THE MORAL DIMENSION OF UNCERTAINTY IN ENTREPRENEURS’ MORAL DILEMMAS

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Abstract: This essay aims to understand how both economic and social entrepreneurs deal with moral dilemmas, emphasizing the uncertainty’s moral dimension based on Frank Knight’s work (1972). It was possible to develop a conceptual framework of moral uncertainty by integrating theories of uncertainty and entrepreneurship, the moral development theory from Kohlberg and moral dilemmas. From the sociology, it is worth considering the substantive and instrumental rationality, tension between ethics of conviction and responsibility, both from Weber (1999) and Guerreiro Ramos (1989). There is a presentation of some analytical categories to address moral uncertainty and make some propositions related to moral development. It is worth suggesting four sources of moral uncertainty involving the moral reasoning.

Keywords: Entrepreneurship, moral development theory, moral uncertainty.

Introduction

The economic and social entrepreneurs make decisions in an environment composed of dynamic flows of information, opportunities, ambiguities and uncertainties. Then, many of these decisions have ethical implications (Harris, Sapienza & Bowie, 2009). One unique situation they face is in the form of moral dilemmas, that is, issues involving recognition and decision making between conflicting alternatives linked to moral values (Hannahfy, 2003; Mcconnell, 2014).

Before such ethical decisions inserted in an environment of economic, institutional and evaluative uncertainty and uniqueness of certain situations, the entrepreneur often refers not to the logical reasoning, but intuition or subjective estimates. In the economic sphere, the lack of
knowledge of results probabilities from the agents’ actions and inference incapacity is conceptualized by Knight (1972) as “subjective uncertainty”. The present article refers to such concept; however, with implications in the area of ethics. The lack of knowledge of moral values implicit in the decision, added to a halt or tension before the action, lead to an uncertainty increase of morality. Thus, the paper’s intention is to explain it from the understanding of entrepreneurs’ moral dilemmas.

Such actors need to deal with moral dilemmas on several occasions. In the initial moment of a project or innovation, they face some difficulties to be legitimized by the society and its values, which can be opposed to the novelty or new organization ones (Stinchcombe, 1965). Also, the corporate constitution and decisions on profit distribution, within the organization, may also appear as moral dilemmas (Dees &Starr, 1992). Limited resources and other sources of personal stress (De Clercq & Dakhli, 2009) as the conflict between personal values and the organization (Payne & Joyner, 2006) are some types of moral dilemmas.

Similarly, social entrepreneurs also experience dilemmas of moral nature. One of the primary sources of tension for such actors emerge from the conflict between the mission or creation purpose of social value, and its relation to commercial or economic aspects linked to the entrepreneurial action (Dees, 2012).

Nevertheless, Harris, Sapienza and Bowie (2009) performed a literature review that articulates areas of ethics and entrepreneurship, and they demonstrated that few studies address ethical issues faced by social entrepreneurs. Some exceptions are the works of Zahra, Gedajlovic, Neubaum and Shulman (2009), and Dees (2012). Chell, Spence, Perrini and Harris(2014) suggest to discuss both areas together to break with the assumption that something with social purposes automatically assumes an ethical character.

By recognizing differences and similarities between economic and social entrepreneurship, the present research aims to outline a theoretical framework for understanding how social and economic entrepreneurs deal with their moral dilemmas and examine the problem of moral uncertainty as a fundamental category of its action.

Therefore, there is an approach to theories of moral dilemmas and tension ones between ethics of conviction and responsibility of Weber (1999) and Ramos (1966, 1989). Moral dilemmas and reasoning processes lead us to the Theory of Moral Development of the psychologist Lawrence Kohlberg (1992) due to possible contributions for rationality studies and the use of his methodological framework, in which hypothetical dilemmas are used for moral development analysis. Thus, we will try to sketch how moral uncertainty is related to the cognitive processes when facing moral dilemmas, and its function towards moral
development. In the end, it is possible to express some assumptions and discuss further research.

**Entrepreneurship: development of the field and main interpretations**

Although the first definition of entrepreneurship dates from more than 250 years ago, its practice is as old as the exchange of goods between individuals and tribes. It was from the economic markets onset, during the Middle Ages, that authors begin to take an interest in the phenomenon (Austin, Stevenson & Wei-Skillern, 2006; Landström, Harirchi & Aström, 2012; Casson, M. & Casson, C., 2014).

The entrepreneurship studies origins are linked to the economic concept developed by Richard Cantillon, the entrepreneur definition made by Jean Baptiste Say and the influence of The Wealth of Nations by Adam Smith (Landström, Harirchi & Aström, 2012). However, the concept was developed through the contributions of Schumpeter (1982), Kirzner (1973) and Knight (1972), in the twentieth century.

