

The Ethics Illusion: Why Doing the Right Thing Isn't Simple for Venture Capital-Backed Founders

Donovan Do
donovando9999@gmail.com

ABSTRACT

Entrepreneurship is a difficult field where the rate of failure is high, but for those that succeed, it's another test of its own. Having to manage a business requires dealing with finances, customers, but most importantly, yourself. Some founders turn to VC funding to make it easier, which is the focus of this paper. The goal is to explore how VC funding is hypothesized to cause founders to commit more misconduct compared to bootstrapped founders. Extensive research has shown many theories detailing the gears inside the founder's head that lead down this path, ranging from agency theory, institutional theory, moral disengagement theory, and more. To test this, this paper proposes a method that compares 50 bootstrapped and 50 VC-backed startups. The study would utilize a binary logistic regression model, given access to accurate data and other resources. After the outcome of the test, the expected result is that VC-backed founders are more likely to participate in misconduct in comparison to bootstrapped ones. In other words, that is the alternate hypothesis and the goal is to reject the null hypothesis, that there was no significant difference between the two types of founders participating in misconduct.

INTRODUCTION

Due to factors such as unstable times, a lack of trust in the current system, and financial issues, many young folks have entrepreneurial dreams to thrive in such times. With wars happening globally, new viruses going around, inflation at record highs, and political instability, being an entrepreneur can be seen as a viable option. To clarify, based on academic papers, there are lots of definitions; using the most relevant one, it is "A dynamic interaction of entrepreneurial attitudes, entrepreneurial activities, and entrepreneurial aspiration that vary across stages of economic development" (Tömöry, 2015, p. 16). Success stories such as Steve Jobs, Mark Zuckerberg, Bill Gates, and many more serve as examples of what it means to be an entrepreneur, leaving people to believe starting their own venture is easy.

However, they fail to note that typically 90% of startups fail within the first 5 years (Saini, 2022), and the primary cause is their lack of preparedness and understanding of the business world. Founders tend to have a habit of overestimating their skills and underestimating how many little nuances that come into

Sep 2026
Vol 11. No 7.

play (Saini, 2022). For starters, founders have the option to be a venture capital-backed (which also counts for CVC; corporate venture capital) or a bootstrapped founder. Tömöry states the exact definition of a VC investor as "the oldest and largest source of seed and equity capital for the high-growth venture" (pp. 30-31). They are typically long-term investors, usually within 3 to 7 years, who then work with the founder to make a profit from their investment. They are also crucial to developing many companies, raising money through official means, and maintaining a specific industry focus, all usually from institutional investors. VC investors are well-known, but in truth, less than one percent of business plans receive funding (Blank, 2013). That is why many business plans receive funding from angel investors or none. To be clear, angel investors are somewhat similar to VC; however, it is part of bootstrapping. Angel investing is not needed to bootstrap, but it is an option some can resort to. Relatively complicated to explain, it can be described as a private individual providing capital for a private business, with no family connection whatsoever.

Explaining the concept of bootstrapping is also difficult, starting back in 1992 with Tömöry: "financing of ventures with modest personal funds" (p. 34). Using a more relevant one after many comparisons, there is this 2004 definition from Tömöry: "imaginative and parsimonious strategies for marshaling and gaining control of resources" (p. 35). The point is it goes over the two most important parts to bootstrapping, which are an entrepreneur's initiative and imagination. To sum it up regardless, Tömöry states a simpler definition from 2014: "an alternative resource management approach directed at avoiding market-based resource transaction" (p. 37). We explained the definition; still, we haven't mentioned examples and how it differs from VC. Methods typically stem from using one's own finances, borrowing from close connections, asset management, grants, and a lot more methods that would seem unconventional. Not only is the actual business part complicated, but so is the person and their approach to it. A person's moral decision-making is important; it shows their entrepreneurial spirit through creativity, imagination, and so much more. Moral decision-making involves the qualities listed earlier as well as many more that must adapt to the intensive field of entrepreneurship. Essentially, how they use the qualities given whatever situation they are placed in is what it means to practice moral decision-making.

