Entrepreneurs' Propensity for Corruption: A Theoretical Framework

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ABSTRACT

This conceptual paper develops an integrative theoretical framework to understand entrepreneurs' propensity for corruption through the lens of rational choice theory. While entrepreneurship is often celebrated for contributing to economic development and innovation, the dark side of entrepreneurial behaviour, particularly corruption, remains understudied. The author proposes a comprehensive model that explains how entrepreneurs evaluate and engage in corrupt practices. It is argued that entrepreneurs' decisions to engage in corruption are influenced by rational calculations of costs and benefits and the interplay between internalized norms and deliberative decision-making processes. This paper contributes to organizational theory by bridging the gap between rational choice and normative approaches to ethical decision-making while offering practical insights for anti-corruption efforts in entrepreneurial contexts.

Keywords: Entrepreneurship, corruption, ethical decision-making, rational choice theory, norm internalization, behavioural ethics

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INTRODUCTION

Corruption continues to pose significant global challenges to organizational legitimacy and economic development globally (Bahoo, Alon, & Paltrinieri, 2020). While extensive research has examined corruption at institutional and organizational levels, the role of individual entrepreneurs in perpetuating or resisting corrupt practices remains understudied (Horak, 2016). This gap is particularly significant given that entrepreneurs often operate in contexts of resource constraints and institutional voids that may increase pressures for corrupt behaviour (Adomako et al., 2021).

Recent scandals involving startup founders and emerging market entrepreneurs have highlighted the need to better understand the mechanisms driving corrupt behaviour in entrepreneurial contexts (Gonzalez, Terzidis, Lütz, & Heblich 2024). Traditional approaches to business ethics have focused primarily on established organizations, overlooking the unique pressures and ethical challenges entrepreneurs face (McVea, 2009). The normative frameworks developed for corporate ethics may not adequately capture entrepreneurs' decision-making processes under extreme uncertainty and resource scarcity.

The paper addresses this gap by developing a theoretical framework that integrates rational choice theory with recent advances in behavioural ethics to explain entrepreneurs' propensity for corruption. The theoretical framework suggests that corrupt behaviour results from the complex interaction between utility calculations and normative considerations, mediated by individual differences in norm internalization and deliberative decision-making.

LITERATURE REVIEW

The Evolution of Corruption Research in Entrepreneurship

The study of corruption in entrepreneurial contexts has evolved significantly in recent years, moving beyond simple economic explanations to incorporate insights from psychology, sociology, and organizational behaviour. Recent meta-analyses have identified three primary streams of research: institutional perspectives, behavioural approaches, and social network theories (Park & Shin, 2022).

Institutional perspectives focus on how formal and informal institutions shape corrupt behaviour in entrepreneurship (Webb, Khoury, & Hitt, 2020). It examines how entrepreneurs navigate multiple, often conflicting institutional logics, especially in emerging markets. Behavioural approaches examine the psychological mechanisms behind entrepreneurial decision-making by moving beyond traditional rational choice models to analyze complex interactions between cognitive, emotional, and social factors (Lin, Wilden, Chirico, Ghasrodashti, & DeTienne, 2022; Morales, 2022). Social network theories explore how entrepreneurs' social connections influence their propensity for corruption. These corrupt practices can spread through professional networks, with entrepreneurs more likely to engage in corruption if their peers do (Tonoyan, Strohmeyer, Habib, & Perlitz, 2010). Networks can also serve a dual role as conduits for corrupt practices and anti-corruption norms.

While institutional perspectives dominated early research, focusing on how formal and informal institutions shape corrupt behaviour (Gao, Zuzul, Jones, & Khanna , 2017), more recent work has emphasized the role of individual-level psychological processes and social dynamics (Dyck, Liao, & Manchanda, 2022).