Aldrich (2005) identified four simultaneous interpretations for entrepreneurship definition. 1) As companies of high growth and high impact like in Carland, Hoy, Boulton and Carland (1984). 2) As an innovation or the ability to innovate, in Schumpeter (1982). 3) As an opportunity recognition marked by the work of Shane and Venkataraman (2000), and 4) As the creation of new organizations, represented by the work of Katz and Gartner (1988). Gartner (1989) also advocates the focus on entrepreneurial activity in itself, and not the entrepreneur's personality.

According to Schumpeter's approach (1982), the entrepreneur is considered as an agent of change, capable of promoting innovations defined as the process of "creative destruction" because it produces not only imbalance but also development. In that process, the entrepreneur’s fundamental function, which distinguishes him from other managers and administrators, is the capability to perform new combinations of productive means. In his leadership role, he dreams of finding a private kingdom, the desire for conquest, the impulse to fight and succeed, the joy of creating, doing things and exercise creativity.

**The concept of uncertainty in the entrepreneurial theory**

In the work of Knight (1972), uncertainty corresponds to a calculation based on estimates, judgment or intuition, that is, on a subjective basis in which future results cannot be predicted or measured. It is only "an estimate of an estimate". The uncertainty is perceived as a partial knowledge or a lack of it to make decisions about the future, from which people use
intuition more than logical reasoning. It means that, in the presence of uncertainty, not all decisions are made by a rational choice.

McMullen and Shepherd (2006) develop a conceptual framework for entrepreneurial action related to uncertainty. They reinterpret the theories of Kirzner (1997), Schumpeter (1982) and Knight (1972) and conclude that Knightian theory recognizes knowledge and motivation importance more than any other, in the entrepreneurial action.

The social entrepreneurship construction field

The entrepreneurial conception usually involves concepts of social enterprise, social entrepreneur and social entrepreneurship (Defourny & Nissens, 2010). However, many researchers and practitioners have not reached a consensus about the meaning of social entrepreneurship. Choi and Majumdar (2014) defined it as a "contested concept" and formed by a cluster of ideas: 1) social value creation; 2) social entrepreneur; 3) social entrepreneurship organization; 4) market orientation and 5) social innovation.

The creation of social value as the organization's goal is the characteristic that distinguishes social entrepreneurship from the economic one (Martin & Osberg, 2007). It refers to the purpose of contributing to the public good and admits creating economic value in a complementary way to the social value (Austin, Stevenson & Wei-Skillern, 2006; Bacq & Janssen, 2011; Choi & Majumdar, 2014).

Dees (1998) defines the entrepreneur as an agent of change in the social sector who adopts a mission to create and sustain the social value (not just the private value). He recognizes and seeks new opportunities to serve that mission. He engages in innovation processes, continuous learning and adaptation, acts boldly without being limited by available resources and displays a great sense of responsibility for people and the created results.

Moral dilemmas, ethics tensions and rationality

It is not well known the way entrepreneurs access their moral dimension in the decision-making processes (Harris, Sapienza & Bowie, 2009). Several topics and issues articulate the studies on entrepreneurship and ethics. Among them, there are some studies about moral dilemmas as revised by Harris, Sapienza and Bowie (2009).

The moral dilemma occurs when the individual is before two or more moral principles that can be exercised separately; however, in a given situation, only one can be chosen. It is characterized by conflict and symmetry between conflicting obligations, and in which none of the requirements is more important than the other (McConnell, 2014). According to Sinnott-
Armstrong (1985), the moral reasons cannot be organized hierarchically, i.e., they hold the same relevance and sometimes the dilemma becomes unsolvable.

In relation to ethical issues, Dunham (2009) argues that entrepreneurial theories could improve if they were anchored on two grounds: (a) moving away from the paradigm of rational choice toward one action rooted in moral principles; and (b) recognizing the role of ethics and values in the business environment.

A similar concern is observed in the work *The New Science of Organizations* by the Brazilian sociologist Alberto Guerreiro Ramos (1915-1982). In his Substantive Theory of Associated Human Life, Ramos (1989) replaces the reason as an attribute of the individual human consciousness and presents the full form of rationality, that is, not only the instrumental rationality but also the substantive rationality. The substantive rationality "pushes the individual toward a continuous, responsible and painful effort to master his passions and lower inclinations" (Ramos, 1989, p. 16).

