

*Virtuous Entrepreneurs:
A Rethinking of the Way to Create Relational Trust in a Global Economy*

Nuria Toledano (Corresponding Author)

University of Huelva, Business Faculty, Plaza de la Merced, 11, 21002, Huelva, Spain.

Email: toledano@dem.uhu.es

Phone: + 34 959 217539

Fax: + 34 959 217540

Crispen Karanda

International Centre for the Development of Entrepreneurial Communities

371 Portglen Road, Borrowdale, Harare, Zimbabwe

Email: ckaranda@icdesiec.org

Phone: + 263 778568292

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Abstract

Globalisation has changed the economic environment in which firms operate. Doing business in a globalised world implies paying attention to the multiple strands of interconnections that occur through the markets. The new scenarios bring new challenges to the entrepreneurs who have to deal with unfamiliar contexts, foreign cultures and different religions. In such environments virtuous entrepreneurs, that is those whose personal virtues make them trustworthy in the business arena, seem to develop and achieve better business relationships. In this paper, the main interdependences that exist between the globalised economy and the international entrepreneurship phenomenon are analysed along with the theoretical ways through which virtuous entrepreneurs could develop a genuine trust in their interpersonal relationships.

1 Introduction

Economic globalization has brought important transformations in the international business context (Steger, 2009). It has not only changed the business strategies of established firms or the application of creating business models, but also the economic agents that are participating in this global economic system. In fact, on every continent with political stability and economic growth there are emerging agents that are becoming active on the global stage (Zakaria, 2008). As physical and physiological borders fall, the new businesses are urged to be born-global.

In the academic field, scholars refer to these global businesses as international new ventures, international entrepreneurship, or born-global firms (Knight and Cavusgil, 2004). Knight and Cavusgil, (2004, p. 124) define them as “business organizations that, from or near their founding, seek superior international business performance from the application of knowledge-based resources to the sale of outputs in multiple countries”. Entrepreneurs who enter in this new scenario have to assume, from the beginning, an international approach in their firms (Knight and Cavusgil, 2004).

Doing business in an international context means affecting and being affected by the multiple strands of globalization. In particular, it means contributing, in some way, to the complex interconnectedness that takes place via markets, through modes of production and division of labor, through mutual dependence upon natural resources, law, services, technological infrastructure, scientific expertise and patterns of stratification (Yates et al., 2005). The paradox is that what seems to be generating a more united world is also causing a more unknown one. Indeed, the processes of economic modernization and social change throughout the world are separating people from longstanding local identities (Huntington, 1993).

In this new scenario, the entrepreneurs, in addition to facing the typical difficulties inherent to the process of firm creation, have to cope with unfamiliar contexts, foreign cultures and different religions. In order to cope with these challenges, they have to develop a collection of intangible knowledge-based capabilities that help them to attenuate their liabilities of foreignness and newness (Oviatt and McDougall, 1994). Both characteristics are highly presented in born global firms as a consequence of what is named “cultural distance”, that is, the fact of supporting higher uncertainties as consequence of entering in culturally distant societies relative to the home country of the local firm (Fan and Phan, 2007). In such context, international firms demand special knowledge to transact across geographic boundaries with unknown shareholders. The uncertainties that come with any new relationship are multiplied, and the parts’ disposition to trust turns to be key factor for the success of the international new business (Knight and Cavusgil, 2004). As a consequence, virtuous entrepreneurs, this is, those whose personal virtues make them trustworthy in the business arena, are also able to develop and achieve better business relationships (McCloskey, 2006). Their religious beliefs and, in particular, their comprehension and application of one of the four cardinal virtues – justice– allows them to develop a moral and productive business life (Weber, 1995).