Contemporary scholarship has highlighted the "paradox of entrepreneurial ethics" (Bahoo et al., 2020), wherein the traits that enable entrepreneurial success, such as the willingness to challenge existing norms and the ability to operate in grey areas, may also increase susceptibility to corrupt practices. This paradox has become increasingly relevant as entrepreneurship expands globally, particularly in emerging economies where institutional boundaries are often fluid (Appio, Frattini, Petruzzelli, & Neirotti, 2021). Rabl (2011) argued that situational and individual factors contribute to corrupt behaviour.

Psychological Mechanisms of Entrepreneurial Decision-Making

Behavioural ethics have revolutionized our understanding of how entrepreneurs make ethical decisions. Moving beyond traditional rational choice models, researchers have identified complex interactions between cognitive, emotional, and social factors (Arnott & Gao, 2021). Particularly significant is the recognition that ethical decision-making involves automatic, intuitive processes and deliberative reasoning (McVea, 2009).

Neuroimaging and other experimental methods has revealed that entrepreneurs may process ethical decisions differently from non-entrepreneurs, showing distinct neural activation patterns when evaluating potentially corrupt opportunities (Piteli, Kafouros, & Pitelis, 2021). These findings suggest that entrepreneurial cognition may be uniquely suited to identifying and exploiting opportunities while potentially being less sensitive to ethical boundaries.

Social Network Perspectives on Entrepreneurial Corruption

A growing body of scholarly work examines how entrepreneurs' social networks influence their propensity for corruption. Studies have shown that corrupt practices often spread through professional networks, with entrepreneurs more likely to engage in corruption if their peers do so (Gao et al., 2017). However, networks can also serve as conduits for ethical practices and anti-corruption norms, suggesting a complex dual role in shaping entrepreneurial behaviour.

The structural characteristics of entrepreneurial networks significantly influence their impact on corrupt behaviour. Tomaszewski (2018) demonstrates that network density is crucial in determining whether corrupt practices proliferate or are constrained. Strong social sanctions can effectively prevent corruption by increasing reputational risks in dense networks, where most members are interconnected (Bernabe & Triviño, 2024). Conversely, in sparse networks with many structural holes, entrepreneurs may find it easier to engage in corrupt practices due to reduced social monitoring and accountability. This dynamic becomes particularly significant in emerging market contexts, where formal institutional oversight may be weak and network-based governance mechanisms are more important.

Furthermore, the temporal evolution of entrepreneurial networks shapes their influence on propensity for corruption. Cherrier, Goswami, and Ray (2018) reveal that their founders' networks typically expand and diversify as ventures mature, potentially exposing them to different ethical norms and practices. This network evolution can either amplify or mitigate corruption risks depending on the characteristics of new network connections and the strength of existing ethical frameworks.

Institutional Complexity and Entrepreneurial Ethics

Some studies on behavioural decision theory (Antonio et al., 2024) indicate that entrepreneurs evaluate potential corrupt actions through a utility maximization framework that incorporates both material and psychological costs. This evaluation process occurs within increasingly complex institutional environments that shape both the opportunities for and constraints on corrupt behaviour. Recent empirical evidence from emerging markets demonstrates that entrepreneurs navigate multiple, often conflicting institutional logics that create ambiguity around ethical decision-making (Park & Shin, 2022).

The institutional complexity facing contemporary entrepreneurs manifests in several distinct dimensions (Wasim, Youssef, Christodoulou, & Reinhardt, 2023). First, the rapid globalization of entrepreneurial activity means that ventures frequently operate across jurisdictions with different regulatory requirements and enforcement mechanisms. Ermasova (2021) documented how this jurisdictional complexity creates opportunities for regulatory arbitrage while simultaneously increasing the cognitive burden on entrepreneurs attempting to maintain ethical compliance. An analysis of technology startups operating in multiple markets revealed that institutional complexity often leads to unintended ethical breaches as entrepreneurs struggle to reconcile conflicting regulatory requirements (Kwasi, Asamoah, & Jafari-Sadeghi, 2021).

