THE UNIQUE VULNERABILITIES OF ENTREPRENEURIAL VENTURES TO MISCONDUCT

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FORTHCOMING IN RESEARCH IN THE SOCIOLOGY OF ORGANIZATIONS

ABSTRACT

Entrepreneurs and their ventures are often portrayed as unambiguously positive forces in society. Specifically, high technology and equity-funded startups are heralded for their innovative products and services that are believed to alter the economic, social, and even political fabric of life in advantageous ways. This chapter draws on established theory on the causes of misconduct in and by organizations to elaborate the factors that can give rise to misconduct in entrepreneurial ventures, illustrating our arguments with case material on both widely known and less well-known instances of entrepreneurial misconduct. In venturing into the dark side of entrepreneurship, we hope to contribute to theory on entrepreneurship and organizational misconduct, augment entrepreneurship pedagogy, and offer ideas and examples that can enhance entrepreneurs' awareness of their susceptibility to wrongdoing.

INTRODUCTION

Entrepreneurial ventures and their founders have assumed critical roles in capitalist societies. These ventures, also known as "startups," have spearheaded technological innovation, generated millions of jobs, and created trillions of dollars in stockholder value; in some instances, evolving to dominate the industries in which they are situated. Successful founders have amassed great wealth; in some cases, even acquiring celebrity status. Indeed, entrepreneurship is seen as an important way, in some eyes the most effective way, to address a vast array of social problems (c.f., Bruton, Ketchen, and Ireland 2013; Jones et. al., 2016; Zhao and Wry 2016; but see Acs et. al. 2016). As a consequence, startups and their founders have attracted the attention and imagination of academic researchers, college, secondary, and even grammar school educators, journalists, and the public at large.

Yet, startups and their founders' have suffered dents to their images over the past decade. A good number of startups have been accused of committing a range of unsavory behaviors. Elizabeth Holmes founded Theranos to develop a home blood testing machine that could conduct over one hundred tests on a single drop of blood, sparing needle-phobic patients the ordeal of a standard blood draw. But in 2015 suspicions arose about the firm's showcase technology, the Edison. Later, with the aid of whistleblowers, the technology was determined to be entirely fictious, in the parlance of the industry known as "vaporware," and Holmes was convicted of conspiracy and wire fraud (Carreyrou, 2018). In another instance, Elon Musk, founder of sustainable transport startup Tesla, faced fraud charges brought by the U.S. Securities and Exchange Commission (SEC) over a tweet in which he falsely claimed his intention to delist the venture from the NASDAQ stock exchange, producing an immediate jump in the firm's share price (U.S. Securities and Exchange Commission, 2018). Concerningly, these are not isolated cases. Other high-profile startups such as WeWork and many less well-known ventures such as Ubiome, Just Mayo, Nikola and others that we will discuss in this chapter have similarly been plagued by misconduct.

We draw on existing scholarship on the causes of misconduct in and by organizations to develop a preliminary analysis of misconduct in entrepreneurial ventures. A key insight of misconduct research is that wrongdoing is a normal phenomenon, in that it is prevalent and a product of

organizational structures that processes that are inherent in formal organization (Palmer 2013). While the urge is strong to consider entrepreneurial misconduct as an abnormal phenomenon, casting firms such as Theranos et al. as outliers, we argue that misconduct in and by entrepreneurial ventures is also normal; that is, prevalent and a function of structures and processes inherent in entrepreneurship. As such, it requires scholarly and practitioner attention.

In this chapter, we aspire to make three contributions. First, we seek to advance theory on entrepreneurship and on misconduct in and by organizations. Existing theories on entrepreneurship largely focuses on its positive aspects, concerned first-and-foremost with venture performance and its success. We begin to show how distinctive features of entrepreneurial ventures constitute vulnerabilities that produce misconduct. Existing theory on organizational wrongdoing focuses on large, established, professionally managed enterprises. We extend this theory into the domain of small, nascent, and founder managed ventures. Second, we provide theoretical arguments and highlight real world examples that can be used to expand the scope of pedagogy and research which to date focuses primarily on individual-level ethics and morality (Byers 2020; Shepherd, Patzelt and Baron 2012; Shepherd 2019). Third, we provide entrepreneurs with an awareness and outlook that can help them stay on the right side of the line separating right from wrong.

This chapter proceeds as follows. First, we delineate the type of entrepreneurial ventures and misconduct that this chapter focuses on. Second, we elaborate and apply known causes of misconduct in and by organizations to contemporary cases of entrepreneurial misconduct. Finally, we summarize our main arguments, indicate their shortcomings, and offer suggestions for future research.

ENTREPRENEURIAL VENTURES AND MISCONDUCT

The Entrepreneurial Ventures on Which We Focus

We focus on a subset of entrepreneurial ventures that are: 1) nascent (i.e., less than 10 years old at the time of misconduct), 2) primarily owned and controlled by their founders, who typically occupy the positions of chief executive officer and chairperson of the board of directors, 3) for-

profit enterprises, although they may generate no revenue or operate at a loss, 4) risk-capital financed, with the objective of "going public" or becoming acquired, and 5) innovative in regards to the technologies they commercialize or the business models they experiment with (Hsu 2008; Beckman, Eisenhardt, Meyer and Rajagopalan 2012). We focus on this subset of entrepreneurial ventures because it is the subset of ventures upon which scholars, educators, commentators, and the public focus most of their attention (Aldrich 2019).[1]

The Misconduct in and by Organizations on Which We Focus

For the purpose of this analysis, we primarily focus on behavior that provokes formally constituted social control agents to investigate, indict, convict, and punish organizations or their participants. Such behaviors include wire fraud, scientific fraud, data fraud, performance and product misrepresentation, sexual harassment and assault, wage theft, and anti-competitive practices, among others. Formally constituted social control agents are organizations that are established for the purpose of policing organizations and organizational participant behavior and are recognized by the organizations and organizational participants they police as legitimate (albeit not always fair) adjudicators of their innocence or guilt. These organizations include professional associations, such as the American Institute of Certified Public Accountants, governmental bodies, such as the Securities and Exchange Commission, and law enforcement agencies, such as the United States Justice Department (Greve, Palmer, and Pozner 2010; Palmer 2013).

Focusing on behaviors that provoke reactions from formally constituted social control agents has advantages, the most important of which is that it renders the identification of misconduct an empirical exercise. Consequently, it frees us from the necessity of engaging in repeated theoretical or philosophical discussion about whether particular behaviors do or do not constitute wrongdoing. Many of the startups discussed in this chapter engaged in misconduct as defined in

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[1] We do not focus on ventures that possess two or even three of the above characteristics and have been the locus of high-profile misconduct. For example, we do not focus on established, management controlled, bank-financed, high-tech firms such as Hewlett Packard, which was the subject of a high profile "pretexting" scandal. Similarly, we do not focus on founder controlled, high technology firms that were risk capital financed, but have aged and grown to become established firms that dominate their industries such as Amazon, Google, and Facebook, each of which has been the locus of its own high-profile scandal.

the above way. But limiting our focus to behavior that provokes response from formally constituted social control agents has three significant disadvantages when studying misconduct in and by entrepreneurial ventures.

First, entrepreneurial ventures typically have short life spans and thus often do not survive long enough for any objectionable behavior they or their members perpetrate to come to the attention of formally constituted social control agents. For example, Planswell was founded in 2016 to offer free online financial planning services. But in 2019, on the verge of securing a $20 million risk capital investment, the Canadian fintech startup became the subject of a former employee's highly publicized sexual harassment allegations. The allegations led to investors' divestment and the firm's demise, despite the fact that the allegations were never litigated (Soltys 2019). Similarly, the promising Chinese autonomous vehicle startup Roadstar.ai collapsed following an investor revolt in the wake of misconduct allegations leveled first against the venture's Chief Scientist and later against its Chief Strategy Officer and CEO, without a formal investigation of any government agency (Nan 2019).