With this paper, we attempt to provide a better understanding on how trust works, or could work better, in order to improve the way to do international business, by linking it with the notion of virtuous entrepreneurs. This leads us to consider previously the context in which business relationships take place and, especially, the subtle ties that bind globalization and entrepreneurship. Therefore, after this introduction, we will start our discussion by looking into some of the main conceptual and theoretical frameworks that cluster around globalization and entrepreneurship (Section 2), and focus on the key practical contributions that are reciprocal to one another (Section 3). Subsequently, a reflexive analysis of the nature and definitional issues in relation to trust is presented (Section 4), considering how it interacts with international entrepreneurship. Afterwards, the next section (Section 5) focuses on the theme of virtuous entrepreneurs and its repercussion for the creation of good and healthy international business relations. Finally, the article ends with the main conclusions of the research (Section 6).

2 Conceptual considerations and theoretical frameworks

To find a concept and theoretical framework unanimously acceptable for globalization as well as for entrepreneurship has been one of the challenging missions among scholars in both fields of study. No attempts seem to have been successful until now. Like all grand concepts, the definitions for globalization as well as for entrepreneurship have been elusive and elicited criticism (Audrestch, 2012; Steger, 2009). Literature has described them from the perspective of process, conditions, and results (Anderson and Starnawska, 2008; Steger, 2009). Their multiple dimensions allow for embracing different definitions. However, the final adoption of one or other conceptualizations is closely related to what one wants to see, comment or analyze. In any case, in both areas of study, what the majority of approaches seem to stress for both is their relational and processual character and, accordingly, the opportunities and threats that emerge from trust or distrust in the relationships.

Where “globalization” is concerned, the existence of the term is drawn from a growing awareness about the interconnected world (Chanda, 2007). Precisely, Yate et al. (2005) in an attempt of providing a composite definition, propose defining globalization as a set of complexity related historical processes by which local situations throughout the world are increasingly interconnected within a single, but often conflicted, social space. Similarly, Steger (2009) recognizes the social and relational aspect of globalization identifying it as a set of social processes of intensifying global interdependency. In its economic dimension, globalization specifically refers to “the intensification, transformation, and stretching of economic interrelations across the globe” [(Steger, 2009, p.38)].

As for the concept and character of “entrepreneurship”, Ebner (2005) has recognized it as an expression of interaction among individuals, social communities and the whole society. More recently, Anderson et al. (2012) have developed how the concept of entrepreneurship deploys the idea of relatedness, a recursive dynamic of relationships, as well as the idea of change. When the focus of the new firms is on the international markets the social relationships are multiplied in number and complexity (Jiao and Robinson, 2011), since the universe of encounters with unknown people increase and, with this, the costs and risks associated with mistrust, distrust or demonstrating trustworthiness (Murty, 2010).

From the similarities and connections that exist between both concepts, it can be perceived as the great reciprocity that prevails in this interrelationship. Specifically, while the changing relationships inherent to the globalization processes often enable entrepreneurship in a global scale, a higher level of entrepreneurship may provide the milieu for regenerating their own process of globalization. In any case, how an entrepreneur acts, influences and participates in the global economy will depend, in great part, on the conditions of trusting that prevail, or, in

other words, the rewards structure in the economy or in the valid institutional framework (Baumol, 1990).

Within the institutional economic framework, several scholars have found the work of Douglass North (1990) to be relevant to provide a clear explanation of how institutions affect the creation of new businesses as well as the inter-personal relationships within the business context (Deakin and Wilkinson, 2000; Tillmar, 2006). From this perspective, the decision to create a new firm and to be involved in business relationships would be conditioned by the existing institutional framework, which conditions the actions of different agents that participate in the relations through a structure of incentives and opportunities.

For North (1990), institutions are the rules of the game in a society, or more formally, institutions are the constraints that shape human interaction. Since relationships to each other are defined by reference to standards of truthfulness and trust [(MacIntyre, 1984, p.193)], the main function of institutions is to increase the ways in which trust can become more evident by establishing a stable structure for human interaction.