The emergence of novel business models and technologies has created institutional voids where existing regulatory frameworks prove inadequate. Bargoni, Ferraris, Vilamová, and Wan Hussain (2024) demonstrated how entrepreneurs in sectors such as cryptocurrency and artificial intelligence encounter situations where traditional ethical guidelines offer limited guidance. In such situations, entrepreneurs must often make ethical decisions without clear institutional precedents, increasing the likelihood that utility maximization calculations will dominate normative considerations (Eisenmann, 2021).

The interaction between formal and informal institutions creates additional complexity in ethical decision-making (Stavrou, Parry, Gooderham, Morley, & Lazarova , 2021). Cherrier et al. (2018) revealed that entrepreneurs often face situations where formal regulatory requirements conflict with informal institutional norms. Entrepreneurial ventures in emerging markets (Thompson, Stringfellow, Maclean, & Nazzal, 2020) also showed that such institutional contradictions frequently create ethical dilemmas where entrepreneurs must choose between maintaining legitimacy in formal institutional environments and preserving relationships within informal network structures that may be crucial for venture survival (Tomaszewski, 2018).

THEORETICAL MODEL & PROPOSITIONS

The theoretical framework integrates rational choice perspectives with recent advances in behavioural ethics to explain entrepreneurs' propensity for corruption. Rational choice theory refers to the relationship between people's preferences and choices. It establishes that individuals have preferences for outcomes but do not necessarily imply actions or behaviours

(McCarthy & Chaudhary, 2014). These preferences are also influenced by the expected benefits of an outcome relative to its costs and can be arranged from the most valued to the least. The assessment is based on the information collected, even though some of it may be incomplete (McCarthy & Chaudhary, 2014).

Bazerman & Francesca (2012) define behavioural ethics as the study of systematic and predictable ways in which individuals make ethical decisions and judge the ethical decisions of others that are at odds with intuition and benefits for the broader society. By focusing on a descriptive rather than a normative approach to ethics, behavioural ethics is better suited than traditional approaches to address the increasing demand from society for a deeper understanding of what causes even good people to cross ethical boundaries (Bazerman & Francesca, 2012).

This model identifies four key mechanisms through which entrepreneurial corruption emerges: utility calculation, norm processing, deliberative reasoning, and contextual factors. The propositions in this paper were developed by identifying key theoretical relationships among variables related to the propensity for corruption of entrepreneurs (Yin, 2014; Sayer, 2010). Studies from the last five years were prioritized to check the patterns that emerged before structuring a clear relationship among variables grounded on existing theory (Yin, 2014).

Utility Calculation Mechanisms

Behavioural economics suggests that entrepreneurs engage in more sophisticated utility calculations than previously theorized (Arnott & Gao, 2021). Drawing on advances in prospect theory and behavioural decision-making, it is proposed that entrepreneurs evaluate corrupt opportunities through a multi-dimensional utility framework that incorporates both immediate and long-term consideration.

Proposition 1a: The relationship between expected benefits and propensity for corruption is moderated by temporal distance, such that immediate benefits have a stronger positive effect on propensity for corruption than temporally distant benefits.

Proposition 1b: The deterrent effect of potential costs on the propensity for corruption is weakened by uncertainty regarding the probability of detection, particularly in institutional environments with inconsistent enforcement.

Norm Internalization Processes

Organizational psychology research has revealed that norm internalization operates through conscious and unconscious processes (Kwasi et al., 2021). This work can be extended to the entrepreneurial context:

Proposition 2a: The strength of internalized ethical norms moderates the relationship between utility calculations and propensity for corruption, such that strong norm internalization weakens the effect of expected benefits on propensity for corruption.

Proposition 2b: Entrepreneurs with higher levels of norm internalization exhibit greater resistance to corrupt practices even under conditions of severe resource constraints.

Deliberative Processing

Building on dual-process theories of ethical decision-making (Hägg, Haataja, Kurczewska, & McKelvie, 2024), it is proposed that deliberative processing plays a crucial role on how entrepreneurs evaluate corrupt opportunities:

Proposition 3a: Higher levels of deliberative processing strengthen the positive relationship between expected benefits and propensity for corruption by allowing entrepreneurs to justify corrupt actions through moral rationalization.

