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Citation

Hill, Inge and Scott, Jonathan M. (2020). Ethics and sustainability in business / for entrepreneurship. In: Deakins, David and Scott, Jonathan M. eds. Entrepreneurship: A contemporary & Global Approach. London: SAGE, pp. 200–227.

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Cite as

Hill, I. and Scott, J. (2020) Ethics and sustainability in business / for entrepreneurship. In: Deakins, D. and Scott, J. (eds) *Entrepreneurship: A contemporary & Global Approach*, pp. 200-227 (Chapter 9). London: SAGE.

9

ETHICS AND SUSTAINABILITY IN BUSINESS FOR ENTREPRENEURSHIP

Inge Hill and Jonathan M. Scott

Learning outcomes

At the end of this chapter, you will be able to:

- Define the concept of sustainability in the context of business
- Discuss how sustainable entrepreneurs generate value from their activities
- Determine and explore the role of business ethics
- Define and discuss the role of corporate social responsibility (CSR)
- Explain trends and factors affecting sustainability
- Explore how large multinational enterprises work with the natural environment and local communities

INTRODUCTION

This chapter commences by exploring what we mean by business ethics, corporate social responsibility, sustainability and sustainable development in the context of entrepreneurship and small business. These

terms are also somewhat interconnected. Sustainability often refers narrowly to social and environmental aspects only. Yet, sustainability has increasingly acquired a wider meaning that goes beyond green or nature-related and community-related sustainability. It also refers to entrepreneurs' business models, ways of doing business and attitudes towards all stakeholders in society.

Table 9.1 Six business areas that need to be aligned for sustainable businesses

Business area	Explanation
Frameworks	Internal governance (advisory board, board of directors, legal form, etc.), HRM and other systems
Business processes	Operations and process management across all business functions, such as HRM, sales, production, purchasing
Financial circuits	Making and spending money
Customer focus	Marketing and sales; market and industry research underpinning marketing and sales
Strategy	Business modelling and market positioning
Evaluation	Value creation and impact management for all stakeholders inside and outside of the business

Source: Hill (2016)

SUSTAINABILITY

In this chapter, our definition of sustainable ways of doing business focuses on the first considerations of trading when an entrepreneur starts to explore an original idea or business opportunity (Hill, 2016). This way of doing business builds on a financially sustainable basis and includes other aspects that we outline below. Hill (2016) identifies the sustainable start-up as the new venture for which the founder(s) may decide freely if and when to close the venture without being forced to do so. The term *sustainable business* thus sheds light on the **outcomes** of ways of trading and doing business.

To gain this level of business health and personal freedom, Hill's approach (2016) suggests several areas in business that need to be aligned. Each of the six business areas is divided into two subfields (see Table 9.1).

These six areas are brought together in the Business Model Cube ® (Hill, 2016). These areas address all the required considerations for establishing a business and ensuring that it continues

successfully and sustainably; they have been used by start-ups in many countries. Underpinning this understanding of how to achieve sustainability as an outcome are six principles with associated practices to realize each of the sustainable outcomes (see Table 9.2).

One example illustrates these six business areas and principles (Table 9.1) briefly: a London-based restaurant owner-manager builds his business on the principle of sourcing any staff, ingredients and materials from suppliers within the M25 motorway area only.

Underlying this principle is a *strategy* aspect – to source from a defined spatial area only. The simple fact of sourcing is an important element in the market positioning towards customers. In this respect, *strategy* and *customer focus* overlap (see Hill, 2016: Box 9.1). Within the hospitality industry, the local sourcing of products is not a given, as many firms differentiate themselves through offering exotic or rare ingredients. The sourcing decision covers the business principles of responsibility and resourceful impact, interconnectedness, co-creation and seeking sustainability of investments, since the owner regularly evaluates the quality and return on investment of the suppliers and the impact of the sourcing decision on its positioning. This decision covers the area of *evaluation and seeking sustainability of investments*.

Table 9.2 ARRICS principles and associated practices to realize a sustainable business

Principles	Meaning of principle	Associated practices, indicative
A. Alertness	Be alert to change and remain flexible in doing business	Ongoing learning, including skills and knowledge development, regular research with all business stakeholders
R. Responsibility	Be responsible for the impact of all decisions the business makes	Ongoing consulting with all stakeholders, monitoring the effect of doing business on society and the environment, seeking and following advice and committing fully to your objectives and goals
R. Resourceful impact	Manage resources and aim at minimizing negative and maximizing positive impact(s)	Creatively use resources, hire equipment where possible, share expensive equipment with other stakeholders, where possible and select resources that have the least impact on the environment, where appropriate; consider as employees or suppliers actively those regarded traditionally as disadvantaged in these markets
I. Interconnectedness	Doing business with the mindset that every action has an impact on others or processes in business and society	Respect towards all stakeholders and a great amount of flexibility in responding to changes in demands

C. Co-creation	Doing business with the mindset to achieve best possible outcomes of business negotiations for all stakeholders*	Proactively support your stakeholders with offers, including leads and recommendations
S. Seek sustainability	Establish that all projects, ideas and investments are viable. This principle is realized through ongoing evaluation and monitoring of impact(s) on all stakeholders	For start-ups or developing businesses, to only pursue ideas or new services/products that fit with the founders' values and lives

Source: Hill (2016)

Note: * Stakeholders include the owner(s), customers, banks and suppliers.

Table 9.3 Literature on business ethics in relation to entrepreneurs and small firms

Topic and coverage	Article(s)
Entrepreneurial ethics (including morality)	Ackoff, 1987; Hannafey, 2003; Harris et al., 2009; Machan, 1999; Miles et al., 2004
Ethics (including ethical standards) in small businesses	Brown and King, 1982; Fonseca, 2016; Longenecker et al., 1989; Mayo, 1991; Moore and Spence, 2006; Quinn, 1997; Smith and Oakley III, 1994; Spence, 1999, 2007; Spence and Rutherford, 2003; Thompson and Smith, 1991; Vyakarnam et al., 1997
Unethical practices by entrepreneurs compared to other businesspeople	Fassin et al., 2011
Motives for ethics in small businesses	Hornsby et al., 1994; Humphreys et al., 1993

This underlying principle of local sourcing also considers environmental impact – it reduces food miles and creates a small carbon footprint. The business considers social impact in spending its money in the local economy with local people, thus creating a local spatial impact. It also employs staff from the M25 area only, which has a social impact, and the owner and his family live within the M25 area, thus spending their money locally and interacting with others locally.