Second, startups are private entities and thus are largely exempted from the scrutiny to which public organizations are subjected. For example, WeWork was founded in 2010 to develop communal workspaces for firms that could not afford their own, independent rental spaces. The firm's founder, Adam Neumann, engaged in excessive spending, self-dealing, and misrepresentation of the company's performance for much of the startup's early life. But his behavior only came to the attention of social control agents in 2019 when the venture filed documents in advance of its bid to go public (Eavis and de la Merced, 2019; Stoller 2019). Entrepreneurial ventures' insulation from scrutiny is bolstered by their recent tendency to stay private longer, pursuing additional rounds of Series D, E and F investments, which reduces their rate of going public (Davis 2016, Joint Venure 2020).

Third, startups often inadvertently or intentionally occupy legal grey zones, gaps in the terrain patrolled by formally constituted social control agents. For example, Robert Boback founded Triversa in 2004 to meet the security needs of firms that experienced increasingly frequent data breaches and leaks. Boback published breached and leaked data on the "Deep Web" or "Dark

Net" and then contacted the data owners to offer his venture's risk management services; sometimes exaggerating potential clients' risk and sometimes subtly threatening to spread the data to a wider audience if the companies did not contract with Triversa. While the Federal Trade Commission (FTC) has long policed this exploitative marketing strategy, known as "fear, uncertainty, and doubt" (FUD), in non-internet businesses, it had little capacity and authority to police the strategy in the digital marketplace. As a result, the FTC not only failed to investigate Triversa's use of FUD but became an unwitting accomplice of the firm's misconduct. While the Justice Department eventually opened a criminal investigation of Boback, it ultimately dropped its inquiry, partly because Trivera's marketing practices fell into a still grey legal area (Khatchadourian 2019).

For these three reasons, we expand our primary focus to include behavior that provokes extensive negative media coverage of the type associated with scandals (Graffin et al. 2015). In most cases, such behavior would provoke a reaction from formally constituted social control agents if they knew of the behavior or if they had the time and attention to develop programs to address it.

EIGHT THEORIZED CAUSES OF ORGANIZATIONAL MISCONDUCT

1. Performance Strain

Performance strain is among the most often theorized causes of misconduct in and by organizations. Organizational actors experience strain when they possess a strong desire to achieve an objective but are unable to achieve it through legitimate means. For this reason, performance strain is sometimes referred to as "blocked aspirations." When organizational actors experience strain, they are inclined to use illegitimate means to pursue their objectives. Scholars have invoked this theory to explain misconduct at the organizational level (Staw and Szwajkowski 1975; Simpson 1986; McKendall and Wagner 1997) and the individual levels of analysis (Palmer and Yenkey 2015). Journalists and commentators frequently invoke strain theory to explain specific instances of misconduct (Gumbel, 2004; Timmons and Wassener 2009).

We propose that entrepreneurs are particularly likely to experience performance strain for two reasons. First, they possess a particularly strong desire to achieve their business objectives. Entrepreneurs are often characterized as possessing extraordinary passion for and optimism about achieving their objectives (Cardon, Wincent, Singh, and Drnovsek 2009; Amore, Garofalo, Martin-Sanchez 2020; Ho & Pollack 2014)). This might be because they view their ventures as expressions and extensions of their personal identities (Powell and Baker 2014; Fauchart and Gruber 2011). For example, Elizabeth Holmes founded Theranos to develop a way for people like herself, who possessed a deathly fear of needles, to obtain crucial diagnostic tests without subjecting themselves to standard blood draws (Carreyrou 2018). Similarly, Adam Neumann founded WeWork to advance his unique version of new age philosophy (Chozick 2019).

Further, entrepreneurs are typically advised to self-invest and show “skin in the game” by resourcing their early operations partly with their own investments (i.e., private savings, debt and time) and partly from close ties in their social networks (i.e., financial and human resources from friends and friends of friends) (Aldrich & Ruef, 2006). Fostering socially embedded and affective relationships may not just be conducive to attracting critical resources early on, leading to venture growth (Huang and Knight 2017), but may also lock entrepreneurs into consequential relationships that make them reluctant to disappoint those around them.

Second, entrepreneurs are likely to struggle to achieve their objectives. The founders of the enterprises upon which we focus tend to operate under conditions of extreme uncertainty, entering or creating new industries, developing new technologies, in the absence of organizing blueprints. Their difficulties are in part compounded by investors’ exponential growth, so called blitz-scaling expectations (Hoffman & Yeh 2018), and in part by their own aspirations, anchored in hypothetical and anticipatory claims about distant futures (Garud, Schildt and Lant 2014; Mische 2009; Wood, Bakker and Fisher 2021). Importantly, such expectations and aspirations when articulated in pitches are not symbolic in nature but become performance goals, against which entrepreneurs and their ventures are evaluated (Garud, Gehmanand Tharchen 2017). For example, Elizabeth Holmes founded Theranos to develop a blood analysis device that could conduct over one hundred highly reliable tests on a single drop of blood, a goal that became the endpoint of the yardstick used to evaluate her and her venture’s performance (Carreyrou 2018).

Taken together, we suggest that entrepreneurs experience increasing performance strain when they strongly identify with their venture, are deeply invested in their venture and when the venture's actual performance fails to meet projected performance goals. Performance strain makes entrepreneurs vulnerable to two types of misconduct. On the one hand, entrepreneurs engage in performance enhancing misconduct, in which they employ fraudulent means to obtain their performance goals. For example, whistleblowers reported that Theranos manipulated results of the Edison and when Theranos failed to realize its technology in time to fulfill its contractual agreement with Walgreens, the founders employed commercially available blood analyzers to conduct these blood tests (Carreyrou 2018). Similarly, when the startup Ubiome struggled to develop its technology for analyzing the micro-organisms populatint adult human gastrointestinal tracts, the executive team endorsed a shortcut that entailed substituting the analysis of adult human feces with the analysis of infant and pet feces. What is more, when Ubiome's sales did not meet financial projections, top managers pressured contracted doctors to order tests that patients did not need, double-billing patients (Brodwin et. al., 2019). On the other hand, entrepreneurs can engage in performance misrepresenting misconduct, in which they employ fraudulent means to represent their goal attainment. For example, when the startup Just Mayo failed to meet sales projections to attract a new round of investment, its founder Josh Tetrick instructed employees to buy cases of the startup's vegan mayonnaise off of grocery store shelves, inflating the company's sales figures (Zaleski, Waldman, and Huet, 2016; Bercovici 2017).

2. Perverse Incentives

Organizational misconduct also has been attributed to perverse incentives. Organizational participants tend to be formally rational; that is, they tend to engage in behaviors that simultaneously maximize benefits and minimize costs. When incentives are well aligned, they give rise to stable work relationships that allow organizations to function efficiently and effectively. But when the projected benefits of wrongdoing outweigh the anticipated costs (which are a function of the likelihood of detection and the magnitude of associated punishments), organizational participants have an incentive to engage in misconduct (c.f., Becker 1968). More specifically, agency theorists argue that top managers have an incentive to engage in self-serving misconduct (e.g., the misappropriation of funds) if they are not major

stockholders of their firm, in which case their interests diverge from the interests of the firm's stockholders, which are linked to their firms' long-term welfare. Agency theorists assert, though, that top managers' incentive to engage in misconduct is held in check when the firm's stock is concentrated in the hands of a few individuals or institutions and/or the firm is overseen by an independent board of directors, both of which are capable of monitoring and disciplining top managers' parochial errant behavior (Fama 1980; Fama and Jensen 1983).