Proposition 3b: The relationship between deliberative processing and propensity for corruption is moderated by time pressure, such that entrepreneurs rely more heavily on internalized norms than deliberative processing under high time pressure.

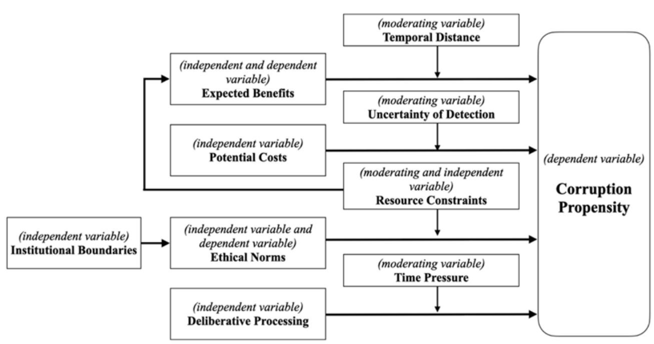
Contextual Integration

This model also considers how institutional and organizational contexts influence the relationship between individual-level factors and propensity for corruption (Harris, Sapienza, & Bowie, 2009):

Proposition 4a: The effect of norm internalization on propensity for corruption is stronger in contexts with clear institutional boundaries and established ethical guidelines.

Proposition 4b: Resource scarcity moderates the relationship between utility calculations and propensity for corruption, such that the effect of expected benefits on propensity for corruption is stronger under conditions of severe resource constraints.

FIGURE 1: THEORETICAL FRAMEWORK ON PROPENSITY FOR CORRUPTION OF ENTREPRENEURS



Source: Author's own

The above framework shows how different factors influence an entrepreneur's propensity for corruption through multiple interrelated pathways. Expected benefits, potential costs, ethical norms, and deliberative processing directly influence propensity for corruption (Park & Shin, 2022; Wasim et al., 2023; Hägg et al., 2024; Kwasi et al., 2021).

Temporal distance weakens the impact of expected benefits on propensity for corruption because future benefits have less influence than immediate ones (Hägg et al., 2024; Arnott & Gao, 2021). Uncertainty of detection weakens the relationship between potential costs and propensity for corruption because when detection is uncertain, costs become less influential (Lin et al., 2022; Arnott & Gao, 2021).

Resource constraints impact the relationship between ethical norms and propensity for corruption, considering that the relative weight of ethical considerations may decrease as immediate survival needs take precedence (Wasim et al., 2023; Kwasi et al., 2021; Harris et al., 2009). This variable also impacts expected benefits because when resources are scarce, entrepreneurs become more sensitive to potential benefits from corrupt activities (Tonoyan et al., 2010; Kwasi et al., 2021).

Time pressure moderates the role of deliberative processing on propensity for corruption because under high time pressure, entrepreneurs rely more on intuitive responses and less on careful deliberation (Lin et al., 2022; Hägg et al., 2024). Institutional boundaries directly impact the effect of ethical norms on propensity for corruption. Clear institutional boundaries provide clear, ethical guidelines and standards, reducing ambiguity in ethical situations (Webb et al., 2020).

The framework illustrates that the propensity for corruption isn't simply a matter of rational cost-benefit analysis; it emerges from complex interactions between cognitive processes, situational constraints, and institutional contexts. This helps explain why similar entrepreneurs might make different ethical choices in different contexts or under various pressures (Park & Shin, 2022; Hägg, 2024). This model also suggests that efforts to reduce corruption should consider multiple intervention points, from strengthening institutional boundaries and ethical norms to addressing resource constraints and providing tools for better deliberative processing under pressure.