Many successful start-ups and businesses are not aware that they are realizing these six principles and associated practices. Types of sustainable trading that apply these principles include, as illustrated in Table 9.4:

- a. Realizing impactful trading in every aspect of business (see case study 9.1: Gudrun Sjöden)
- b. Investing money and effort in replenishing core raw materials and thus the supply chain (see case study 9.2: Faber-Castell)

- c. Trading with the sole purpose of making an impact on the local and regional economy (see case study 9.3: Localise West Midlands)
- d. Using organic ingredients and sources that apply fairtrade rules in farming (see case study 9.4: Conygree Farm).

Our analysis demonstrates how these businesses implement many of the six principles and associated practices in doing business, thus unveiling how they become successful and maintain sustainability (as defined above).

A cross – X – indicates that we judge this criterion is being implemented by the case study business.

A cross in brackets (X) indicates that, according to our judgement, this sustainable business principle is being addressed at the time of writing the case study.

Our first case study on Gudrun Sjödén – a women’s fashion label – is an excellent example of a sustainable business being established where all sustainability principles underpin its business activity.

Case study 9.1: Gudrun Sjödén

By Inge Hill

Personal and business development

Gudrun Sjödén graduated in 1963 from the then Stockholm College of Art and Design and initially worked as a freelancer for various Swedish, Chinese, British and Finnish companies. She established a business in 1974, producing her own brand of clothing, then opened a store with her husband in 1976 in Stockholm to sell women’s clothes she had designed: selling 2 million Swedish Krona worth of clothing (in store/by mail order) by 1978. She entered the German (in 1981) and US markets (between 1983 and 1990) with mail order sales and two stores in the USA. Only in 1993 did she start to sell textiles and

homeware products. In the 1990s she expanded her mail-order business to Norway and the UK. In 2019 she was selling across the world, including to China and France.

Products and awards

Gudrun's core products are women's clothes, shoes, textiles and homeware products. Comfortable and colourful clothes made of natural fabrics with a Scandinavian design sums up a style of clothing that is fashionable, but timeless. Her clothes and shoes are made of high-quality fabric and fibres and thus are durable – a contribution to the environment. GS has an eco-label for eco-jerseys (produced in Greece and Bulgaria), using a closed system without chemicals.¹

Gudrun gained many awards as an entrepreneur: His Majesty's King's medal 'Litteris et Artibus' for her contribution to fashion design (2007), the World Class Prize by the Stockholm Chamber of Trade (2005), the ELLE Sustainability Award (2012), the American Swedish Historical Museum's Outstanding Achievement Award (2016) and Business Woman of the Year in Sweden (2019). That same year she opened her only store in London.²

Mission and target customers

Gudrun's mission is to spread happiness:

In many ways you could say that I design clothes for myself. I like colourful clothes with individuality that tell people something about your lifestyle. My aim is to spread happiness and make the everyday a little more beautiful. To me, creating clothes is about adding colour and creating shape around a personality. A garment is not an isolated object – it has a context. I think that creating designs with a long lifespan is my most important contribution to a greener, more wonderful world. It has been my passion and mission for more than 35 years.³

Gudrun's target customers are women of all 'ages and sizes'. She describes her customers as 'inner world women, strong and independent ... well educated ... within social and artistic professionals

and between 20 and 60 years old'.⁴ While not being 'age exclusionary', GS is aware that clothing is insufficiently colourful and large for some older women when fashion is focused on their younger, slimmer counterparts.⁵ The models featured in her catalogues and on her website are of all ages.

Environmental thinking and sustainable trading

Gudrun's website features a dedicated section that outlines the 'ecological concept' and the code of conduct for working with suppliers (since 2001) and explicitly addresses the United Nations (UN) Declaration of Human Rights and the International Labour Organization's rights at work conventions. The explicitly listed factors include the ban on child labour and punishments for tween-employees, working hours and compensation for work and overtime and environmental and safety issues. The environment and business policy articulates clearly how Gudrun encourages manufacturers to implement her environmentally friendly thinking. Since 2007, GS has been actively engaged in the 'Business Social Compliance Initiative' that inspects suppliers and ensures that they comply with her code of conduct for 70% of production in China and India.

GS regularly supports a festive charity project and she disseminates information on natural resources (Ara Sea): paying for an environmental survey, for an irrigation system in rural India and buying mature Swedish forests for conservation purposes. Under the name *Gudrun's Good Deeds*, the company supports environmental projects by donating a percentage of its Christmas sales. Under the art of dressing in an environmentally friendly way, she advises customers on how to use and carefully wash her more durable clothes. Many of her shops offer a corner where customers can swap worn clothes for other GS products to support recycling or gain a shopping voucher.

Day-to-day business is environmentally friendly and conscious

Packing is environmentally friendly, replacing plastic with fabric bags for shoes and purchases in shops, whereas mail-order goods are packaged in low-density polyethylene that biodegrades within two years.

Catalogues have been printed on chlorine-free paper from Forest Stewardship Council (FSC)-certified forests since the 1980s. The company's website lists many other activities, including the use of environmentally certified electricity and boxes for store delivery.⁶

In 2016, Gudrun wrote a well-received autobiographical book *My Portfolio*, and her YouTube channel features a mix of advertising seasonal clothes and the company's commitment.

Sources

Sjödén, G. (2016) *My Portfolio: Gudrun Sjödén*. Brombergs Bokfoerlag. www.gudrunsjoden.com. Accessed 25 April 2020.

The Women's Room (2013) *Gudrun Sjödén: A Style Icon for all Ages and Sizes*. 5 December. www.thewomensroomblog.com/2013/12/05/gudrun-sjoden-a-style-icon-for-all-ages-and-sizes. Accessed 25 April 2020.

Walsh, A. (2012) Gudrun Sjoden opens London shop. *That's Not My Age*, 30 March. <https://thatsnotmyage.com/blog/gudrun-sjoden-opens-london-shop>. Accessed 25 April 2020.