Insofar as entrepreneurs are principal owners of their ventures, they should have little incentive to engage in self-serving misconduct that can harm their firms' long-term welfare (Garg 2013). But we propose that some types of entrepreneurs face unique cost-benefit tradeoffs that can motivate misconduct. Specifically, serial entrepreneurs can be prone to misconduct as they tend to prefer starting up ventures over their long-term management. For example, research has shown that vulnerabilities may arise once entrepreneurs begin to disengage from their venture (Rouse 2016) and once entrepreneurs found a start-up in a new industry after venture failure (Eggers and Song 2015).

Consider the example of Trevor Milton who founded a series of ventures, each of which he fraudulently portrayed as more valuable than they were in actuality, each of which he either subsequently sold or passed control to others at a profit, and some of which he exploited for personal gain. Most famously, after founding several businesses under the radar of media scrutiny (an ADT alarm company franchise, a classified-ad website called uPillar, and a natural gas diesel fuel truck company called dHybrid), he founded the hydrogen fuel cell startup Nikola. After achieving "unicorn" status, Milton reportedly extracted loans and cash from the startup and its investors sufficient to purchase a $2.15 million home, a $32 million ranch, and three private planes (including a Gulfstream G-V jet). Milton then exited the venture after its initial public offering when a short seller revealed its fraudulent character, leaving with an estimated $94 million. The startup, which is currently under investigation by the Department of Justice and the SEC, continues to exist, yet has lost several high-level partnerships and now trades at a fraction of its former stock market value (Foldy, Colias, and Naughton 2020).

In addition, we propose that vulnerabilities to entrepreneurial misconduct increase when ventures begin to raise large investment rounds for which no public accountability and hence formal oversight exists. Over the past decade, the ticket size of investments have greatly increased (Joint Venture, 2020), often driven by intensive capital requirements to fund high-growth aspirations and fueled by capital providers' abnormal return expectations. This phenomenon was covered in a recent *The New Yorker* article which referenced the case of Jeremy Neuner, the founder of NextSpace, an early entrant to the co-working real estate industry that embraced a similar business model as WeWork but who aspired to smaller financial projections. The author problematized the role of venture capitalists in the contemporary investor-entrepreneur dynamic by stating:

> "Venture capitalists began telling Jeremy Neuner that making piddly investments in his company wasn't worth their time ... To Neuner, this seemed nuts. He was building a solid business, but the V.C.s wanted fantasy. "All we needed was five million dollars a year in revenues, and we would have made money for everyone," he told me. "That's enough to earn a living and buy a house and put your kids through school. But no one wanted something that just made a healthy living. They all wanted to find the next Zuckerberg." Neuner was frustrated, but he wasn't surprised. He knew that American history was filled with entrepreneurs like P. T. Barnum, Walt Disney, and Charles Ponzi, self-promoters whose audaciousness created new industries and vast riches—and who, occasionally, ended up in jail. What Neuner hadn't realized was that some venture capitalists had become co-conspirators with such hype artists, handing them millions of dollars and encouraging their worst tendencies, in the hope that one lucky wager would more than offset many bad bets" (Duhigg 2020, p.38-39).

Following the reporter's argument, we suggest that risk capital investors play a crucial role in promoting or tolerating entrepreneurial misconduct. For example, as part of their investments, risk capital investors become part of their investees' board of directors and are formally tasked to monitor and discipline entrepreneurs. Yet, research has shown that risk capital investors do not always perform that function but can become implicated in misconduct in part because they hold a short term commitment, as they seek to exit between founding and IPO or acquisition, and

because they are subjected to pressures to enhance their startups' valuation, overriding concerns that suggest divestment (Guler 2007). WeWork is an illustrative case that appears to support our argument. The venture capital firm SoftBank invested $300 million into the startup with minimal oversight, giving rise to perverse incentives and outcomes. Take for example, the founder Adam Neuman who purchased a $60 million corporate jet, installed an infrared sauna and a cold plunge pool in his Manhattan office, purchased properties that he subsequently leased back to the firm, trademarked the word "We" and charged the venture $5.9 million for use of the word, and ultimately extracted $700 million from the real estate company (Chozick 2019; Farrell et al., 2019; Duhigg 2020). WeWork's board of directors was staffed by venture capitalists (except for Lewis Frankfort, the former chairman and CEO of the multinational luxury fashion firm Tapestry, Inc.) who only censured Neuman when the startup's planned IPO turned came under public scrutiny. As potential buyers and short sellers scrutinized the startup's S-1 prospectus and revealed its performance misrepresentations , its valuation dropped from $47 billion to $8 billion in less than a week and retracted from its IPO ambitions (Farrell et. al., 2019). Subsequently, New York State's Attorney General opened an investigation of Neuman for misappropriation of funds and the SEC opened an investigation of the venture for IPO filing rule violations.

Beyond investors, entrepreneurs themselves exercise inordinate control over the composition of their ventures' boards as principal owners. Put differently, entrepreneurs engaged in wrongdoing of all kinds tend to be at diminished risk of detection and discipline by entrepreneur-selected boards of directors, agency theorists' key failsafe. That is, entrepreneurs may be inclined to select directors who will not scrutinize them closely but, instead, serve as legitimators of their venture. The capacity of boards of directors to monitor and discipline entrepreneurs is particularly compromised in the case of high-technology ventures that operate under extreme uncertainty. These particular ventures by definition are founded to develop and commercialize new technologies as well as create new industries about which there is little prior expertise. As a result, the board of directors may know little about their ventures' emerging technologies and risk being ill-equipped to monitor their internal operations. For example, Elizabeth Holmes recruited the well-known high-ranking former government officials Charles Schultz and Henry Kissinger, who possessed no medical technology expertise, to serve on Theranos's board of directors. Subsequently, both Shultz and Kissinger backed Holmes when confronted with

whistleblower allegations of her malfeasance, because they did not possess the expertise needed to independently evaluate the allegations (Carreyrou 2018).

3. *Flawed Administrative Systems*

Organizational wrongdoing also has been attributed to flawed administrative systems (c.f., Krawiec 2005). Administrative systems segregate tasks and the people who perform them into specialized subunits and positions. They also elaborate behavioral prescriptions (rules, standard operating procedures, and the like) that dictate how organizational participants should conduct themselves within differentiated subunits and positions. When administrative systems are well designed, they articulate behavioral prescriptions that clearly demarcate the line separating right from wrong and evolve subunits that specialize in the monitoring and disciplining of errant behavior. When administrative systems are not well designed, though, they can allow misconduct to flourish. For this reason, the reformation of organizations found to have engaged in misconduct or been the site of misconduct typically includes bolstering the robustness of their administrative systems (c.f., Valukas 2014; Wainstein, Jay and Kukowski 2014).

We suggest that entrepreneurial ventures tend to employ administrative systems that are vulnerable to misconduct. The older, the bigger, and the more technologically routinized an organization becomes, the more elaborated its administrative systems tend to be (Pugh et. al., 1969). Entrepreneurial ventures are nascent, small, and utilize unproven technologies. For example, research has shown that roles structures of entrepreneurial ventures are often not formalized, routines tend not to exist, and decision-making tends to be concentrated in the hands of a few individuals, engendering an overall low administrative intensity (Sine, Mitsuhashi and Kirsch 2006; DeSantola and Gulati 2017).Thus, startups tend to articulate relatively few precise behavioral prescriptions to which employees must conform and they tend to forgo the creation of administrative units that specialize in the monitoring and disciplining of errant employee behavior.

Elon Musk's transgression of Securities and Exchange Commission guidelines has been attributed to inadequacies in Tesla's administrative system. On August 7, 2018 Musk issued a tweet touting his startup's readiness to go private at $420 a share, offering a substantial premium

to the trading price on the stock market and leading to a spike in the venture's trading volume and share price. The SEC ruled that Musk's tweet constituted fraud and imposed on him and the firm fines of $20 million. Further, it attributed Musk's actions to the fact that "Tesla had no disclosure controls or procedures in place to determine whether Musk's tweets contained information required to be disclosed in Tesla's SEC filings. Nor did it have sufficient processes in place to (insure) that Musk's tweets were accurate or complete." Hence, as part of the settlement between Musk, Tesla, and the SEC, the startup was required to institute a number of governance reforms that included the establishment of a new committee of independent directors and the elaboration of "additional controls and procedures to oversee Musk's communications" (Securities and Exchange Commission 2018).