This concept is important because in this field, where exponential success can happen and form creative solutions to fix global problems, we tend to forget that it's a big risk, and that you could still lose everything. As a founder, having a good moral compass is important, but it is easier said than done. Theories have proposed to follow a set of rules and ignore emotions, and therefore arrive at the logical, morally correct answer, but that is far from the truth. Founders should instead practice virtue ethics, being a person with a good heart who may display virtues such as courage, wisdom, truthfulness, and overall positive human traits. This is usually trickier said than done because in concrete situations—such as generally opposing abortion, but if a family member wanted one, then they wouldn't be against it—scenarios like these are common and highlight why it is important founders develop their moral decision-making to avoid problems. As situations regarding the business aspect present themselves, who you are as a person and your imagination in both organization and ethics can be the breaking point

between making the morally right or wrong decision (Buchholz & Rosenthal, 2005). If they choose to make the wrong decision, then they have engaged in misconduct, meaning a broad range of unethical behaviours with negative consequences. These include acts such as wire, scientific, data, performance, and product misrepresentation, sexual harassment and assault, wage theft, anti-competitive practices, and more. Actions such as these typically result in consequences from social control agents (e.g., the government) and can be daunting for ventures because they usually have short lifespans. For example, a startup called Planswell was going to receive a 20-million-dollar investment, but due to a former employee's sexual harassment allegation, the deal never went through. We may not be entirely sure whether it was true or not, but the consequences of any wrongful behaviour can quite literally be the make-or-break of your company (Palmer & Weiss, 2022).

Understanding all these factors that come into play, what we want to answer is: what factors affect a VC-backed founder's moral decision-making and propensity for misconduct, compared to bootstrapped founders who focus on sustainable growth and personal mission? The whole point of this paper is to go more in-depth on what misconduct is, its rates, and the possible reasons behind it, while on the other hand keeping it simple and broad with later plans to get to the root of the problem. We will discover more about each type of founder, their own set of problems, and possible misconduct, primarily for VC-backed founders, all to understand what we are working with. After knowing the basics, we will go over some proven theories behind why misconduct happens, form several hypotheses, propose an empirical design, state expected findings, and gain a better understanding. With that set aside, founders can be informed whether they should stay bootstrapped or not.

LITERATURE REVIEW

In the startup world, where failure is common, founders must navigate this complicated field and face great uncertainty. In a field where every single action can determine their success, it starts with their purpose and what they want to accomplish. Their characteristic traits are what influence them as they aim for their goals. Between VC-backed and bootstrapped founders, their intrinsic motivations and external influences play a huge role in entrepreneurial motivation. Regardless, their identity and values determine whether they will stay ethical even with all these unpredictable factors.

Entrepreneurial Motivation and Identity

Several papers mention that typically, VC-backed founders find financial success important, meaning they would prioritize factors such as high profits, rapid scaling, and exits. Being backed by VC investors ensures growth is rapid, allowing the startup to move much faster than other competitors. Competitors such as bootstrapped founders put emphasis on their mission and therefore have different ideals. As a result, they are forced to be more creative, receive constant customer feedback, prioritize sustainability rather than speed, and focus on long-term growth. Both forms of entrepreneurship work; however, the

founders behind each form differ greatly, and this can be the reason why some ventures are complete losses while others become unicorns. Their identity and values dictate their decision-making, where one might listen to investors, perhaps prioritizing a high Initial Public Offering (IPO) and high returns. In these situations that are not advantageous for the founder, they may have to compromise their values to make ends meet. On the other hand, founders who would rather not burn through cash use financing from personal savings, friends, or angel investors, all while having a more altruistic goal where money follows the mission, not the other way around. Compared to receiving VC funding, bootstrapped founders feel an obligation to avoid financial losses, and having to grow at the same time can be a complex challenge. All entrepreneurs, regardless of their financing, encounter situations where they must either stay ethical or be unethical, knowing the potential consequences it may bring.

Venture Capital Influence

Due to these founders being influenced by external factors, such as those that are backed by VC funding, their business models tend to be affected greatly by growth expectations, exit pressure (e.g., IPO), and board governance. In a way, this causes them to focus more on numbers and meet outstanding goals to keep their idea alive. On top of these expectations, failure to meet them can consequently give founders a harder time receiving funding from later rounds. Investors have many protections to ensure they do not lose money; these laws put the founder in a troubling situation whereby they must focus on hitting valuation milestones so they can hope to prevent any more dilution than that which has already persisted. Dilution occurs due to overvaluations or safety clauses, which ensures investors do not lose their money while making some form of profit; the only way for that scenario to play out is by devaluing a founder's stock values as well as those of other non-investors. For all these events to occur, VC investors tend to receive a big portion of equity, allowing them to ensure their guaranteed returns, supervise the venture closely, and put pressure on the founder to meet their quota. Beyond that, in a competitive field for receiving funding, as well as dealing with investors that have their personal interests at heart, founders are under constant influence.