Discussion questions

1. Go to the website (https://gsw.gudrunsjoden.com/uk/gudrunsworld/company_presentation) and read the statement on 'our environmental thinking'. Discuss how the expressed beliefs are reflected, or not, in the business and environment policy (on the same website link).
2. Do you find any tension between making profit and sustainable ways of doing business in the self-presentation of Gudrun Sjödén's way of doing business? Explain your answer.
3. Explain and discuss how the six principles of sustainable business (Hill, 2016) are realized by the entrepreneur.

Case study 9.2: faber-Castell AG (fC), stein, Germany

By Inge Hill

This case study focuses on how Faber-Castell (FC) realizes the sustainable business principles of responsibility, resourceful impact and interconnectedness. Its investment in gaining and maintaining accreditations illustrates the principles and practices of seeking sustainability on an ongoing basis (see also the introduction to this chapter).

Faber-Castell is a German, family-owned company that has been family-managed for eight generations from its foundation in 1761 until 2017, when the first non-family managing director took over as CEO. Now one of the world's largest manufacturers of pencils (and pens and art and office supplies), FC still has its headquarters in Stein, a small town in Bavaria in southern Germany. In the USA, the brand name has been established and the pencil has been sold continuously since 1870, making it the oldest brand name in existence in the USA. The company employs over 8,500 people at production sites in nine countries, runs sales companies in 23 and has commercial agencies in over 120 countries (FC, 2018).

The core products are graphite and colour pencils and FC produces over 2 million wooden- cased pencils a year in nine different countries. Its business core competence is the quality of the pencils, including robust tips with limited breakage.

FC needs up to 150,000 tons of wood a year for the production of its pencils. As part of its investment in renewing resources, the company plants and cares for trees at one of its production sites in Brazil.

From nature user to investor in nature

The company states that: 'Sustainable use of resources not only protects the environment, but also helps us to remain profitable over the long-term by safeguarding our raw materials and keeping prices stable.'⁷

This quote illustrates that FC has recognized – and integrated into its business model and values – that sustainable ways of doing business do not endanger profits in the long term.

Planting new forests

Thirty years ago, FC started to plant pine trees in Prata/Brazil in a former wasteland covering 10,000 hectares. These trees have been supplying wood for the world's largest plant for pencil production. Together with the forest that is left untouched, the trees bind more CO₂ than the company produces worldwide (900,000 t of CO₂ were bound in 2012, compared to a production of 35,876 t CO₂ by the company group in 2013/14) (Faber-Castell, 2018).

Certifications

FC holds various certifications, giving evidence of its commitment to monitoring its outputs and resource use on a regular basis. These include the Industrial Standards Organization (ISO)9001/14001 for quality and environmental responsibility. In particular, the Forest Stewardship Council (FSC) certificate certifies that 90% of the wood used for production comes from 100% FSC-certified forests.

As a world leader in eraser production, FC does not use polymerizing vinyl chloride (PVC) in its erasers. Indeed, its company-owned forests received an eco-label for environmentally friendly, socially responsible and economically sustainable forest management in 1999 (see www.FSC.org for criteria for gaining the certificate). All companies owned by the group worldwide (including sales companies) have received the Chain of Custody certificate to demonstrate that the production chain can be traced from raw material to finished product.

Since 2014, the firm's carbon footprint has been certified annually by the German Technischer Ueberwachungs Verein, the technical, non-profit independent agency, in line with ISO 14064.

Sources

www.faber-castell.com

Faber-Castell (FC) (2018) *Sustainability Fact Sheet 2018*. Stein: Faber-Castell.

Discussion questions

1. Download the latest sustainability factsheet and look up the certifications the company holds (www.faber-castell.com/corporate/sustainability). How many and which ones are related to sustainability?
2. Watch the video 'How we make pencils' on the Faber-Castell YouTube channel (www.youtube.com/user/FaberCastellGroup). Summarize how the raw material wood is being transformed, and what other resources are being used.

Case study 9.3: Localise West Midlands (LWM), UK

By Inge Hill

This case study addresses three aspects of our understanding of sustainable trading. First, it trades with the purpose of having a socio-economic impact on a defined area, thus having spatial impact in the administrative region of the West Midlands. Second, it runs its business activities in such a way as to demonstrate a responsible use of resources – from office space to consumables and energy. Third, all staff, consultants and board members live and work in the West Midlands, which enables social impact.

LWM operates in the city of Birmingham in the West Midlands and was founded in 2002 by then full-time working professionals in the public and third sector. From its inception, LWM advocated the decentralization of economic, political and administrative power; following research into what makes local economies work effectively, it adopted the following statement of aims to reflect a key emphasis on economic decentralization:

We advocate for a socially inclusive and sustainable economy. Through the de-centralization of economic power, we envisage a more diverse, redistributive and prosperous economy that benefits local communities and in which more people have a meaningful stake.⁸

LWM's mission of localizing the large contracts being procured in the West Midlands region and strengthening the local economy, has been translated in many different ways into LWM's work:

Localise West Midlands works towards local supply chains, money flow, ownership and decision making for a more just and sustainable economy. We are a thinktank, campaign group and consultancy. (Localise West Midlands website)

One example concerns building a new hospital in Smethwick in the borough of Sandwell⁹ by focusing on engaging local people in co-creating their socio-economic infrastructure just as much as creating local jobs for an area that suffers from higher-than-average unemployment rates.

LWM's operations demonstrate a commitment to sustainability – using as few resources as possible. Two part-time staff, who 'job share' the role of manager, each work two days per week. In 2018, for the first time, a part-time marketing and communications professional was engaged to work for one day per week. The organization manages a network of associates, who are professionals (with businesses or who are self-employed with a variety of other clients), that it draws on when it has won a research and consultancy contract. These staffing arrangements keep fixed costs low and enable continuity in engaging with stakeholders through the same professionals representing the organization. LWM rents desks in a large office with other non-profit organizations. The office is run by an environmental organization re-using former warehouse buildings in a regeneration area near a railway station. Rooms can be hired by the hour for meetings, catering can be purchased from the bistro in the building, offering vegan and holistic meals and drinks, only made from fairtrade sources.

The governance of the organization consists of the annual general meeting (AGM) of all members and the board, constituted by professionals from the public, third and private sectors. The typical backgrounds of board members in the past and present include housing associations, councils and larger third-sector organizations and one or two private-sector professionals.

