

Financial Gain or Ethical Erosion? A Case Study in Entrepreneurial Ethics

Kelly G. Manix, Ralph I. Williams, Jr., and Daniel Morrell

Middle Tennessee State University, USA

Abstract. The purpose of this fictional¹ case is to engage students in analyzing the ethical complexities that can arise in entrepreneurial business opportunities, particularly when financial concerns conflict with moral obligations. By evaluating leadership decisions to potentially default on payables owed to a loyal vendor during an acquisition, this case challenges students to identify ethical dilemmas, apply relevant ethical theories, assess impacts on stakeholders, and explore and identify alternative courses of action. In addition, students are tasked with considering how leadership choices may impact the firm's ethical climate. The case seeks to facilitate critical thinking about how business leaders can uphold and maintain ethical standards while pursuing financial gain.

Keywords: ethical decision-making, entrepreneurship, strategic acquisitions, ethical dilemmas.

1. Introduction

Strategic acquisitions may provide entrepreneurial firms significant opportunities to grow and build a sustainable competitive advantage. Firms may use acquisitions to consolidate resources, boost innovation, and reduce liabilities.² Increasingly, entrepreneurship-through-acquisition is recognized as a meaningful strategy toward entrepreneurial capacity and business renewal.³ This is partly due

-
1. One of this case study's coauthors was the president of a printing company that had a major book customer get acquired. The entity that acquired the book company strongly considered defaulting on its outstanding bills to the printing company. Therefore, this case study originated from an actual incident. However, we apply the word "fictional" in the abstract because we embellished the story to better apply to ethics theory.
 2. Conrads, J., Heinzen, M., & Baum, M. (2023). Reconfiguring resources for strategic posture: Changes of entrepreneurial orientation through acquisition. *Journal of Open Innovation: Technology, Market, and Complexity*, 9(3), 100135; Madhok, A. & Keyhani, M. (2012). Acquisitions as entrepreneurship: Asymmetries, opportunities, and the internationalization of multinationals from emerging economies. *Global Strategy Journal*, 2(1), 26-40.
 3. Hoffmann, A., Kanbach, D. K., & Stubner, S. (2023). Entrepreneurship through acquisition: a scoping review. *Management Review Quarterly*, 1-32; Hunt, R. A. & Fund, B. (2012). Reassessing the practical and theoretical influence of entrepreneurship through acquisition. *The Journal of Entrepreneurial Finance (JEF)*, 16(1), 29-56.

This shortened version of the article is for promotional purposes on publicly accessible databases.

Readers who wish to obtain the full text version of the article can order it via the url

<https://www.neilsonjournals.com/JBEE/abstractjbee22compass.html>

Any enquiries, please contact the Publishing Editor, Peter Neilson pneilson@neilsonjournals.com

© NeilsonJournals Publishing 2025.

to the advantages offered through diversification, complementary capabilities, economies of scale, or streamlining inefficiencies, to name a few. Overall, strategic acquisitions are a potentially powerful tool for entrepreneurial growth and competitive positioning.

Acquisitions often require rapid decision-making in uncertain conditions with the added pressures of high personal stakes and limited resources,⁴ creating situations that may entice entrepreneurs to act unethically.⁵ The interaction of entrepreneurs' personalities and the environment, and conflicting internal and external motivators such as internal locus of control and a high need for achievement, can form highly complex ethical dilemmas for entrepreneurs.⁶ Yet, research suggests that ethical practices improve small and medium-sized enterprises' performance and sustainability of through enhanced reputation, customer loyalty, and competitiveness,⁷ making ethical awareness central to firm success and endurance.

2. Case Narrative

Jon, Rick, and Beth formed a professional partnership while pursuing their MBA degrees together. During their graduate studies, the trio developed a business plan to acquire and revitalize underperforming companies. Following graduation, they established Compass Inc., through which they acquired several distressed firms, either transforming them into profitable "cash cows" or divesting them for substantial returns. Compass Inc. largely attributed its success to the complementary strengths of its founders, spanning marketing, finance, and strategic management, which enabled them to identify areas for operational improvements and execute effective turnarounds. While Compass Inc. has achieved strong financial success, its track record revealed a pattern of ethical

-
4. Chau, L. L. F. & Siu, W. S. (2000). Ethical decision-making in corporate entrepreneurial organizations. *Journal of Business Ethics*, 23, 365-375; McCormick, M., Buttrick, H., & McGowan, R. (2018). Ethics of Entrepreneurship: Should We Be Teaching Students the Inevitable Moral Dilemmas That Challenge All Entrepreneurs?. *Journal of Learning in Higher Education*, 14(1), 29-36.
 5. Brenkert, G. G. (2009). Innovation, rule breaking and the ethics of entrepreneurship. *Journal of Business Venturing*, 24(5), 448-464; Hanson, K. O. (2015, November 23). The Ethical Challenges Facing Entrepreneurs. *Wall Street Journal*. <https://www.wsj.com/articles/the-ethical-challenges-facing-entrepreneurs-1448247600>
 6. Steinbauer, R., Rhew, N. D., Kinnamon, E., & Fabian, F. (2014). The conflicting drivers of entrepreneurial ethics. *Journal of Ethics and Entrepreneurship*, 4(1), 57-72.
 7. Dzomonda, O. & Fatoki, O. (2017). The Impact of Ethical Practices on the Performance of Small and Medium Enterprises in South Africa. *Journal of Economics and Behavioral Studies*, 9, 209-218; Lawrence, S. R., Collins, E., Pavlovich, K., & Arunachalam, M. (2006). Sustainability Practices of SMEs: the Case of NZ. *Business Strategy and The Environment*, 15, 242-257; Turyakira, P. (2018). Ethical practices of small and medium-sized enterprises in developing countries: Literature analysis. *South African Journal of Economic and Management Sciences*, 21, 7.