According to North (1990), institutions can be either formal, such as political rules, economic rules and contracts, or informal, such as codes of conduct, attitudes, values, norms of behavior and conventions, or the culture of a specific society. Formal institutions are subordinate to informal ones in that they are deliberate means used to structure the interactions of a society in line with the cultural guidelines that constitute its informal institutions (North, 1990). In addition, what is included in the term “culture” or informal institutions within a secular world, in sacred circles would be mainly drawn from the spiritual aspects and religious beliefs. In this context, when one speaks about “beliefs” refers mainly to beliefs about what is right or wrong, evil or holy. In other words, one would be considering some kind of morality (De Botton, 2012). Then, following North’s (1990) perspective, the moral values existent in a society would

be the core elements leading the business relationships. They become effective and visible in the framework of the laws, rules and regulations stipulated at (inter)national level. Nevertheless, where a trust culture prevails and moral standards are embedded in the way of life, formal institutions are less necessary, and trust, in this context, has been seen as economical (Marty, 2010).

3 Globalization and entrepreneurship: a love-hate relationship

As it has been noted above, there is a reciprocal relationship between globalization and entrepreneurship. Similar to what happens in any relationship, the different encounters could have positive or negative effects in both global economies and personal situation of entrepreneurs. In order to get a better understanding of the nature of this love-hate relationship, it is important to consider the reciprocal interactions that exist among the main determinants of both phenomena.

3.1 The globalization of entrepreneurship

Globalization has changed the economic environment in which firms operate. In particular, its effects on the entrepreneurial arena come mainly from two processes: the internationalization of trade, and the internationalization of finances (Steger, 2009).

Firstly, the world market of goods, services and inputs has meant for new and established firms an open access to bigger markets for their products as well as the possibility to access cheaper sources of resources. Secondly, the internationalization of private capital flows has sometimes acted as a facilitator of entrepreneurial investments (Colantone and Sleuwaeghe, 2007).

As consequence of these two processes, there is a positive general view of globalization as a source of new business opportunities, which is, in part, reflected in the propel of the born global

firms (Fan and Phan, 2007). Nonetheless, the concrete impact on the level of entrepreneurship may become negative because the selection of the market of the best enterprises (Bernard et al., 2006).

Impacts in the demand and supply of entrepreneurship come also from the international migration process enlivened by a global economy. On the one hand, immigration changes the size and composition of the labor force. On the other hand, the presence of growing communities of foreign-born people creates a demand for particular goods and services, opening new possibilities for business ventures (Colantone and Sleuwaeghe, 2007). In addition, the clash of civilizations involved in the migration processes (Huntington 1993) is allowing entrepreneurs to be more aware of other cultures, customs, and their effects in the consumption of particular goods and services. As a positive consequence, new global wants and needs have emerged and, accordingly, a major diversity among the new businesses can be appreciated (Verehuel et al., 2002).

Nevertheless, there is also evidence that confirms the reverse of these cultural encounters to the integrity of entrepreneurs as human beings as well as to the integrity of their relationships. On the one hand, without trade barriers, amoral entrepreneurs may take advantage of the freedom for negotiating illegal interchanges with cheaper products such as garments, music, or videos, whose revenues are directly affected by piracy (Naim, 2003). On the other hand, civilizations and religious differences might block the economic transactions among entrepreneurs and even force to place them ever more angrily and dangerously apart (Inglehart and Pippa, 2003).

Therefore, the lights and darkness that the global economy has brought to the entrepreneurship phenomenon might, in turn, propel different effects in the ongoing process of globalization.

3.2 The contribution of entrepreneurship to the global economy

In general, there is a widespread agreement in the literature that entrepreneurs and entrepreneurial organizations are major drivers of economic growth in terms of employment, innovation and welfare effects (Engelen et al., 2009). This has been largely evidenced in the United States and other developed countries, although differences can exist depending on their institutional context and level of economic development (Acs et al., 2009).

In most developing economies, in contrast, the positive relationship between entrepreneurial activity and economic development is not so clear and, indeed, it may become negative (Acs et al., 2009). As Easterly (2006) has pointed out, entrepreneurs in poor countries – searchers in Easterly's terms – are very often locally addressed. Although they can well contribute to reducing poverty in their countries, their scarce effects at global level are also recognized.

In addition, whether we speak about developed or developing countries, there is, unfortunately, a dark side of entrepreneurship. In this sense, Brenkert (2002) noted that an entrepreneurial society and a good society do not necessarily have to be the same. Entrepreneurs may act in good and bad, moral and immoral ways, becoming trustworthy or trustless people.