One of the most effective interventions is the Localising Prosperity project.¹⁰ By influencing how the economy works, it is an exemplar of the social purpose of trading – having an impact on the economy to trade more sustainably.

Exercise

Go to the Local Prosperity project website and read the case study of E. H. Smith Builders Merchants (<http://localisingprosperity.org.uk/case-studies/e-h-smith>), then answer these questions:

1. Summarize the approach the company E. H. Smith is taking in supporting local economic development.
2. Does this way of working affect the most profitable way of working for the business?
3. Are there any economic benefits for E. H. Smith from this way of working and what are they?

So, what is ethical business practice then?

BUSINESS ETHICS

First, we consider the role of business ethics and its significance. Whilst these terms are often associated with large corporations, we illuminate the business case for small businesses to adopt more ethical practices. The definition below is from a private institution focusing on moral principles for action:

Business ethics are the moral principles that act as guidelines for the way a business conducts itself and its transactions.

When we talk about business models (see Chapter 11), we clearly mean the way that companies link the customer (the market) to the product and thus provide some sort of ‘compelling reason to buy’ (Thompson et al., 2017). Therefore, entrepreneurs and owner-managers who wish to behave ethically need to have business models that include ethical activities towards all stakeholders; customers/markets, producers (i.e employers) and any other stakeholders that may be affected directly or indirectly, such as the environment or the local community and society in general.

In practice, we differentiate between amoral and immoral behaviour. The first one, amoral, illustrates that a business or a person does not seem to have any moral guiding principles they respect.

The second one, immoral, refers to behaviour that violates existing established morals that the businessperson is aware of yet decides not to follow.

From a society/social viewpoint, revealing information on business practices and behaviour has grown in significance. Increasingly, consumers would like to know how ethical are the businesses they buy from and/or the products they consume (Irwin, 2015). Businesses increasingly want, or have, to know about the trading practices of their business suppliers or customers in order to win public-sector contracts in Europe. This necessity not only applies to multinational enterprises (MNEs), but also to SMEs (Fonseca, 2016).

Fairtrade is an internationally well-known organization that certifies other organizations and products concerning standards of fair trading.¹¹ For farmers and workers in food production, the standards include protecting the environment and the rights of workers. For companies, they include paying the 'fairtrade minimum price', plus an additional amount of money which the community of workers and farmers can invest to improve the local environmental, social and economic conditions.

In the UK, Ethical Consumer has taken on the lead role to inform consumers about the ethical behaviour of companies. A non-profit organization, it funds its work through membership fees, sponsorship and consultancy. Our ethical rating exercise below invites you to explore these ratings for the five worst- and best-rated companies.

Exercise: Ethical rating of companies by Ethical Consumer (2020)

Companies on this website are rated based on a rating system developed by Ethical Consumer. Five categories (animals, environment, people, politics, sustainability) and 19 areas support the ranking of companies and a points system between 0 and 14. Products are rated out of 20.

Exercise and discussion questions

Part 1

On the Ethical Consumer website (www.ethicalconsumer.org/quick-guide-ethical-consumer), read the overview of the ethical rankings for five well-known brands and companies. Are you surprised by what you find?

Then choose one company and read its full company profile. Did you already know any of the information provided?

Discuss the following questions in your group:

1. Will you now stop buying these company's products? If yes, why? If not, why not?
2. What influences your purchasing decisions when buying food or drink?
3. What influences your purchasing decisions for non-food and drink products?

Part 2

Go to www.ethicalconsumer.org/retailers/top-five-ethical-high-street-shops to read about the five highest-ranking and most ethical companies:

Are you surprised to find the leading high street retailer is WHSmith? Then, go to the company page for Marks & Spencer Group on this website and read the section. M&S is a UK-based, but internationally operating department store which is particularly famous for its eponymous Food Hall, now offering vegans (such as one of the co-authors) the ethical and low-carbon-footprint Plant Kitchen range.

Nonetheless, regarding animals, discuss the following questions in your group:

1. Do you find it problematic that farmers in M&S's supply chain were found to have kept calves in inappropriate dens?
2. Having seen the five highest-rated companies, what would influence your spending patterns in the future?

3. How does corporate social responsibility fit into this landscape of sustainable ethical business behaviour?

CORPORATE SOCIAL RESPONSIBILITY

Entrepreneurs and small business owners often attempt to be socially responsible because ‘local’ owner-managers feel closer to their local communities than do executives who are ‘citizens of the world’ and effectively citizens of nowhere. The term corporate social responsibility (CSR) was, it is claimed, an attempt by large companies to appear more socially responsible than they actually were. It originated as an academic concept in the context of large multinational companies (Carroll, 1979), with businesses being guided by principles of charity and stewardship (Acquier et al., 2011) and later with business power and performance being linked to the role of business in society (Carroll, 1999), or engaging with sustainability (Schaltegger and Burritt, 2018). In some senses, it is even doubtful whether CSR is relevant or applicable to entrepreneurs and small businesses. In later sections, we explore how business ethics as a concept is perhaps more appropriate for SMEs and entrepreneurs.

Therefore, some entrepreneurs and their companies are well known for their investment in and commitment to their workers’ values, such as Cadbury in the UK, which created holiday homes, leisure facilities and childcare support and education for its employees in the 19th century.

When we analyse these drivers, none of them refers to protecting the environment or developing the community (i.e. addressing the sustainable business principles such as *seeking sustainability of investment* or *interconnectedness* or *responsibility*; see Table 9.2; Hill, 2016). In light of these insights, we need to consider the question in the next heading.

IS THERE A TENSION BETWEEN BUSINESS ETHICS AND THE BUSINESS CASE FOR PROFIT?

Business cases for corporate engagement with sustainability

The financial performance of a business may appear to outweigh ethical behaviour and the implementation of ethical business practices, as we will see in examples below from the gig economy, such as drivers or food deliverers, because such ‘app’ companies claim that these workers are contractors and not employees, so do not merit employment rights. Yet, the example of the Swedish fashion entrepreneur, Gudrun Sjödén shows that these two forces can be combined. Suppliers that are contractually buying into the sustainable company goals that GS follows bring the advantage of negotiating better deals and having reliable partners for production. Both factors contribute to having a more reliable quality of products, which is essential for the reputation and branding of a business. Both of the latter factors are important for competitiveness. Using ethically sourced products influences consumer buying decisions (Ethical Consumer, 2018) and underpins the founder’s values, thus the ethical quality of the supply chain serves the market and the founder’s principles of doing business.