According to Ramos (1989), the instrumental rationality evidenced by modern science is the process result of a reason withdrawal from the human psyche scope and replaced as an external attribute of the social environment by giving it sociomorphic features. It corresponds to a view of the human reason based only on the utilitarian calculus of consequences, in which people act according to a goal or purpose designed to meet their personal interests.

Ramos (1966) identifies in Weber (1999) the correspondence between rationality related to purposes and rationality about values, with ethics of responsibility and conviction, and such principles coexist through relations of existential tension (metaxy). For Ramos (1989), the poles of human existential tension are one of the constitutive elements of the human condition, and reason implies to be aware of that tension.

In theoretical terms, situations of tension between the ethics linked to deliberative and rational processes allow suggesting a resemblance to dilemmas of moral requirements defined by philosophical theories. The analysis of moral development, in turn, brings together the participation of elements previously presented.

**The role of moral uncertainty**

Sepielli (2014) describes moral uncertainty as the lack of knowledge of moral theories involved in a process of rational decision as the moral dilemma. According to the author, moral theories cannot be equalized because it will lead to irrational decisions.

That lack of knowledge about moral theories or principles may be considered as a first form of the moral uncertainty of epistemological kind. Moreover, Knight (1972) suggests the
involvement of a different form of reasoning based on the subjective probabilistic calculation, which is described in his work as estimation, perception, intuition or common sense. Luntley argues (2003) that in situations of real uncertainty in the business environment, the knowledge of rules or moral precepts are not enough to help the individual to make decisions: the crucial element is the judgment capacity.

The lack or reduction of moral reasoning ability is understood as the second possible source of that kind of uncertainty. Adding the idea to the fact that the entrepreneur deals with numerous pressures and withstands the tension present in his decisions, the prospect of Ramos (1989) emphasizes the possibility of suppressing the lucid and rational capacity of the individual and placing him in an "anesthetic" state. In such a situation, the moral uncertainty form that appears refers to the lack of a reasoning structure able to recognize and judge a moral dilemma.

The third possibility relates to the lack of knowledge of future consequences of decisions, in the same way than the concept of Knight (1972). For instance, when seeking to solve a moral dilemma the entrepreneur is not always provided with information and desired experience, and he needs to decide by following his intuition. At the same time, he cannot predict whether his estimate is correct, and there is no way of knowing about his decision’s impacts and consequences because, in the moral sphere, consequences generally fall under other people or organizations.

The fourth form of moral uncertainty is the result of relations between various actors, and it is perceived, in the general context, by the same perspective adopted by Knight (1972). The judgments performed by several actors interact and influence each other, allowing variations in the moral uncertainty degree of an organizational environment as defined by Kohlberg (1992), in the sociomoral atmosphere.

The moral uncertainty can be incorporated considering its four possible sources as 1) an atmosphere feature or moral environment that emerges and transforms from actions and interactions among its various actors. 2) An uncertainty inherent to the process of moral reasoning when moral principles are not clear or depending on their moral reasoning.

**The theory of moral development by Kohlberg**

The work of Lawrence Kohlberg (1927-1987) developed a cognitive-evolutionary approach of moral development. The six stages of moral development proposed, according to Kohlberg (1992), are distributed in three levels and six stages related to two elements that give their form. The second element describes the development of operations and justice
guidelines, a central ethical principle of his theory, from a more individualistic and hedonistic stage to one that considers the good for all members of society.

The pre-conventional level consists of stages 1) guidance for punishment and obedience or heteronomous morality stage, and 2) relativistic instrumental hedonism. At this level, moral dilemmas are resolved by the calculation of the best possible condition for the actor himself, that is, according to his interests (Kohlberg, 1992).

The level called as conventional shows the stages (3) morality of social approval and interpersonal relationships, and (4) guidance for law and order. At that level, moral dilemmas are justified by respect to the law and social groups’ rules of the person interviewed.

Finally, the post-conventional level represents the most advanced stages: 5) guidance for the social contract, and (6) universal principles of conscience. People at that stage lead dilemmas based on universal principles of justice and, consequently, they may oppose to a law or reality contrary to the general good of society (Kohlberg, 1992).

One point to take into consideration is: the object of this theory is not the content or moral values themselves, but the structure of moral judgment (Biaggio, 2002). In other words, the focus is on how the actor justifies himself or the reasons presented in favor of his decision.

Since then, post Kohlberg studies advanced in theoretical conceptions of the area and developed other tools for evaluating the moral judgment, as already validated by researchers over decades of research such as the DIT test - Defining Issues Test, and its second version DIT2 (Bataglia, Morais, Lepre, 2010).