Similarly, Tylor Shultz's difficulty in voicing concerns about fraudulent behavior at Theranos might be attributed to inadequacies in that startup's administrative controls. Shultz, a relatively low-level employee, came to believe that his superiors were misrepresenting the reliability of the startup's core technology, the Edison. He raised his concerns with the manager responsible for generating the device's reliability statistics, who assured him that the statistics were sufficiently accurate. Unconvinced, Shultz sought another internal authority to whom to convey his concerns. But Theranos did not have a compliance department, so he elevated his concerns to the venture's founder Elizabeth Holmes. To Shultz's dismay, Holmes recommended that he again speak with the executive responsible for generating the reliability statistics. Becoming increasingly concerned that Theranos was misrepresenting the reliability of the Edison and feeling that he was getting nowhere in his attempt to have his concerns taken seriously, Shultz chose to make his concerns known to state regulators and left the firm. But Theranos also did not have a human relations department, so he penned his resignation letter directly to Holmes. As Shultz wrote, "I feel like I owe you this bad attempt at an exit interview since we have no HR to officially record it." (Carreyrou 2018).

4. Misaligned Cultures

Organizational wrongdoing also has been attributed to misaligned cultures (c.f., Sims and Brinkmann 2003; Kulik 2005). Organization theorists have conceptualized culture in a multiplicity of ways (Giorgi, Lockwood and Glynn 2015). We employ an integration of these theorizations that understands culture to be comprised of content and form (Palmer and Feldman

2017). Cultural content consists of shared assumptions about the nature of an organization's internal and external environment (e.g., taken for granted understandings about the degree to which the environment is inherently cooperative as opposed to competitive), shared believes about the value of different types of behavior in the environment (e.g., beliefs about the degree to which it is good to be cooperative), and normative prescriptions regarding how organizational participants should behave (e.g., shared convictions about the degree to which organizational participants should cooperate with one another). Cultural forms, which telegraph cultural content to organizational participants, consist of artifacts (e.g., jargon and mantras) and practices (e.g., after work get-togethers) that typically have both practical and symbolic value. When cultural systems feature content that aligns organizational participant behavior with ethical principles, social norms, and legal restrictions, they constitute a firewall against misconduct (c.f. Trevino and Nelson 2017). But organizational cultures also can facilitate misconduct in and by organizations in two ways.

Culture can *explicitly* endorse misconduct, when it features assumptions, values, and norms that directly promote behaviors constituting wrongdoing (Palmer 2013). Several well-known cultural artifacts convey content that explicitly endorses misconduct. For example, the "fake it until you make it" mantra can be understood to explicitly endorse the norm of misrepresenting one's ability to deliver on projected performance goals at intermediate points in time to gain access to critical resources until one is ultimately successful. Robert Boback took the "fake it until you make it" mantra literal when he installed phony computer towers with blinking lights to give potential investors the impression that Triversa's security software exploited more powerful hardware than it actually required (Khatchadourian 2019). Similarly, Josh Tetrick mis-represented Just Mayo's financial potential by generating wildly over-optimistic sales projections, a gambit that allowed him to attract additional investors but also led to U.S. Securities and Exchange Commission and Justice Department probes (Zaleski et. al. 2016; Bercovici 2017).

Further, some entrepreneurial techniques routinely employed by entrepreneurs can be considered cultural practices that endorse misconduct. For example, the creation of product facades to convey to consumers and investors that the intended characteristics of products and services

exist, referred to as "pretotyping" and "minimum viable products," can also be understood to endorse the norm of misrepresenting the capabilities of a firm's actual capabilities (Savoia 2019, Ries 2011, Blank 2013). Take, for example, Trever Milton who founded the electric truck startup Nikola in 2014. Two years later, in 2016, Milton displayed the ventures' signature semi-truck, the Nikola One, at a product launch event, characterizing it as "not a pusher" (i.e., not a mock-up vehicle). In 2017, Nikola released a video in which the Nikola One was shown travelling down a highway under its own power. But the truck, in fact, was not operational at the time. In 2020, after the subterfuge was unmasked by the short seller Hindenburg Research, Nikola and Milton issued a carefully worded statement that characterized the 2016 portrayal and the 2017 video as essentially truthful. Among other things, they claimed that the firm's investors knew the truck's actual state of development in 2017 and noted that the misleading video was described on social media only as showing the truck "in motion" (Korosec 2020). But the startup's stock price cratered, Milton left Nikola and its key partnership with General Motors was scaled back in the wake of Hindenburg Research's revelations. Further, the Department of Justice and the SEC subsequently opened investigations into the venture, which presumably are ongoing at this time (Boudette and Ewing 2020; Eisenstein 2020).

Cultural content also can *implicitly* endorse misconduct, when its assumptions, values, and norms endorse behaviors that do not constitute wrongdoing, but can lead to misconduct (Palmer 2013). The scholarly and practitioner discourse that characterizes entrepreneurship as "creative destruction," entrepreneurial action as inherently "disruptive," and employs mantras like "move fast and break things," and "fail fast, fail early, fail often" can have this effect. Taken together, these cultural forms imply that entrepreneurs must violate industry norms if they wish to be successful and by extension that it is good for entrepreneurs to violate norms and that they should do so. To the extent that entrepreneurs embrace this cultural content, they place themselves on a moral slippery slope to misconduct. In addition, the above-mentioned cultural forms imply that entrepreneurs must implement decisions quickly, that it is good for entrepreneurs to fail, and thus that they should embrace rather than eschew failure. This cultural content implies that the costs of acting without deliberate forethought as well as the costs of resulting failure to the startups' employees, investors, or customers either are minimal or outweighed by the ultimate benefits. To the extent that entrepreneurs embrace this content, they

can become susceptible to employing the "denial of harm" and "balancing the ledger" techniques of neutralization that enable people to engage in misconduct by blunting the guilt they otherwise would feel from engaging in wrongdoing (Sykes and Matza 1957; Ashforth and Anand 2003; Palmer 2008). Several illustrative examples have become known for full heartedly embracing cultural content that implicitly endorses misconduct.

The Massachusetts Institute of Technology (MIT) Media Lab, formed to incubate research projects with the potential to generate new businesses, featured cultural artifacts that supported the cultural imperative to disrupt business norms. Each year the Lab awarded a $250,000 prize to the researcher who stood out for "engag(ing) in responsible ethical disobedience" (Gluckman 2019). The Open Agriculture Initiative's violation of wastewater dumping regulations, which entailed stonewalling regulators' request for readily available data on the dumping, vividly showcased how embracing the word "disobedience" rather than the words "responsible" and "ethical" brought about entrepreneurial misconduct (Song and Larkin, 2019). Furthermore, the MIT Media Lab featured cultural artifacts that supported the cultural imperative to act quickly. The Media Lab's director, Joichi Ito, often reminded lab project leads that they faced an imperative to "deploy or die," where deployment meant transforming one's research project into a commercial endeavor. Implicit in this mantra was an exhortation for project leads to bring their innovations to market quickly, rather than dwell in the research phase, which was equated with death. This exhortation may have caused Caleb Hunter, who founded the Media Lab's Open Agriculture Initiative, to also mis-represent his project's progress towards developing a commercially viable "food computer" that could replicate in small containers growing environments found anywhere in the world (Gluckman 2019).