Increasingly, the reputational damage of being caught behaving unethically is one of the biggest threats to entrepreneurs and small firms and, yet, concealed unethical behaviour – coupled with the belief that this behaviour might not be discovered and then cannot be traced back to them – propels some entrepreneurs and small firm owner-managers to behave unethically. First, we discuss some types of unethical behaviour that entrepreneurs and the owners of small firms may engage in based on a review of the relevant literature. Second, we explore how these types of unethical practices can conflict with – or, in some circumstances, even contribute to – the profits and performance of small firms.

Academic literature has been abuzz with studies of the business ethics of entrepreneurs and/ or small firms (see Table 9.3 for a summary of some key articles).

Table 9.4 How the case studies consider the six sustainable business principles

Case study/ sustainable business principle	9.1 Gudrun Siödén	9.2 Faber- Castell	9.3 Localise West	9.4 Conygree Farm
Alertness	X	X	X	X
Responsibility	X	X	X	X
Resourceful impact	X	(X)	X	X
Interconnectedness	X		X	X
Co-creation	X	X	X	(X)

Indeed, Longenecker et al. (1989, p. 27) observed that: ‘one might ... expect to find differences in the ethical environment, ethical precepts, and ethical perceptions in small businesses’, i.e. vis-à-vis larger firms. A common consensus is, therefore, that the issues of business ethics faced by entrepreneurs are *unique* and distinctive (Hannafey, 2003). Bucar and Hisrich (2001), comparing the ethical attitudes and standards of entrepreneurs and managers, found that entrepreneurs were more ethical on account of their ownership and risk taking and also because they had more to lose from adopting unethical practices. Teal and Carroll (1999) similarly found entrepreneurs to have moral-reasoning processes that exceeded those of middle managers. Indeed, Carr (2003, p. 7), for example, claims that entrepreneurship and small firm ownership ‘is by its very nature ethical’ through ‘advocating a particular way by which one should live one’s life or ... presenting an account of how a small business should be owned, nurtured and developed’.

Others have reported on the important role of social networks in various business sectors (Janjuha-Jivraj, 2003; Spence et al., 2003), with social networks further enabling SMEs to become more competitive by adopting ethical practices (Fuller and Tian, 2006). Revisiting Chapter 5 on different forms of capital, it might be worth exploring how these networks, contacts and connections can – through social influence – help to make entrepreneurs and their small firms more ethical. Similarly, the role of trust and reputation cannot be overestimated. How ethics and performance are linked was illustrated in one large study. This found that ethical issues between small firm owner-managers and their customers and employees were largely contractual or regulatory in nature (Vitell et al., 2000). While business owners’ perceptions of ethics have been explored (Fassin et al., 2011) and Harris et al.’s (2009) review of ethics and entrepreneurship propose three themes (entrepreneurial ethics; social entrepreneurship and entrepreneurship and society), Graafland et al. (2003) found that both small and large firms sought to ensure ethical practices but, although these differed based on firm size, nonetheless they encouraged their employees to behave ethically.

A conflict exists within smaller firms. On the one hand, they are often ethical from inception but, on the other hand, they have limits to their ethical practice due to their small size (Lepoutre and Heene,

2006). Indeed, Longenecker et al. (2006), who compared small and large firms, found owner-managers of smaller firms to be less ethical in 1993, but equally as (un)ethical as large firms in 1985 and 2001. Friends, family and employees have also been found to be key actors in smaller firms behaving more ethically than in more impersonal and larger firms (Spence and Lozano, 2000). As Fassin (2005, p. 265) has suggested, this aspect applies across all management practices, that is; 'ethical management should not be confined to the large strategic issues but also applied to the small practical matters of everyday business life. This reinforces the importance of employees in ensuring that the entrepreneurial small firm is ethical in its behaviour, not just in the strategies or policies that the senior management team claims to believe in. So, the entrepreneur's beliefs (values, ethics) about what is morally right and what is not, need to be converted into aligned and consistent behaviour by their employees – senior managers need to 'walk the talk'.

Entrepreneurial ethics is also an important concept, as popularized by Longenecker et al. (1988), who suggested that 'financial gain' may motivate entrepreneurs to make specific ethical choices due to egoism and other factors. Entrepreneurs, it has been noted, are rather self-centred, but that means, in some cases, they may behave unethically if they perceive a monetary reward. Conversely, others may not be motivated to behave unethically to achieve such an outcome, preferring instead to 'do the right thing'. Indeed, entrepreneurial ethics varies across cultures because of varying normative behaviours and standards (Bucar et al., 2003).

Several pristine examples of culture-specific entrepreneurial ethics are contained in the strong moral and ethical codes practised in business in the Arabian Gulf and in their effect on women entrepreneurs in these societies (Tlaiss, 2015). They include the following ethical guides in this region; 'well-being (*falah*) in their life ... excellence (*itqan*) in their work.' The role of Islamic moral frameworks in the entrepreneurial process (e.g. Graafland et al., 2006; Gümüşay, 2015) and nature-based entrepreneurs (Lahdesmaki, 2005), who are concerned about matters such as sustainability, quality, pricing, accurate marketing, treating employees well and collaboration, has also been explored. Furthermore, ethical dilemmas may arise for such entrepreneurs, but judgement is required to decide how to behave when encountering novel scenarios which they have not previously experienced (Robinson et al., 2007). Brenkert (2009, pp. 448) goes further by stating what he describes as the 'rule

model of entrepreneurial ethics' and proposing that, in the context of 'rule breaking', which he claims entrepreneurs frequently do, 'certain instances of rule breaking, even if morally wrong, are nevertheless ethically acceptable and part of the creative destruction that entrepreneurs bring not only to the economy but also to morality'. That, by implication, might excuse the entrepreneurs who have founded gig economy apps like Uber and Deliveroo and crowdsourcing platforms, such as Amazon Mechanical Turk.

