her efforts doubled store sales. In addition, she taught him how to list, and how to research prices, so whether antique store owner could raise prices on goods for sale, increasing profits. Finally, the antique store owner felt that the way that antique store owners gathered collectibles (often from estates) often took a similar advantage of unknowing owners. Today, garage sale merchants use eBay to set prices, setting them for quick sale, yet at a higher margin than they otherwise would have received.

How the Two Vignettes Differ in Terms of Information and Risk Perceptions

In looking at both vignettes, there are key differences involving both the sharing of knowledge, and perceptions of risk. The entrepreneurial electrician shared the value of the wire, both in stripped and unstripped condition: the factory owner did not feel hand-stripping it was worth the time of doing so. Conversely, the two antique store owners felt the entrepreneur should have disclosed up front what she was doing. Second, the factory owner attributed significant risk to the entrepreneur, and felt the profit from the wire was still a modest risk premium; the factory owner still felt the savings generated from not having to shut down the factory more than made up for the value of the wire. For the antique store owners, they felt they had taken a significant Cantillon risk, and that the entrepreneur was taking no risk whatsoever. This was because of a difference in their business models: the antique store owners rarely displayed items on consignment. They took cash flow risks, and the entrepreneur did not (she paid via credit card, and hence her customers paid her before she had to pay for the merchandise). They overlooked her purchasing their goods as speeding the time they got paid (thus reducing their economic risks), they felt the entrepreneur took advantage of their ignorance of eBay.

These vignettes have been useful in class discussions on ethics. Students are asked to assume the roles of either the factory/antique store owners, or of the entrepreneurs. The students find when trying to explain the concerns of the factory owner or the antique store owners, that the size of the risk

premium matters, as does how much information should be revealed by the entrepreneur. They typically consider the eBay student as being less ethical for not first revealing what was her plan for the collectibles.

CONCLUSION

Overall, our discussion on entrepreneurship, risk, and ethics examines the level of knowledge possessed by those who transact with the entrepreneur. In general, as the size of the risk premium increases, the variance in perceived risk increases as well. When coupled with increasing levels of information asymmetry, the effects appear to diminish ethical perceptions of entrepreneurs. Conversely, when actors engage with entrepreneurs and their level of knowledge (about the risks involved) increases, they will better comprehend the severity and likelihood of the risks involved (Janney & Dess, 2006). When that happens they better understand what to expect, there will be fewer surprises, and less equating outcomes favorable to the entrepreneur with unethical behavior.

We have examined just one area of information asymmetry, one that involves risk perceptions. We have argued that because risk is both actual and perceptual, differences in the variance between real and perceived can lead to conditions that affect perceptual measures of entrepreneurial behavior. We have not addressed other sources of asymmetry that do not directly address risk, such as informational superiority (separate from knowledge about risk), or the ability to recombine resources (e.g., skill and experience) have on ethical perceptions of entrepreneurs. Future work could enlighten us if there are differences between asymmetries based on those, relative to asymmetries based on information and risk. Similarly, we considered just one category of unethical behavior for assessing perceptions of entrepreneurial ethics; unfair communication (Collewaert & Fassin, 2013). We recognize there are five other categories of unethical behavior on the part of entrepreneurs (Collewaert & Fassin, 2013); further analysis of moderating factors which influence perceptions of ethical behavior would prove useful.

In addition, there may be other contexts where ethical perceptions may vary for entrepreneurs, such as corporate entrepreneurship, social entrepreneurship, or franchising. A franchisee adopts the business practices of the franchisor; if the franchisor is well established with a positive reputation, this favorable affect should spread to the franchisee as well. Future work unpacking this is encouraged. In addition, the primary emphasis of this paper has been on risks that diminish perceptions of ethical behavior, yet, as Janney and Dess (2006) note, the differences between real and actual risk can go both ways. Are there circumstances where risk taking makes entrepreneurs appear more ethical?

It would be great if there was some magical solution entrepreneurs could chant, in order to improve perceptions of their ethics, but with some regret, this paper has none to offer. In general, the extant literature encourages disclosing information, and this advice is equally applicable here. As the entrepreneur narrows the gap between real and perceived risk, the resulting risk premium should also appear to more reasonable, producing fewer concerns that entrepreneurs are less ethical than are others. Educating transaction partners, and explaining what to expect will reduce surprises, while reducing concerns of the entrepreneur acting opportunistically. Bonding, certifications, endorsements and signals all also continue to improve perceptions of an entrepreneur's ethics. But, this advice is equally applicable to any small business owner, anyone entering the corporate world, or even social and non-profit domains. What remains to be seen is if (controlling for levels of information asymmetry), this advice is more relevant/necessary for entrepreneurs than for their non-entrepreneurial colleagues.

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