Recently, Wellington and Zandvakili (2006), paraphrasing to Marx (1930), have highlighted the possibility that global businesses only benefit themselves while widening the social breaches between rich and poor, and worse working conditions. In Marx's (1930) words "Anyone and everyone can conceivably be a parasite on the inventive process in the sense of reaping benefits without contributing anything to the process" [(cited in Wellington and Zandvakili, 2006, p. 620)].

In the last years, the Russian entrepreneur Viktor Bout became the clearest example of the negative side of entrepreneurship and its terrible consequences for the global world. Known by

the “Merchant of Death”, Bout made millions as the world’s most efficient postman, by delivering illicit weapons anywhere in the world (Farah and Braun, 2006).

Against the deterioration of confidence in the international markets as a result of the vicious entrepreneurial practices, and the proliferation of corporate scandals in the wake of Lehman Brothers, the restoration of trust in the international entrepreneurial arena requires both a re-definition of the theoretical dimensions of the concept and a new kind of entrepreneur willing to work under the standards of these renewed dimensions. We approach both in the following sections.

4 Updating the concept of trust for international entrepreneurship

Trust is an elusive concept, and no single consensual definition is agreed [(Welter, 2012, p.195)]. Generally, trust has been defined as a state of favourable expectation regarding other people’s action and intentions [(Möllering, 2002, p. 404)]. That is, regarding how regular, honest, and cooperative will be the behaviors on the other part (Fukuyama, 1996). Concretely, Lewicki and Brinfsfield (2011) have recently pointed out that trust, at a personal or collective level, has to do with the reciprocity, expectations or beliefs about the intentions and trustworthiness of others.

Within the entrepreneurial context, the factors that condition these intentions and behaviors, whether formal or informal (North, 1990), have been object of study (Fukuyama, 1996). Specifically, much of the scholar’s discussion has focused on networks and social capital, “where network relations are seen as a proxy for personal trust” [(Welter, 2012, p. 197)]. From this perspective, people with poor social networks used to be seen as people without legitimacy for trusting in (Neergaard and Ulhøi, 2006; Smith and Lohrke, 2008). In particular, those who do not trust one another end up cooperating only under a system of formal rules and regulations,

which have to be negotiated, agreed to, litigated and enforced, sometimes by coercive means (Fukuyama, 1996). This legal apparatus or formal institutions according to North's (1990) perspective, serve in fact as substitute for trust, and entails the transaction costs of the commercial actions. These costs and risks inherent in the relationship decrease when the trust among the parties is high. This often happens among those that have valuable social capital (Manolova et al., 2007; Puffer et al., 2010).

The traditional tendency of viewing trust-based relationships in terms of transaction costs shows a narrow and materialistic perspective of trust. It is not a case of creating genuine relationships among the parts, but rather an informal commitment to carry out a good analysis of "calculated risks" (Williamson, 1993). Trust becomes the name given to another element of business control, and it would represent part of the formal institutions identified by North (1990). In other words, trust assumes control and vice versa (Möllering, 2005).

Nowadays, recovering the trust in the international markets goes beyond to restore this side of trust. In contrast, recognition of the consequences of the loss of trust that the traditional praxis of trust-control brought itself, have prompted some scholars to attempt to recuperate a fuller understanding of what natural trust means. In particular, the works of Möllering (2001, 2002, 2005) have put the emphasis on both a natural and genuine character in order to reorient the concept of trust. Put it within the framework of Douglass North (1990), it would mean that he has stressed the informal dimension of the concept of trust.

Following Simmel's (1990) studies, Möllering (2001) recognizes a mysterious element that is required to explain trust and to grasp its unique nature. Specifically, the author refers to adopting the proverbial "leap of faith" in relationships, which enables actors to have positive expectations of others (Möllering, 2002). Faith, in this case, is not only used to denote "trust" in God or Jesus Christ, but to describe the moral quality of reliability or fidelity. Then, by

adopting Möllering's (2002) perspective of trust, one would be embracing a new kind of relationship that finds its foundations on love and freedom rather than on fear and control. In international entrepreneurship it would come to restore, in some way, the ancient trend of hospitality, which is a common practice today within non-profit organizations. It implies a new way of offering welcome to the "strange" and represents a reawakening of the inner predisposition to trust in strangers (Phol, 1999). It also accepts moving away from the rational choice model and allows for affective and abstract (moral) trust bases (Möllering, 2002).