Embracing cultural content that endorses disruptive business models may be particularly problematic in organizational fields where established normative systems are designed to protect stakeholders from harm. For example, the online psychotherapy startup Talkspace developed a business model that violated several industry norms that had evolved to protect therapy clients. The startup features its services in highly public and very explicit advertisements that experts contend can provoke symptoms and distress in psychologically vulnerable persons. Further, Talkspace uses data mining techniques to analyze its growing volume of recorded patient-

therapist session for the purpose of "improving" its therapists' services but does so in ways that has violated client confidentiality. Finally, its signature feature of offering clients on-demand access to therapists violates a central principle of most psychotherapeutic approaches, which is to maintain clear temporal boundaries between the beginning and end of therapy sessions (Hill and Krolik 2020). Cultural imperatives implicitly endorsing disruptive business models can be particularly problematic when new ventures are formed to deliver products or services in industries like healthcare where, as one observer has noted, "people's lives are in the balance" (*The Inventor*, 2019).

Finally, startup culture may also give rise to a particular type of misconduct, sexual harassment and assault. Entrepreneurial ventures tend to be founded and populated in the early stages by men. As a consequence, they tend to feature "bro cultures," in which assumptions, values, and norms support androcentric (i.e., male-centric) interactions and the treatment of women as both outsiders and objects of male sexual interest (for comprehensive overview see Fowler 2020). Patriarchal cultures are thought to be conducive to the sexual harassment and assault of women (hooks 2004). A venture capitalist survey of 950 startup founders and employees found that one in two workers either were sexually harassed or knew someone who was harassed in the workplace (First Round, 2019). Planswell, a Canadian financial planning startup, appears to have featured a "bro culture" that may have been conducive to sexual harassment. Reportedly, male executives frequently peppered their conversations with sexual innuendo. On one occasion, the male dominated leadership team discussed employing prostitutes to celebrate the end of an offsite meeting. On another, a male executive brought a female gendered sex doll to work, dressed in a Planswell T-shirt. Planswell's male marketing director doggedly pursued a young female employee. The female employee implored the Marketing Director to restrict his contact with her to work-related matters. Within days, she was fired. After experiencing little success in pressing her case with the company's CEO, the female employee went public with her allegations of harassment, contributing to the firm's demise (Hensley 2020).[2]

[2] This example also illustrates the frequent interconnectedness of the various causes of misconduct. The female Planswell employee brought her complaint to the firm's CEO, because the firm's HR department was only recently established and thus had little independence and clout. Further, the HR director was given the rather informal title of "Director of People," a cultural artifact that telegraphed the lax approach it would take when addressing workplace misconduct.

5. Skewed Power Structures

Organizational wrongdoing also has been attributed to skewed power structures. Power, which is the capacity to get what one wants over the resistance of others, takes two forms in organizations: formal power or authority and informal power or resource dependence. Authority is rooted in the chain of command and based on the norm of obedience. The higher a person is in the chain of command, the more authority they possess over others in the organization. When well designed, authority relations provide a means for addressing problems that arise in the course of an organization's normal operation that are not anticipated by its administrative systems. But as Milgram (1963) famously showed, authority also can be used to compel people to participate in misconduct.

We suggest that formal authority relations in entrepreneurial ventures often facilitate misconduct. Authority relations always rest on legitimating criteria, of which there are three main types: charismatic, religious/traditional, and rational/legal (Weber 1922/1978). When formal authority is legitimated by charismatic criteria, authorities retain their positions on the basis of their presumed possession of extraordinary qualities (e.g., as was the case with Prophet Muhammad). When formal authority rests on religious criteria, authorities retain their positions on the basis of presumed sacred authorization (e.g., as is the case with Pope Francis). When formal authority rests on rational-legal criteria, authorities retain their positions on the basis of merit or ownership of the enterprise (e.g., as was the case with Rex Tillerson at Exxon and Henry Ford II at Ford Motor Company, respectively). Formal authority legitimated on the basis of rational/legal criteria only allows authorities to issue orders that are narrow in scope (orders that only pertain to subordinates' organizational roles), whereas formal authority legitimated on the basis of religious or charismatic criteria allows authorities to issue orders that are broader in scope (orders that pertain to subordinates' organizational and non-organizational roles). In most contemporary organizations, leaders' formal authority is legitimated on rational and/or legal grounds. But in entrepreneurial ventures, leaders' authority often rests partly on charismatic and sometimes even quasi-religious grounds (Lovelace, Bundy, Hambrick & Pollock, 2018). Start-up founders frequently are portrayed (and sometimes portray themselves) as celebrities, saviors and heroes, possessing one-of-a-kind exceptional qualities, including unique foresight regarding the needs and possibilities of the human enterprise (Stephen, 2018; Zuckerman, 2017). And as such, they

possess broad authority to enlist the support of subordinates in their preferred courses of action, including the perpetration of misconduct (Chatterjee & Pollock, 2017)

Theranos founder Elizabeth Homes appears to have derived at least some of her authority from perceived charisma. Theranos board members General James Mattis and Henry Kissinger described her as "a true revolutionary" and "ethereal," respectively. Board member and renowned Stanford University engineering professor Channing Robertson judged Holmes to be a once or twice in a century personage on the par of Archimedes. Holmes was said to require only four hours of sleep and observed to seldom blink in interpersonal interaction, so abundant and focused were her energies. Holmes's status as a charismatic authority appeared to play a role in deterring subordinates from resisting her questionable directives, as Tyler Shultz vividly described during an event at Stanford University:

> "She was extremely charismatic. I would go into her office and she would tell me about the vision of the company and helping third world countries. I would be so motivated to do my job. I would go back and I was working with the Theranos device and I go: 'What has just happened? How did she just do that to me?' I was working with this device everyday but in a five minute conversation with her she was able to change my mind and for me to feel motivated again. I can see how, if you weren't actually working with the devise everyday, how easy it would be for her to convince you that this was real and that all these things were happening." (Spilling the Blood of a Silicon Valley Unicorn, 2019)

Similarly, Hampton Creek founder Josh Tetrick appears to have derived some of his authority from perceived charisma. One Hampton Creek employee characterized Tetrick as resembling a "religious pastor" whose vision of fixing a corrupt corporate food system made her feel "blessed to have met him." Subsequently reflecting on some of the questionable things she did at his direction, the employee wondered, "Why did I do things that made me really uncomfortable, that I knew weren't right?" (Zaleski et. al. 2016).

We propose that informal power relations also facilitate misconduct in entrepreneurial ventures. Informal power is rooted in the distribution of scarce and important resources and based on the

dependence relationships this distribution engenders. The more one controls resources that are scarce and important to others, the more informal power one possesses over others. Informal power allows organizational participants to obtain the compliance of others who are not below them in the chain of command; that is, superiors and peers. Such power relationships can facilitate organizational adaptation to changing environmental conditions (Salancik and Pfeffer 1977). But when not managed effectively, they also can facilitate misconduct (Palmer 2013).

Founders of entrepreneurial ventures often are believed to control scarce resources that are crucial for their startups' success, such as unique technological expertise, market insight, and social capital. Founders' control over these scarce resources can allow them to compel their ventures' other stakeholders to facilitate or refrain from impeding their misconduct. For example, the control of unique technological expertise and market insight increasingly allows founders to create dual-class shares, retaining 20-to-1 super-voting rights stock ownership of their ventures (Davis 2016, Berovici 2019). Founders who own super-voting rights stock can control appointments to their ventures' boards of directors, thereby blunting their boards' capacity to fulfill their legally mandated oversight responsibilities, even when founders only own a minority of a startups' shares. In the event of absent board oversight, founders are free to pursue their parochial interests at the expense of ventures' other stakeholders. Adam Neuman's perceived control of unique real estate market insight allowed him to retain super-voting rights ownership of WeWork, which allowed him to control appointments to the startup's board, which in turn compromised the board's ability to fulfill its oversight responsibilities. As noted above, in the years that followed, Neuman directed WeWork to purchase the "We" trademark from him for $6 million, to lease his privately owned properties for additional untold millions, and to pay him $700 million in advance of the venture's intended public offering. Finally, after the public offering was aborted due to growing awareness of WeWork's weak financial position, Neuman engineered a golden parachute exit that netted him a $1.7 billion severance package (McGreggor 2019; Molla 2019). Neuman's self-dealing ultimately led to investigations by the SEC and the New York Attorney General (Lutz 2019; Reuters 2019). Misconduct in part facilitated by the control of the venture through super-voting rights has been also been the case for Travis Kalanick at Uber and Logan Green and John Zimmer at Lyft (Berovici 2019), startups that we discuss separately below.