One example, however, of entrepreneurs as rulebreakers *within* organizations, that has been legitimized, is the corporate entrepreneur who is prepared to break rules, but must aim to do so ethically, i.e. whilst adhering to organizational 'compliance and values' (Kuratko and Goldsby, 2004). Several important examples of more ethical entrepreneurial practices are fairtrade, whose influence and role were discussed earlier (Wempe, 2005; Davies and Doherty, 2018), ethnic minority businesses (Ede et al., 2000) and how women entrepreneurs behave ethically, e.g. work–life balance or the work–family interface (Peris-Ortiz et al., 2012). Other authors support the notion that entrepreneurs are more ethical than managers in big businesses by arguing that the entrepreneurial qualities of 'imagination, creativity, novelty and sensitivity', or the 'spirit of entrepreneurship', also enable what is described as moral decision making (Buchholz and Rosenthal, 2005). The gig economy, therefore, is highly questionable in terms of the ethics of its business models because of the apparent exploitation, unfavourable terms and conditions and general treatment of its workers, who are themselves arguably misclassified as contractors when they are, in fact, largely dependent on the 'app' firm for any work that they may acquire. We suggest that readers apply the Business Model Cube ® introduced earlier in the chapter to some of these business models.

BUSINESS MODELS AND WAYS OF TRADING – APPLIED TO THE GIG ECONOMY

Business models can be innovated in different ways and one of those is through *gig work*: for example, the most common business model for a taxi firm is that self-employed drivers in London, hackney cabs, are licensed to collect passengers who hail them on the street. For the convenience they provide, they

can charge a premium price and achieve a competitive advantage over taxis who can only accept bookings and cannot just collect a passing passenger. The technology used by Uber, however, enables the self-employed taxi driver to receive real-time information about the location of a customer – in other words, the nearest taxi can collect them without breaking the taxi licensing law. This new competitive advantage over the hackney cab driver was created solely through the innovation of apps on mobile phones using Global Positioning Systems (GPS). While technology does enable Uber drivers to be more ‘efficient’ than other taxi drivers (Cramer and Krueger, 2016), they are disadvantaged in so many other ways due to their contractual status (Muntaner, 2018); and, indeed, Ahsan (2020) suggests that such firms essentially co-opt the ‘entrepreneurship’ concept for questionable employment practices.

The established hackney cab drivers, understandably, are irate (or, we might say, ‘hacked off’), because they have invested so much in purchasing their cabs and suddenly they face surprising and serious competitive rivalry. Furthermore, there is evidence of a resultant decline in the earnings of other taxi drivers (Berger et al., 2018). The authorities, indeed, often take a view supporting the incumbent hackney cab drivers because their lobby group is so strong. That approach often neglects to consider that the Uber drivers are numerous too and even more so are the very many customers who use the Uber app. Zwick (2018, p. 679), in a thorough critique of Uber, claims that the company is complicit in a ‘crowding out of middle-class employment by precarious “gigs” that lack legal protections and benefits’ by ‘(a) (mis)classifying workers, (b) engaging in regime shopping, and (c) employing the most economically vulnerable, rather than giving rise to a new world of work altogether’.

The three chief arguments against the gig economy are:

- regulatory
- regime shopping
- exploitation.

First, it is *regulatory* related, i.e. it is a business model which, although offering the same service as a non-gig business, treats its ‘contractors’ (e.g. taxi drivers or fast-food deliverers) as self-employed freelancers, or ‘misclassifying workers’ (Zwick, 2018). However, others claim that gig workers are

employees and should, therefore, be beneficiaries of paid holidays, sick pay, maternity leave and pensions. Second is the notion of *regime shopping*, which is more commonly employed by multinationals locating in countries with weaker labour market regulations. Third (and related to the second) is *exploitation*, as mentioned, and, yet, which can be contrasted (for example, as found by Burtch et al., 2018) with the employment opportunities offered to such marginalized individuals. Yet, it might be suggested that the gig economy offers a competitive advantage to the firm (or, some might say, to the ‘big’ entrepreneurs behind the app) because of its flexible, lower-cost workforce – having circumvented the rights of employees to reduce the cost of the service to customers and, therefore, the profit of the app founder/owners/shareholders. On the other hand, some apps are platforms (such as Airbnb) that are effectively high-tech versions of physical noticeboards where someone can pay to advertise their services. Yet, homeowners renting out their homes to guests is hardly exploitative, whereas delivering pizza or driving a cab without employment rights is considered by some to be so. The debate on the ethical dimensions of the gig economy rages on.

Building on the coverage of the gig economy and the Resource-Based View in Chapter 1, we consider what we know about gig work. The next time you use an app on your mobile phone to order a taxi, or a takeaway, take some time to talk to the gig worker and discover their story. For first-generation migrants with levels of human capital (i.e education and experience that are not acknowledged by the host country), we know that labour market opportunities in their host country are limited. Even for those migrant workers who do have a university education (from their home country, or even in the Western country in which they now live), their job opportunities may not be as lucrative as much of the resident population. So, in many ways, this aspect explains why many marginalized people of immigrant backgrounds (including those with high educational qualifications and experience that are not recognized in the supposedly open, liberal Western economy in which they are being exploited) have turned to the gig economy to earn a living.

One form of the gig economy is ‘crowdsourced’ and is referred to as ‘microwork’ or ‘micro-tasking’, being a form of digital outsourcing of specific tasks to individuals (Webster, 2016). Alarming, akin to declining to pay a restaurant bill, in the case of a crowdsourcing platform, such as

Amazon Mechanical Turk, the clients ('Requesters') can refuse payment to microtaskers ('Mechanical Turkers') if their work, or non-automatable, so-called 'Human Intelligence Tasks' (HITs), is deemed substandard, thus engaging in 'wage theft' (Silberman and Irani, 2016; Milland, 2017). There are, thus, serious issues of entrepreneurial ethics facing microtasking ventures.