From this positive side, the new conceptualization of trust calls for the creation of a just, peaceful and prosperous relationship that fosters cooperation and genuine concern for others. McKnight et al. (1998) approached this kind of trust within the context of new organizational relationships. The authors argued that, "a high trust in initial relationships is possible since individuals possess a natural disposition to trust" [(McKnight et al., 1998, p.474)]. It might explain why trust in international entrepreneurship could also be high, yet parties first meet or interact and members of organizations barely know each other.

In many ways, this renewed sense of trust is equivalent to the sense of faith in God that religious and spiritual people have. Since they share a common belief in God –no matter which way of believing in God– they are able to bring familiarity to what is unfamiliar (Luhmann, 2000; Bachmann and Inkpen, 2011). This was the central argument of Max Weber's (1930) "The protestant Ethic and the Spirit of Capitalism", which showed that trust, which in his opinion was critical to economic life, arose historically out of religious habit rather than rational calculation. Weber explained the example of the early puritans that, looking for glorifying God and renouncing the acquisition of material goods as an end in itself, developed certain moral habits and social virtues that were crucial in the business arena. He specifically highlighted the

ability to associate spontaneously in a just and truthful relationship, what has been linked with the recent idea of virtuous entrepreneur.

5 Virtuous entrepreneurs: the praxis of trustworthy business people

The global economic crisis initiated in 2007 has brought hostility and distrust to the business environment for international new ventures. Entrepreneurs are looked at with fear and suspicion because of the selfish behaviors that have, in great part, provoked the falling of global markets. This reflects a culture of self-centeredness and greed situation. It seems to indicate that the concept of personal (material) gain, derived in great part from Smith's (1776) work "The Wealth of Nations", provides the main meaning to the notion of entrepreneurial success. In contrast, the morality developed by Smith (1759) in his previous work –"The Theory of Moral Sentiments"– and the empathy and trustworthy sense implicit in his concept of "personal gain" seem to have been forgotten.

It was evident for Smith that all activities –economic activities included– were embedded in a social relations system shaped by moral ideals rather than a naïve economic rationality. From his perspective, persons related to one another in a certain degree ought always to be affected towards others in a certain trustworthy manner. In this sense, Smith, agreed with social stoics and its general tendency to animate actions of the most heroic magnanimity and most extensive benevolence (Smith, 1759). In other words, Smith might have wanted to extend the adoption of virtue and morality in action, idea that Weber (1930) would complete in the context of Protestant entrepreneurs.

In the last few years, the ethical failures that have occurred in the entrepreneurial arena and the wounds produced in the international markets have allowed for taking up the question of trust and morality in business within the academic, political and practitioners' circles. Against the

vicious entrepreneurial practices and the negative effects that unavoidably one side of globalization have brought to the business world, Machan (2005, p.18) defends that “business not only could be constitutive of an ethical, flourishing life, but could achieve the level of moral virtue when practiced conscientiously, and the entrepreneurs choose to be virtuous”. Current entrepreneurs are then faced with a growing demand for ethical conduct (Weber, 1995; McCloskey, 2006), while the question of personal (material) gains seems to be re-interpreted in the realm of inner spirituality. In this scenario, virtuous entrepreneurs are called to be an example of trustworthy business people.

Stories of virtue in business are uncommon, for virtue demands discernment of the right course and the courage to act accordingly. Virtue is understood as the long habit (disposition) of acting uprightly with insight into what is good. It connotes that the person repeatedly makes wise choices when faced with dilemmas that have conflicting alternatives each with good and bad aspects (Weber, 1995). It means that a single choice does not denote the virtuous person, but the habit of making such choices does.