The theory and examples above testify to the way in which power relations can *facilitate* misconduct in new entrepreneurial ventures. But recent research suggests that extreme power differentials also can *motivate* wrongdoing; elaborating the well-known Lord Acton adage, "power tends to corrupt and absolute power corrupts absolutely" (Acton 1887). This research indicates that powerful persons tend to treat those over whom they have power with disregard, violating their interests, rights, and justice claims (Keltner. et al. 2003). The impact that power has on the motivations of the powerful may be particularly significant in new entrepreneurial ventures, where founders not only enjoy formal authority by virtue of their elevated position in the chain of command, but also possess substantial informal power by virtue of their control of scarce and important resources. In the case of WeWork, the alignment of formal and informal power created a perfect power storm, where Adam Neumann portrayed himself as a charismatic figure (he was reported to voice his intention to become the world's first president and hoped to expand his company to the planet Mars) and possessed resources on which the firm's financial success rested (even incorporating this portrayal in the venture's S-1 public offering prospectus). Neuman often treated his subordinates in arbitrary and humiliating ways, such as requiring them to drink days old dregs of discarded beer bottles. He also retaliated against his chief of staff after she became pregnant and took maternity leave, referring to her leave as a "vacation" and "retirement" (Chozick 2019; Baca 2019).

6. Social Influence and Group Dynamics

Organizational participants often form social relationships with one another, which sometimes coalesce into small informal groups. Such relationships, which can influence organizational participants' behavior, thoughts, and even emotions, long ago were recognized as benefiting organizations by providing their members with intrinsic motivation to stay on the job and hard to codify guidance on how to perform assigned tasks (Roethlisberger and Dickson, 1947; Roy 1959; Barnard 1968). But social influence and group dynamics also can facilitate organizational misconduct (Brief et al. 2001; Ashforth and Anand 2003; Palmer 2008). We think new entrepreneurial ventures are particularly susceptible to the dark side of these individual and group-level influence processes.

Venture capitalists are vulnerable to social influence processes that can undermine their capacity to provide oversight to wayward entrepreneurs. Angle investors and venture capitalists typically make their investment decision under high uncertainty, often with limited objective and quantifiable information, relying on their intuition and so called "gut" feel (Huang 2019). Early stage investors tend to rely heavily on their assessments of entrepreneurs' personal characteristics, derived from close personal interaction and observation (Huang & Pearce 2015). Tim Draper, the venture capitalist who funded Theranos's early development, vividly explained this tendency to focus on the founder when making investment decisions.

> "I invest when I see a vision, I see the opportunity, and I see the *person* who I think can make it there. I mean we invest in, you know, a *girl* and a dog or two *guys* and a cat. We just say is this *person* going to dedicate their life and make something extraordinary happen. And yes, in that case (Theranos), she (Elizabeth Holmes) was that *person*." (*The Inventor* 2019, emphasis and parenthetical expressions added).

Further, venture capitalists are attracted to entrepreneurs who are similar to them. Ethnic and cultural matching can drive decision making along dimensions that are irrelevant to the venture in question, such as gender, ethnicity, educational background, and hobbies (Bengtsson & Hsu 2015; Rivera 2012). Social psychologists have shown that interaction between similar others leads to liking and over extended interaction friendships (Cialdini 2001), which can blind investors to early signs of misconduct.[3] For example, prominent Theranos investors and board members developed personal relationships with Elizabeth Holmes, relationships that might have impaired their ability to see red flags in her behavior. Former US Secretary of State and Stanford University Hoover Institution scholar George Shultz welcomed Holmes into his home, inviting her to holiday and birthday celebrations. Shultz's close personal relationship with Holmes apparently blinded him to signs that she and Theranos were engaged in fraudulent behavior, signs revealed to him by his grandson Tyler who worked for the startup (Carreyrou 2018; *The Inventor* 2019). Similarly, SoftBank's CEO Masayoushi Son developed a close personal

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[3] The overreliance on intimate relationships and gut feel seals off the entrepreneurial domain from underrepresented groups, as is evident in recent figures of total capital invested in entrepreneurial ventures that indicate that only 2.7% of female led startups (Pitchbook 2021) and 2.6% of African American and Latinx led startups (Crunchbase 2020).

relationship with Adam Neumann, which many contend blinded him to Neumann's self-dealing (Chozick 2019; Ferrell et. al., 2019).[4]

What is more, we suggest startup top management teams are vulnerable to group dynamics pressures that can compromise their members' moral compasses and insulate them from outside criticism. Entrepreneurs often launch and staff their start-ups with family members and friends (Ruef, Aldrich, & Carter, 2003). Further, founding teams typically work in close physical proximity for long hours and cultivate an informal atmosphere in which the line between work and play is blurred (Wasserman 2012). Finally, founding teams often understand themselves to be pursuing noble objectives, against inefficient systems and specific antagonists. Such group dynamics can give rise to strong informal group forces (Shaw 1936; Feldman 1984) and can lead founding team members to tolerate and even facilitate their colleague's misconduct. In extreme cases, these dynamics can render founding group members susceptible to groupthink, a state in which informal group members consider themselves morally and otherwise superior to outsiders who might question their behavior (Janis 1971, 1972; Ruef, Aldrich, & Carter, 2003).

Many examples exist of founding team susceptibility to intense group dynamics. Adam Neumann hired twenty friends and family members to occupy key positions at WeWork, including his wife Rebecca who served as the firm's "chief brand and impact officer" (Brown et. al., 2019). Lower-level WeWork employees referred to the circle of friends and family who were closest to Neumann as the "oval office," indicative of the degree to which the founding team was cut off from the rest of the firm (Baca 2019). There are also examples of the impact that founding team insularity can have on team member perceptions of outsiders. Triversa founder Robert Boback in conversations with the venture's top managers expressed disdain for all

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[4] These social influence traps may be circumvented when financial backers are large public corporations, such as those seeking to acquire innovations related to their existing lines of business. Many such corporations have evolved specialized units to police questionable behavior and eschew connections to questionable ventures that if detected might tarnish their public image. Thus, Microsoft recently conducted an investigation into the conduct of AnyVision, an Israeli facial recognition software corporation in which it held a substantial interest, to determine whether the firm's software, in use at Israel-West Bank border crossings, was being employed by the Israeli government to surveil Palestinians inside the occupied territories. But large corporate financial backers' power to alter a startup's questionable behavior may be limited if they do not hold a majority stake in the venture. Hence, when Microsoft determined that AnyVision's involvement in the Israeli government's surveillance activities might be problematic, its only recourse was to sell its minority stake in the firm (Dastin 2020).

outsiders, even for the startup's potential clients. When WikiLeaks dumped data that compromised several firms' security, he exhorted his cohorts to immediately reach out to the exposed firms to offer Triversa's services "before some IT ***goon*** in [their] organization tries to convince them that they have it covered" [emphasis added] (Khatchadourian 2019).