It is, furthermore, increasingly apparent that people working for certain gig outfits, like many low-paid workers, are exploited (van Doorn, 2017), due to the nature of existing regulations (Leighton, 2016; Minter, 2017; Stewart and Stanford, 2017; Todolí-Signes, 2017) that did not anticipate such forms of digitally enabled work, in particular being categorized as a new type of worker, the 'precariat' (e.g. Healy et al., 2017). Politicians and others, who wish to ban the gig economy, often claim that they are cracking down on exploitation, while wearing clothing and consuming manufactured goods that are produced in low-wage economies by workers facing exploitation. Yet, economic growth and prosperity are achieved by exploiting workers; they receive financial capital in return. The real reason that Uber, for example, was banned in London was not exploitation, but rather the powerful lobbying activities of the established taxi firms. Similarly, Airbnb hosts face very restrictive local rules and regulations in San Francisco, New York and Berlin (with a temporary, now revoked in 2019, ban in the German city). In other words, the incumbent suppliers/producers may seek ways of suppressing potential competition, or it may be, for example, that local housing shortages cause politicians to bow to the pressures from their electorate by legislating.

Gig economy apps are an example of creative destruction par excellence. Yellow cab drivers in New York City notably pay 'big bucks' for their cab medallion (being one of only 13,587 licensed cabs), anticipating the lucrative payback from purchasing this right, but the value of these medallions has fallen significantly, from \$1.3m to around \$160,000, due to Uber and the like (Byrne, 2018). The yellow cab drivers clearly did not expect other cab drivers responding to an app on a mobile phone to poach their customers. The emergence of the gig economy as an alternative business model (Chapter 11), therefore, in which its workers (human resources – with their human capital) are 'misclassified' as freelancers/subcontractors, creates a major ethical conundrum here, not just for 'big' entrepreneurs who run technology unicorns which are private companies worth \$1 billion or more (Lee, 2013), such as Uber, but also for the 'little entrepreneurs', the freelancers themselves.

Case study 9.4: Conygree farm, the Cotswolds, uK

Background

Conygree Farm is a 73ha (180 acre) mixed farm in the heart of the Cotswolds Area of Outstanding Natural Beauty. Conygree is part of the UK National Trust's Sherborne Park Estate and the historic landscape of Lodge Park. National Trust is a UK charity owning vast areas of land and buildings for public benefit (www.nationaltrust.org.uk).

The word Conygree, meaning 'rabbit warren', first appeared in the parish of Aldsworth in 1571. Rabbits were farmed for their fur and meat by the Normans. In 1839 Conygree Farm held 146 acres and, like most of Aldsworth, was owned by Lord Sherborne. The existing Cotswold stone farmhouse and buildings date from the 19th century.

The land is hard to farm. The thin limestone soils can dry out in the summer and the open wold nature of the farm leaves the fields exposed and cold in winter. This restricts land use, but offers opportunities too, particularly for nature conservation.

Many farms in the area are now large, intensive arable units, while other farms have been turned into desirable residences and small hobby farms. When re-letting the holding in 2004 following the death of the previous tenant, the National Trust was keen to see the farm remain and develop as a traditional working farm, providing a range of environmental, social and economic outputs.

The farm today

Today, Conygree Farm is managed through a legal partnership by married couple, Jonathan and Mel Brunyee. Jonathan took on the farm business tenancy (FBT) in 2004, with Mel joining the partnership in 2011. The current tenancy lasts until 2034.

Jonathan and Mel keep 50 breeding sheep (rare-breed Cotswolds), 12 suckler cows (rare-breed Herefords) plus a few Old Spot pigs. All the meat is sold direct to local customers as a premium product. The couple also run a DIY horse livery and a new on-farm eco-events business.

The farm is organic, with the majority of the land being managed under an agri-environment agreement (Organic Entry Level Stewardship (OELS) and Higher-Level Stewardship (HLS)). The current agreement runs until 31 July 2020.

The farm management follows IFOAM's coordinate global standards (www.ifoam-eu.org) and works towards the Organic Farmers and Growers standards for the UK (<https://organic.org>). The farm is also certified by the Pasture Fed Livestock Association (www.pastureforlife.org).

Land use on the farm is currently:

- 40ha of species-rich permanent pasture (in HLS)
- 6ha of non-species-rich pasture (non HLS)
- 14ha of temporary herb and legume-rich ley (in HLS)
- 2ha of fallow for ground-nesting birds (in HLS)
- 2ha of flower-rich field margin (in HLS)
- 8ha of wild bird cover (in HLS)
- 1ha of buildings and track.

The flower-rich meadows, grass margins, drystone walls, hedges and fields of wild bird seed, fallow and nectar-rich ley offer space for wildlife, particularly pollinating insects and farmland birds such as corn bunting, lapwing and skylark.

The farm has a very diverse income mix. The main income streams in 2018/19 were events (weddings, education visits), sales of organic and pasture-fed meat (lamb, beef, pork), wool, rental of stables and paddocks for horses and EU subsidy and environmental scheme income (which make up nearly 50% of turnover).

In 2020, two new ventures selling honey and organic fruit and vegetables, were launched, operating as joint ventures with other rural entrepreneurs.

Farm business management

The farm was initially let as a part-time unit, but, when all management, agricultural, conservation, maintenance and on-farm diversification and marketing tasks are considered, it is effectively a full-time business, employing one full-time equivalent (FTE) person plus contract and casual labour. The labour input required is, on average:

- Jonathan and Mel Brunyee – five days a week (all tasks)
- Casual work – one day a week (maintenance, walling, livestock cover)
- Contractors – six days/year (hay making, shearing, hedge cutting and cultivations).

The farm is profitable, making £25k profit from a turnover of nearly £100K in 2018/19. It is a viable and resilient farm business in that:

- income exceeds expenditure
- profit levels cover own labour (one FTE), leaving a surplus for contingency and reinvestment
- there is scope to develop profitability through further diversification
- more diverse income streams and new joint ventures are planned to help reduce the reliance on farm subsidies and EU support.

Awards won

Jonathan and Mel have won several National Trust Fine Farm Produce awards since 2013 for their beef, lamb, mutton and hogget. In 2017, they won the prestigious National Trust Farming with Nature Award.

Sustainability

The following statement summarizes the owners' commitment to sustainability:

We focus on low input, but premium output based on organic, high welfare, agroecological and Pasture Fed principles. We value our natural capital and our business draws from this – seeking to be regenerative and not depletive.

The social impact is through the development of new joint ventures and the provision of casual and contract work. Access and educational opportunities are other important social outputs. The provision of wider public goods – a quality landscape, biodiversity value and carbon sequestration activities, and so on – are also of benefit to the local community and to society.