Virtues are the tools of the search for perfection, as well as the benefits gained on the way to this perfection (Orsini, 2005). In the praxis, the doctrine that “virtue is useful in international business” leads entrepreneurs to help one another and disposes them freely to part of their work and wealth for the good of their entrepreneurial partners. It is linked with a philosophy of “win-win” in the relational processes.

Speaking about virtues implies to consider both the theological virtues of Faith, Hope, and Charity and the cardinal virtues of Prudence, Justice, Temperance, and Courage (Orsini, 2005). However, within the global economic context, fairness has been realized as one of the most exemplary conduct for trustworthy entrepreneurs; the governing principle or virtue (Weber, 1995; McCloskey, 2006; Groody, 2008). Virtuous entrepreneurs, from this perspective,

become those who mediate and balance the exercise of law, bargaining power and so forth to achieve justice – the ethically right claims of the stakeholders (Weber, 1995).

Specifically, for virtuous entrepreneurs the notion of social justice has been traditionally linked with the configuration that adopts a relationship with the creditors, employees, customers and competitors [(Weber, 1995, p.132)]. However, since globalization has multiplied the interdependence among economic agents, the entrepreneurs are called to care not only for their immediate stakeholders but also for anyone in any place of the world. In this widest perspective, virtuous entrepreneurs would be associated with the concept of social entrepreneurs defended for several scholars, who support the attitude adopted by social entrepreneurs from developed countries in order to meet the most desperate needs in developing countries (Karanda and Toledano, 2012; Thompson et al., 2000; Urban, 2008). Then, entrepreneurs become trustworthy people who enable the creation of new social businesses and promote international entrepreneurial links beyond the boards of frontiers and cultural differences. From this perspective, true wealth would consist not in the accumulation of goods –which has been the common practice prior to the last economic crisis– but in their distribution to others in need.

6 Conclusions

In this paper, we have analyzed the main interdependences that exist between the globalized economy and the international entrepreneurship phenomenon to improve our understanding of the context in which trustworthy entrepreneurs are supposed to build their businesses. In particular, we have centered on the conceptual features, theoretical approaches and practical aspects that explain the links between both ongoing processes. By bringing them to the moral sphere, we have given a glance to what happens in the interpersonal relationships by considering the different approaches adopted within the concept of trust. It has served to

introduce the notion of virtuous entrepreneurs, who might become the effective role models for developing global entrepreneurial relationships.

Our discussion has illustrated the complexity of the phenomena when we see them as interconnected relational processes rather than as results. In addition, with the consideration of virtuous entrepreneurs we have highlighted that trust, within international business practices, depends in great part on the sense of justice inherent in the entrepreneurs, and on their courage to put it in practice. Re-establishing trust would require, then, a re-establishment of the concept of entrepreneur, by including a balance of both orthodox virtues and ethical entrepreneurial practices. It would imply coming back to the old schools and traditions in which the concept of genuine trust was implicit in any business relationship. As Theodore Roosevelt's (2008) recently reminds us, it was in the 19th century when John B. Say, describing what to be an entrepreneur meant, spoke about those who shifted economic resources out of an area of lower and into an area of higher productivity and greater yield. These exchanges, Roosevelt (2008, p.339) stresses, "were shaped by the culture and delivered in trust". That trust was, precisely, the base of business activity, and it was ultimately formed and informed by religion-spiritual beliefs and traditions.

In summary, trustworthy entrepreneurs are called to use a particular virtue (justice), rather than a specific strategy (method). Globalization process, international entrepreneurship and the multiple relationships generated by one another and between both start, ultimately, in the heart of a person. Therefore, one major approach to building trust in the practice of international entrepreneurship would come through virtue. Consequently, any method for improving their positive effects would need also to be worked out from the inner depths of the human heart. It is hoped that this brief theoretical glance to these issues will invite attention to future empirical researches. In any case, it is our hope that at least, it allows us to take a few minutes to reflect

about what has been written for a long time, but it is still applicable to our current entrepreneurial context: “For what will it profit a man if he gains the whole world and forfeits his life?” (Matthew 16:26).

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