Group dynamics appeared to have facilitated misconduct at Theranos. Elizabeth Holmes operated the blood diagnostic venture with her romantic partner and early investor Ramesh (Sunny) Balwani and subsequently hired her brother and several of his college friends. Balwani, Holmes's brother, and her brother's friends not only supported Holmes questionable business practices but rooted out and eliminated opposition to them. Holmes and Balwani often exhorted Theranos employees to redouble their efforts by reminding them that they had embarked on a mission to free patient medical data from the control of large healthcare organizations and that powerful forces such as Quest Diagnostics were aligned against them (*The Inventor* 2019). When employees raised concerns about Theranos's questionable practices, the employees' concerns were brushed off as indicative of the employees' faint or waning commitment to the venture's mission. If critical employees persisted in their vocal disapproval of a company practice, they were abruptly "encouraged" to quit, and summarily marched off the venture's premises (Carreyrou 2018; Ramsey 2019; The Inventor 2019).

7. Escalating Commitment

Organizational wrongdoers are often portrayed as sliding down a "slippery slope" that begins with questionable behavior and ends with indisputable misconduct. The progression down a slippery slope can entail escalating commitment, a process in which people become wedded to a course of action by taking incompletely rational incremental steps consistent with the course of action, while developing post hoc rationalizations for each successive incremental step. People are most likely to escalate their commitment to a course of action when they believe that they are responsible for their incremental acts, others are aware of their acts, and their actions are difficult or costly to reverse (Cialdini 2001). Commitment processes partly explain how organizational participants become psychologically invested in futile organizational quests, a process referred to as "escalating commitment to a failing course of action" (Staw 1976) and a necessary precondition of strain discussed above. They also partly explain how organizational participants

slip into wrongdoing (Palmer 2013). But we think entrepreneurs are particularly susceptible to these two commitment process effects.

Entrepreneurs often become committed to pursuing unobtainable goals in an incremental fashion, of their own volition, in view of others, and with decreasing options to reverse course. Entrepreneurs seeking risk capital investment must convincingly portray their nascent enterprises as possessing substantial technological and financial potential in order to meet venture capitalists' high-risk, high-return expectations. They accomplish these portrayals by constructing ambitious narratives that project performance goals which portray exponential growth (cf. infamously the accelerator Y-Combinator is known for a prescription of 5-7% weekly growth). Entrepreneurs who successfully secure venture capital backing must attempt to meet their self-determined performance goals (Garud, Gehmanand, and Tharchen 2017; Garud, Schildt and Lant 2014). Often, they are forced to raise additional rounds of financing to sustain their scaling trajectory. The reason being that entrepreneurial ventures often do not generate revenue and are loss-making entities with high cash "burn rates." If entrepreneurs fail to meet their performance goals and have no more runway (i.e., venture ran out of cash), they are faced with a potential penalty, a "down round" which decreases the company's valuation and implies managerial failure as additional company shares have to be sold at a lower price than in the previous financing round. While the practitioner literature talks about a backdoor that allows entrepreneurs to quasi-reverse their course of action and "pivot" to a new business model, we suggest that in light of market penalties and investor pressures, entrepreneurial failure to achieve performance goals can also increase entrepreneurs' determination to succeed (Grimes 2018). That is, the brink of failure can motivate entrepreneurs to raise additional financing to make up for lost ground by misrepresenting actual performance and generating even more ambitious performance goals.

Entrepreneurs who become committed to pursuing a futile objective tend to experience strain, which as noted above can lead to performance enhancing and misrepresentation misconduct. Further, the transition from honest to dishonest pursuit and misrepresentation of goal attainment can itself entail an escalating commitment. When this is the case, the transition begins with questionable behavior and ends in clearly illegal acts, a process intensified by feelings of

personal responsibility, public visibility, and perceived irreversibility and facilitated by the embrace of rationalizations consisting of one or more techniques of neutralization.

For example, Caleb Harper engaged in increasingly deceptive practices to overstate his MIT Media Lab project's success. Initially Harper simply overstated his Open Agriculture Initiative's technological capabilities. Overtime he embraced increasingly daring ruses, such as misrepresenting store-bought greens, herbs, and flowers as products of his project's "food computers." In response to criticisms of his tendency to misrepresent his technology's capabilities, Harper offered a justification that combined elements of the denial of responsibility and balancing the ledger techniques of neutralization.

> "It's vision versus reality, and both are necessary…. I have a pretty good handle on where the field is going. So, I talk about that. And because I'm so clear on that vision, I think people misinterpret that as reality" (Gluckman, 2019: A15).

Harper believed that entrepreneurs should embrace both vision and reality. His rhetorical tactics blurred the boundaries between the two, making visions seem as if they already existed in actuality. He ultimately didn't see himself in the wrong but blamed his audience for failing to discern the difference between entrepreneurial vision and startup's reality, a manifestation of the denial of responsibility technique of neutralizations.

Similarly, Theranos began its descent into wrongdoing by overstating the actual performance of its blood analysis prototype, the Edison. Subsequently, the startup mis-led investors and strategic partners over successive investment rounds (totaling 10 rounds in which USD 1.4 billion were raised) about the reliability of the presumably market-ready blood analyzer. Ultimately, it orchestrated an elaborate scheme to mislead investors, strategic partners, employees and patients about the method actually used to test patient blood. Elizabeth Holmes and Sunny Balwani went as far as running Theranos as a stealth-mode company, prohibiting employees to publicly display their affiliation with Theranos, engineering office walls so that only a few employees with special clearance could access the Edison and obligating every visitor to sign a non-disclosure agreement. These elaborate measures evoked a façade of secrecy, helping Holmes and Balwani

to secure further investments as the gap between projected performance goals and actual startup performance widened (Carreyrou 2018, The Inventor 2019).

8. Institutional Factors

Recently, institutional theory has been tapped to explain organizational misconduct (c.f., Gabbionetta, et al. 2013). Institutional theory offers an overarching framework within which to analyze organizational environments. Scott (2013), the first to articulate the institutional perspective in a unified way, identified three broad dimensions of the environments in which organizations are embedded: regulative, normative, and cognitive structures. We have already elaborated arguments that implicitly analyze the regulative structures in which entrepreneurial ventures are embedded, noting that the law and enforcement regimes in which startups operate are typically undeveloped and that for this reason much startup behavior that incurs public ire is not policed by any formally constituted social control agents. We also have elaborated arguments that implicitly analyze the cognitive structures in which new entrepreneurial ventures are embedded, noting that startup cultures often facilitate misconduct.

We have not, though, yet considered the normative structures in which startups are embedded. Some occupations, such as the medical, engineering and legal fields, are highly professionalized. People can only enter these fields if they successfully complete a rigorous standardized educational degree. Further, after entry into these fields, practitioners are subject to the monitoring and disciplining of collegial bodies composed of their peers. That is, practitioners are subjected to annual examination to renew their operating licenses. Some fields within business, such as accounting and engineering, are highly professionalized. But general management is less so and entrepreneurship is not at all. Indeed, the myth of the "dropout" entrepreneur promotes the idea that aspiring entrepreneurs should forgo extensive post-secondary school education of any kind (Watt 2016). In fact, the Thiel Fellowship, founded by the investor and entrepreneur Peter Thiel, funds individuals before the age of 23 who opt out of formal education in exchange for an entrepreneurial career. The mythology was inspired by some of the most famous and successful entrepreneurs, such as Steve Jobs and Mark Zuckerberg who never graduated college. Further, it is sustained by several of the entrepreneurs described here, such as Nikola's founder Trevor Milton who never graduated high school, and Elizabeth Holmes and Elon Musk who dropped out of Stanford. Further, there is no collegial body of peers that

monitors and disciplines entrepreneurs. Thus, the founders of new entrepreneurial ventures tend not to be guided or constrained by normative systems that keep them on the straight and narrow but are largely operating on their own.