Rest, Narvaez, Thoma and Bebeau (2000) follow the perspective principles of Kohlberg (1992) to describe the proposal of three moral reasoning schemes: a) personal interest, b) maintenance of norms and c) post-conventional. Thus, they conceptualize moral judgment as a cognitive process whereby a person builds fundamental epistemological categories such as 'rights', 'duties', 'justice' and 'reciprocity'. In that process, the judgment can develop over time, marking the passage from adolescence to adulthood by the evolution of conventional stage to the post-conventional one.

Analysis outline of moral uncertainty

By considering the contributions of the theory of moral development by Kohlberg (1992), it is possible to develop a theoretical framework to articulate analysis categories associated with the theory here exposed:
**Figure 1: Theoretical model of moral uncertainty**

<table>
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<tr>
<th>Theories</th>
<th>Authors</th>
<th>Categories of Analysis</th>
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- Noticed uncertainty  
- Will to endure uncertainty |
| Uncertainty                             | Knight (1972)                                | - Estimate or subjective probability                                                    |
- Substantive rationality  
- Ethics of responsibility and conviction  
- Existential tension |
| Moral dilemmas                          | McConnell (2014); Sinnott-Armstrong (1985)   | - Moral principles  
- Limited incomparability  
- Types of dilemmas |
- Personal interest, maintenance of norms and post-conventional. |
| Uncertainty and business ethics         | Luntley (2003)                               | - Objective or cognitive moral uncertainty  
- Realistic or environment moral uncertainty |

Source: Elaborated by the authors

The proposed theoretical framework suggests the individual influence and context of moral uncertainty through the interaction between moral judgments among actors and post-moral reasoning results. It is possible to elaborate a moral reasoning process outline in order to identify the four sources or forms of moral uncertainty.

Figure 2 below tries to demonstrate the possible relation between the moral reasoning process and the environment or sociomoral atmosphere in which entrepreneurs are immersed.

The authors try to highlight the four possible sources of moral uncertainty in this process. 1) The moral uncertainty of the environment. 2) Lack of clarity about the moral principles before moral dilemmas. 3) The possible limitation of moral reasoning according to the pressures and moral development stage, and 4) uncertainty about future consequences of moral judgments.
Initially, it was possible to assume that moral uncertainty inherent to the moral reasoning process contributes to increase the organizational environment uncertainty, internal and external, at the same time that moral uncertainty present in the context contributes to the recurrence of moral uncertainty in moral reasoning processes.

The second assumption is that entrepreneurs in moral development stages of post-conventional level tend to recognize more intense moral dilemmas and experience moral uncertainty with greater intensity than entrepreneurs in the early moral development stages. Such actors show a greater autonomy, and therefore, they reveal substantive rationality predominance. These conditions are more likely to modify the context or degree of moral uncertainty.

Entrepreneurs in stages of moral development of pre-conventional or conventional levels have a predominantly heteronomous conduct and act according to a high degree of instrumental rationality. Thus, they are more likely to maintain the moral uncertainty of the context. In this case, moral dilemmas are not quite visible for such actors.
Conclusion

The paper sought to highlight the role of moral uncertainty present in the entrepreneurial activity through a suitable theoretical framework for reasoning analysis when facing moral dilemmas. There was an articulation of theories focusing the uncertainty concept by Knight (1972). Then, it was possible to carry on about theories, list the main categories of analysis available to each prospect and outline a vision of moral reasoning process, inserted in the entrepreneurial context. As suggested, the moral uncertainty may manifest at different times as a cognitive and moral uncertainty of the environment.

With that theoretical framework, there was a description of some propositions on how entrepreneurs deal with their moral dilemmas and how that influences the emergence of moral uncertainty. Also, it was possible to link moral uncertainty with development stages of moral reasoning, which allowed some insights into possible ways to observe them in reality.

Within the process of reasoning, moral uncertainty can emerge in three forms. 1) Lack of knowledge about theories or moral values of a dilemma. 2) Capacity limitation of moral judgment and 3) Unpredictability of future consequences in decisions. Future research may verify empirically how these three possible sources emerge and are supported by economic and social entrepreneurs.

Another relevant topic in the process is to check how moral uncertainty interferes with the entrepreneurs’ action according to the precepts, and mainly due to the impact that the entrepreneurial activity has today in all spheres of the society. The conduct interferes with the moral foundations of many actors who interact with them when searching for innovation and organizations’ creation.

The proposed theoretical framework represents a possible approach for studies that share the research object; however, it needs improvement through the empirical research. It is worth suggesting the research on environmental aspects and organizational context that affect the increase or decrease of moral uncertainty because this paper focuses on the elements of the moral uncertainty of subjective nature.

References