METHODOLOGICAL CONSIDERATIONS FOR TESTING

Testing these theoretical propositions requires a sophisticated methodological approach that captures the complexity of entrepreneurial decision-making and the sensitivity of corruption-related research (Harris et al., 2009; Hägg et al., 2024). To address these challenges, a multi-method research design combining experimental approaches with field studies is ideal (Yin, 2014). The experimental component encompasses both vignette-based studies and laboratory experiments, with the former allowing for systematic manipulation of key variables while maintaining validity and the latter enabling detailed examination of specific mechanisms through physiological measures, time pressure manipulations, and virtual reality simulations (Yin, 2014; Sayer, 2010; Triviño, 2024).

The field study component emphasizes longitudinal research and network analysis to provide rich contextual insights into entrepreneurial decision-making processes (Yin, 2014; Buratti, Cantner, Cunningham, Lehmann, & Menter, 2022). Through longitudinal tracking, researchers can employ experience sampling methods to document how ethical decision-making evolves as ventures grow and face varying resource constraints. Complementary network analysis allows for examining how corrupt practices diffuse through entrepreneurial ecosystems, mapping both formal and informal relationship structures while identifying the role of key network positions in facilitating or inhibiting the spread of ethical and unethical practices (Bahoo et al., 2020).

These proposed methods address the key limitations of each approach in isolation. While experiments offer precise causal inference, field studies provide the rich contextual understanding needed to interpret and apply experimental findings meaningfully (Yin, 2014). Experimental findings can guide field observations by highlighting specific mechanisms to examine, while field insights inform the design of more ecologically valid experimental manipulations (Yin, 2014; Sayer, 2010). This methodological integration enables researchers to triangulate findings across contexts, strengthening internal and external validity while maintaining sensitivity to the complex nature of corruption-related research in entrepreneurial settings (Yin, 2014).

Critical to the success of this methodological framework is careful attention to measurement considerations that address the unique challenges of studying corruption-related phenomena (Bernabe & Triviño, 2024). Researchers must develop valid measures of norm internalization that extend beyond traditional self-report methods while creating robust indicators of propensity for corruption that effectively account for social desirability bias. Furthermore, research instruments must be designed to capture conscious and unconscious decision-making processes, acknowledging the dual nature of entrepreneurial cognition in ethical contexts (Yin, 2014). This comprehensive methodological approach enables rigourous testing of our theoretical propositions while maintaining sensitivity to the complex nature of corruption-related research in entrepreneurial settings (Yin, 2014; Sayer, 2010).

THEORETICAL CONTRIBUTIONS

This paper makes several significant contributions to organizational theory and ethics research. It bridges the gap between rational choice and normative approaches to ethical decision-making by demonstrating how utility calculations and moral considerations interact dynamically in entrepreneurial contexts. The model shows that rather than operating independently, these mechanisms are deeply intertwined and mutually reinforcing.

It also advances the understanding of how entrepreneurs navigate ethical challenges under uncertainty and resource constraints. By incorporating recent insights from behavioural decision theory, we showed that entrepreneurial corruption cannot be fully explained by either pure rational choice models or purely normative approaches. Instead, entrepreneurs engage in a complex process of weighing multiple factors through deliberative and automatic processing channels.

The theoretical framework contributes to the growing literature on contextual influences in ethical decision-making by specifying how institutional and organizational factors moderate the relationship between individual-level processes and corrupt behaviour. This multi-level perspective helps explain why similar individuals may make different ethical choices in different entrepreneurial contexts.

PRACTICAL IMPLICATIONS

This theoretical framework yields several important practical implications for different stakeholders in the entrepreneurial ecosystem. These implications are particularly relevant given the increasing global focus on the prevention of corruption and ethical business practices.

Understanding the complex interplay between rational calculation and norm internalization suggests that policymakers should adopt a multi-faceted approach to preventing entrepreneurial corruption. Rather than focusing solely on enforcement and penalties, effective anti-corruption policies should address both the rational incentives for corruption and the normative environment in which entrepreneurs operate.

The model suggests that policy interventions should create clear temporal links between corrupt actions and their consequences, reducing the psychological distance that enables moral disengagement. It is also encouraged to develop mechanisms for rapid resource allocation to reduce the immediate pressures that often drive corrupt behaviour and establish clear ethical guidelines while simultaneously providing legitimate alternative pathways for entrepreneurial success.