Economic and spatial impact is achieved through sourcing from local suppliers in a 30-mile radius, suppliers who share the farm's sustainability ethos. Meat customer reach is mainly local, again within a 30-mile-radius. The owners have stopped using couriers for nationwide delivery, preferring to focus on local supply chains and low food miles.

Discussion questions

1. Check Table 9.3 and discuss how and why Conygree Farm is meeting all sustainability principles (Hill, 2016).
2. How does this case study illustrate the importance of ethical management practices for farming entrepreneurs?

Policy Issue: Guiding/regulating business behaviour in society – the role of government

Most significantly, governments can play a leading role and lead by example in putting legislation in place that encourages businesses to consider and realize local impact (social, spatial and environmental, in particular), and thus encourage more sustainable business behaviour. There is plenty of environmental legislation about health and safety. However, regarding social impact or social value, there has been rather little. The UK has been at the forefront of addressing the social impact of business formally; in January 2013, a law came into force that encourages all suppliers to government organizations to demonstrate social value – The Public Services Act (often called The Social Value Act).

Loosely, there are European Union (EU) regulations stating that businesses should act socially responsibly, which co-opts the term 'responsible business conduct' (RBC) that was developed by the Organization for Economic Co-operation and Development (OECD) in collaboration with business,

trade unions and non-governmental organizations (OECD, 2018). Regarding the use of enforced labour in international supply chains, the UK has proposed and implemented the Modern Slavery Act 2015,¹² which addresses forms of compulsory labour and human trafficking in supply chains.¹³ However, three years after its implementation, too few companies have reported on their supply chain and the government has too little administrative force to check the accuracy of what is reported. Australia's federal government followed by introducing its own Modern Slavery Act in November 2018.¹⁴

Discussion questions

1. In separate groups, make the case for and against policy interventions in business behaviour.
2. Can policy makers act independently in this regard?

SUMMARY AND REVIEW

This chapter has explored what we mean by business ethics, corporate social responsibility, sustainability and sustainable development in the context of entrepreneurship and small business.

A sustainable business is regarded as the outcome of particular ways of trading. Indeed, Hill (2016) identifies the sustainable start-up as the new venture for which the founder(s) can decide freely if and when to close the venture without being forced to do so, illustrated in the Business Model Cube[®].

Applying six principles and associated practices to doing business are introduced as analytical tools to unpack how businesses trade. These components are: frameworks; business processes; financial circuits; customer focus; strategy; and evaluation. They are brought together in the business model cube (R) (Hill, 2016) and the six principles with associated practices help to realize each of the sustainable outcomes. These are alertness, responsibility, resourceful impact, interconnectedness, co-creation, and seeking sustainability. These six areas need to be aligned to create and maintain a sustainable business. Four case studies illustrate the types of sustainable trading that apply these principles.

We next considered the role of business ethics and its significance and then considered ethical trading by companies. In further exploring business ethics, we introduced and explicated (un) ethical business models and then explained CSR practices and wondered whether they are even relevant to SMEs and entrepreneurs. Subsequently, the chapter considered whether there is any tension between business ethics and profit and explored how being unethical could damage a small firm's or entrepreneur's reputation. We discussed some types of unethical behaviour that entrepreneurs and the owners of small firms may engage in and how these types of unethical practice may conflict with or perhaps contribute to the profits and performance of small firms. The gig economy illustrated these issues of business ethics and Islamic moral frameworks were key exemplars of ethical business practices.

We started and concluded the chapter with some examples of ethical business models.

RECOMMENDED READING

Kopnina, H. and Blewitt, J. (2018) *Sustainable Business: Key issues in environment and sustainability*, 2nd edn. Abingdon-on-Thames: Routledge.

Morrison, J. (2015) *Business Ethics: New challenges in a globalised world*. London: Palgrave/Macmillan.

Schaltegger, S. and Burritt, R. (2018) 'Business cases and corporate engagement with sustainability: Differentiating ethical motivations', *Journal of Business Ethics*, vol. 147, no. 2, pp. 241–259.

Short articles

McPherson, S. (2019) 'Corporate responsibility: What to expect in 2019'. www.forbes.com/sites/susanmcpherson/2019/01/14/corporate-responsibility-what-to-expect-in-2019/#58f00337690f. Accessed 25 April 2020.

This article, published by Forbes, discusses an expert's view on key themes in trends in CSR for 2019, published annually.

Zapulla, A. (2019) 'The future of business? Purpose, not just profit'. www.weforum.org/agenda/2019/01/why-businesses-must-be-driven-by-purpose-as-well-as-profits. Accessed 25 April 2020.

A short article on how millennials see the purpose of business and regard business leaders and NGO leaders and their impact on society.

Videos

Fairtrade Foundation has its own YouTube channel which is worth checking out: www.youtube.com/user/Fairtradefoundation. Accessed 25 April 2020.

TED talk: Wendy Woods (2017) 'The business benefits of doing good'. (Woods is a senior partner and managing director of The Boston Consulting Group): www.ted.com/talks/wendy_woods_the_business_benefits_of_doing_good. Accessed 25 April 2020.

SUGGESTED ASSIGNMENTS

Activity 1: Learn about fairtrade cotton

Study the story of fairtrade cotton (see the link for Fairtrade above) 'Where in the UK can you buy products made of fairtrade cotton?'¹⁵

Activity 2: united nations' sustainable development Goals

Go to the website of the United Nations (www.undp.org) and research the sustainable development goals.

Questions

1. Do they address any of the topics we discussed in this chapter? Where is there an overlap?

2. Do they address additional topics for business behaviour? Which ones? Summarize these and turn them into an action plan for business. What should/could businesses do to meet these goals?

NOTES

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5. See interview: Gudrun Sjöden (2013) <https://gsw.gudrunsjoden.com/uk/gudruns-world/35-years-anniversary>. Accessed 25 April 2020.
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11. www.fairtrade.org.uk/What-is-Fairtrade. Accessed 25 April 2020.

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13. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/649906/Transparency_in_Supply_Chains_A_Practical_Guide_2017.pdf. Accessed 25 April 2020.
14. www.legislation.gov.au/Details/C2018A00153. Accessed 25 April 2020.
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