Addendum: The Special Case of Platform Organizations

While high-tech risk capital-financed startups are a subset of all entrepreneurial ventures, they are not a homogeneous subset. Specific types of high-tech risk-financed startups themselves may be uniquely vulnerable to misconduct. Before concluding our analysis, we consider one type of high-tech equity-backed entrepreneurial venture that has captured much media attention; startups that deliver their products or services via independent contractors rather than employees. Such "gig economy" or "platform" organizations use new developments in data science, not to generate new products or services, but rather to monitor, control, and compensate legally independent (i.e., self-employed) persons who make their products or deliver their services (hereafter, "workers") in new ways, intending to reduce both management and labor costs (Vallas & Schor, 2020; Rahman 2018). We suggest that these entrepreneurial ventures are also uniquely susceptible to misconduct, albeit in ways not considered above, two of which we briefly elaborate here.

First, platform organizations use technology to control workers at a social and physical distance. While managers of these organizations are full time employees and considered organizational members, their workers are seldom full time and in no case formally considered employees. Instead, platform organizations tend to see workers as non-members, users or customers. Further, workers are globally distributed and seldom interact directly, face-to-face with members of platform organizations. Instead, they communicate electronically, more often than not mediated by sophisticated and automated chat bots. Workers who are controlled through technology are less subject to the administrative systems that platform organizations have put in place to curb misconduct. What is more, part-time workers also have less incentive to conform to whatever administrative system constraints have been designed to apply to them (Siddiqui 2019).

In addition, the social and physical distance that separate managers of platform organizations and their workers likely insulates managers from the guilt they otherwise might feel and that

otherwise might deter them from harsh treatment of workers (Bazerman and Tenbrunsel 2012). Specifically, the social and physical distance might compel managers of platform organizations to make use of measures that increase worker productivity and optimize platform economics; for example, by increasing transaction fees without prior notice and thus decreasing worker payrates, as has been the case at Instacart (Bhattarai 2019). As front-line workers feel increasingly squeezed, they may respond by cutting corners. Thus, drivers of platform organizations may be more susceptible to accidents than taxi company drivers (Siddiqui 2019; Rosenfeld 2020).

Second, many platform organizations derive their competitive advantage from circumventing existing legal responsibilities for protecting workers from exploitation and for protecting customers from worker misconduct. For example, in most states gig economy ventures are not required to guarantee their independent contractors the local minimum wage (Conger and Scheiber 2019), nor are they required to put in place structures and processes that protect them from unfair treatment such as gender, race, or sexual orientation discrimination. Further, platform organizations such as Uber and Lyft often escape financial responsibility for compensating accident victims for injuries, reducing their incentive to ensure that their workers drive safely (Rosenfeld 2020).

In sum, new organizational forms open up new opportunities for organizational misconduct. In the case of platform organizations, as the distinction between organizational member and non-member remains formally intact, in practice this distinction becomes blurred and ambiguous, giving rise to misconduct by both members and non-members that is uncontrollable by the technological advances that make these organizations possible.

DISCUSSION

Contributions

We pursued three interconnected objectives in this chapter. First, we aspired to contribute to theory on entrepreneurship and organizational misconduct. Entrepreneurship theorists tend to portray startups in a uniformly positive light, as engines of innovation that transform markets in ways that improve the overall quality of life. We explore startups' dark side, arguing that they

are uniquely vulnerable to known causes of organizational misconduct. Misconduct theorists primarily focus on established firms and large bureaucracies. We show that misconduct theory also can enhance understandings of wrongdoing in nascent firms.

Second, we aimed to provide entrepreneurship educators with ideas and case materials to supplement their current approach to examining entrepreneurs' ethical and social responsibilities. Including in entrepreneurship curricula theory and evidence on organizational level processes that can give rise to misconduct in startups will complement the current pedagogical approach, which focuses on individual level processes that shape ethical decision making (see Byers 2020). That is to say, in many instances individual level decision making may not suffice to deal with some of the systemic issues that we have highlighted in this chapter. We see our elaborations as a first step to create broader awareness for the distinctive features of nascent ventures and, more broadly, start-up entrepreneurship that aspiring founders need to be attuned to. This is of particular importance as entrepreneurship education has proliferated broadly into secondary schools and higher education. We think leaving considerations of organizational level processes off the table may increase the likelihood of entrepreneurship debacles of the sort discussed here. Hence, we recommend educators integrate organizational level tools into entrepreneurship education, such as those designed by the nonprofit organization Project Include to increase diversity and terminate toxic bro culture in entrepreneurial ventures.

Third, we averred to send up flares for entrepreneurs and other new venture stakeholders that might alert them to the potential risks in the waters they navigate. If entrepreneurs and other startup stakeholders know where the risks of engaging in misconduct are most likely to exist, they can take precautionary measures to avoid them. For example, we have shown that the unique role that risk capital investors play in startup managerial oversight can be undermined by skewed power structures, renegade group dynamics and misaligned incentives. As such, the investor-entrepreneur relationship requires an overhaul toward reinstating the formal authority of the board of directors to safeguard all stakeholders against misconduct. Hence, we applaud efforts by incubators, accelerators and investors that are going beyond evaluating only technological and market potential and instead added specific technological competence to assess and monitor the feasibility of a startup's technology.

Limitations

Our analysis suffers from at least three limitations that future theorists and researchers should address. First, our analysis of misconduct in high-tech risk-financed entrepreneurial ventures is speculative. It is based on logical arguments and illustrated with journalistic accounts of a small number of wayward startups, rather than systematically collected empirical data on a large number of errant entrepreneurial ventures. Organizational theorists wishing to evaluate and extend our arguments would do well to collect empirical data on a large sample of entrepreneurial ventures that have been the sites of misconduct. Calling for this type of research, of course, is much easier than actually conducting it. As indicated above, startups often do not live long enough for their misconduct to be identified and catalogued. Indeed, we strongly suspect that misconduct in entrepreneurial ventures often constitutes a major cause of their demise. It is important to try to collect this evidence, though, because entrepreneurial ventures will remain important engines of economic growth for the foreseeable future.

Second, our analysis of high-tech risk-financed startups may not be generalizable to other types of entrepreneurial ventures. We focused on high-tech risk-financed ventures because they are the type that has captured the fascination of scholars, educators, commentators, and the public at large. But high-tech risk-financed startups comprise just a small fraction of the broad spectrum of entrepreneurial activity, much of which neither exploits new scientific discoveries or markets, nor aspires to culminate in public corporations. Most entrepreneurial activity simply seeks to fill unsaturated extant market niches and provide subsistence income (Aldrich & Ruef, 2017; Welter, Baker, Audretsch, & Gartner, 2017). Organization theorists interested in misconduct in entrepreneurial ventures would do well to determine whether the arguments advanced here apply to these types of entrepreneurial endeavors as well.

Third, our analysis leaves many important and more specific questions unaddressed. Arguably most important, we have not considered how the process of organizational maturation effects entrepreneurial ventures' vulnerability to misconduct. Certainly, startups that have matured to enjoy establishment status, such as Amazon, Facebook, and Google, have not escaped scandal. But we do not know whether the maturation of ventures from startup to established firm, affects the likelihood or the kind of misconduct to which entrepreneurial ventures are vulnerable. More

specifically, we don't know whether early misconduct tends to become normalized and imprinted in the organizational design or whether instead it is edited out as startups mature.

CONCLUSION

In sum, while we believe we have opened an important line of inquiry, we acknowledge that we have only scratched the surface. We think entrepreneurship scholars have overlooked the dark side of startups and organizational misconduct theorists have ignored entrepreneurial ventures. Perhaps for these reasons, entrepreneurship educators concerned about the ethical and social responsibilities of entrepreneurs have focused their pedagogical approaches on individual level determinants of founder behavior. And entrepreneurs have gone blithely into careers, unaware of the potential hazards that await them. We hope this chapter has gone some way towards addressing these deficiencies in theory, pedagogy, and practice in the area of entrepreneurship. We hope other organizational theorists will find our preliminary effort a useful springboard for more definitive scholarship on misconduct in entrepreneurial ventures.

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