There is also a need for fundamental changes in how ethics is taught in entrepreneurship programs. Rather than treating ethics as a separate module, educators should integrate ethical decision-making throughout the curriculum, emphasizing how ethical behaviour creates long-term value. This approach should use experiential learning techniques that allow entrepreneurs to practice ethical decision-making under pressure. Recent insights from behavioural ethics must be incorporated to help entrepreneurs understand their decision-making processes. Practical tools for managing the specific ethical challenges that arise in entrepreneurial contexts should be developed.

The framework provides actionable insights for entrepreneurs and organizations seeking to prevent corrupt practices while navigating complex business environments. Specifically, organizations should implement structured decision-making protocols that systematically evaluate both short-term pressures and long-term consequences while simultaneously developing organizational cultures that reinforce ethical norms without dismissing the legitimate resource constraints that entrepreneurs face. Studies have shown that organizations successfully combining these approaches demonstrate significantly lower rates of corrupt practices while maintaining competitive performance (Hägg et al., 2024).

For investors and stakeholders, this theoretical framework suggests the need for a more nuanced approach to evaluating and monitoring entrepreneurial ventures. Recent research demonstrates that adequate due diligence processes must extend beyond traditional compliance metrics to assess informal cultural factors significantly influencing ethical decision-making (Park & Shin, 2022). This broader evaluation approach, combined with carefully structured investment terms that align financial incentives with ethical behaviour, has been shown to reduce instances of corruption while enhancing long-term value creation (Antonio et al., 2024). Additionally, monitoring systems should be designed to account for rational economic factors and normative influences on ethical decision-making, as studies indicate this dual consideration significantly improves the effectiveness of oversight mechanisms.

FUTURE RESEARCH DIRECTIONS

This theoretical framework opens several promising avenues for future research that warrant rigorous empirical investigation. Three primary research streams deserve immediate attention: First, longitudinal studies tracking the evolution of entrepreneurs' ethical decision-making as ventures grow and face varying pressures; second, comparative analyses across different institutional environments, particularly in emerging economies where formal and informal institutions may conflict; and third, examination of how digital technologies and new entrepreneurial forms reshape the dynamics of corruption in modern business environments. These research directions are particularly critical as they address fundamental gaps in our understanding of entrepreneurial corruption while acknowledging the evolving nature of business practices.

Building on these core directions, further research must examine how entrepreneurial teams, rather than individual entrepreneurs, navigate ethical decisions collectively and investigate the differential impacts of various resource constraints on propensity for corruption. Understanding these dynamics is crucial for developing effective interventions within entrepreneurial ecosystems and advancing theoretical knowledge and practical applications in this domain. Furthermore, such research would contribute to a more nuanced understanding of how organizational structures and resource limitations influence ethical decision-making in entrepreneurial contexts, ultimately helping design more targeted and effective anti-corruption strategies.

CONCLUSION

This article developed a theoretical framework for understanding entrepreneurial corruption that integrates rational choice perspectives with recent advances in behavioural ethics. By specifying the mechanisms through which individual, organizational, and institutional factors influence propensity for corruption, a foundation for future research and practical interventions has been provided.

As entrepreneurship continues to be promoted as a pathway to economic development, understanding and preventing corrupt practices becomes increasingly critical for ensuring that entrepreneurial activity contributes positively to society (Manalang & Triviño, 2024). Organizations should implement structured decision-making protocols that explicitly consider both immediate pressures and long-term consequences. This can include mandatory cooling-off periods for major financial decisions and formal stakeholder impact assessments. Entrepreneurial support programs should integrate ethics training throughout their curriculum, using case-based learning and simulation exercises to help entrepreneurs develop practical skills for navigating ethical challenges under resource constraints. Financial institutions can also contribute by developing investment terms that align incentives with ethical behaviour.

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