Ethics and Misconduct in Startups

As a result of all these potential consequences, a morally good VC-backed founder can fail to meet expectations, resulting in unwanted decisions they felt were the only action possible to not lose what they worked so hard for. Greve, Palmer, and Pozner (2010) define misconduct as a behaviour by an organization that is judged by a social control agent who determines what is wrong and right. A social control agent is the person or group that decides what action should be taken for misconduct, making their judgment vital. Fraud serves as an example where it is intentional, illegal deception for financial gain. Cumming et al. (2022) state that fraud, specifically in the VC context, involves founders inflating value for more fundraising, insider trading, and allocating fees. A notable example of fraud is Elizabeth Holmes, who committed scientific and data misrepresentation, lying about results, all to secure billions in funding for Theranos (Gleason, Kannan, & Rauch, 2022). The papers tend to put emphasis on founders committing these acts; however, they are also under investors that have executed fraud as well. Typically,

when investors form a syndicate with each other, there is an imbalance of power, allowing for "fee shifting". This involves VC investors illegally forcing smaller investors or shareholders to pay fees, while having key investors pay less and get into better deals. Another common form of misconduct is overexaggeration, or "fake it till you make it," which is often very detrimental to founders (Gleason, Kannan, & Rauch, 2022). As an extreme yet dangerous form of misconduct, a study showed 135 unicorns were overvalued at 5% to 188% (Gornall & Strebulae, 2020); a notable example is Square Inc. During its Series E valuation, it was stated to be \$6 billion; however, due to exaggeration, the true value was \$2.2 billion (Gornall & Strebulae, 2020), leading to unwanted issues that affect the investors, founders, employees, and customers. Some startups may take advantage of the law and social agents, such as participating in regulatory evasion, which is an unethical technology or marketing tactic that is not punishable because no laws are written yet. A famous example is the startup Tiversa, founded by Robert Boback, which leaked a targeted company's private information to the dark web and used that to force the company into expensive protection services. It was during the early 2000s when laws were uncertain, allowing Tiversa to exploit a legal grey area to make money (Palmer & Weiss, 2022).

Bootstrapping and Ethical Orientation

VC-backed founders are put into a field where misconduct offers more advantages and may be deemed necessary to achieve their goals; however, bootstrapped founders cannot agree with this. Papers have shown that bootstrapped founders are more long-term oriented, meaning they are willing to be patient, find other means of financing, build strong customer connections, be impact-driven, and leave a legacy. To explain their other means of financing, Table 1 illustrates their creativity and the desire to run a functional business without VC funding.

Table 1

Sources of Equity
Personal Savings
Life insurance (cash value)
Home equity loan
Issuance of stock
Limited partnership

Sale of personal asset
Third party investment
Other
Sources of Debt
Friends/relatives
Lending institutions
SBA guaranteed
Issuance of bond
Finance company
Government grant
Other

Note. Adapted from Tömöry (2015, p. 41).

The more common bootstrapping methods from this list are usually personal savings or funds from friends and relatives who decide to invest in the business. This level of creativity is displayed in other fields as well.

For example, they must be a lot more ethical and build strong networks because they typically go through a simple cycle that builds their startup. They start with customer delivery, building an MVP to test their proposed solution. Next, they receive feedback on whether there is interest in their proposed solution, pivoting back or continuing onto the next stage. Next, they proceed to customer creation, focusing on selling and marketing their product. Lastly, they start developing the company and growing the team.

These founders do not receive funding because of their desire to have full control of their vision, accepting the resource constraints and the extreme accountability. Consider a founder with a new fuel injection idea for cars; with high marketing costs, the business was expected to open in 1995, but it did not open until 1998 due to many reasons. First, he struggled with long-term financing, used connections to rent places to work for cheap, engaged recently graduated university students, had payments made in advance, and most importantly, had the determination to keep going. This highlights that if he had received financing, he would not have needed to go through this struggle; however, it shows that throwing money at a problem is not always necessary, as some founders already have the resources while supporting the community and fostering young minds.

THEORETICAL FRAMEWORK

Based on many academic resources, we have listed several theories behind why misconduct tends to happen with VC-backed entrepreneurs. These theories exist due to the very nature of VC ecosystems, the founder's own morality, and the conflicting perspectives of the two. CVC investors are also one of the many types of investors from which founders choose, and hence, they add different reasons for misconduct (Anokhin et al., 2022).

Agency Theory

Agency theory, which was developed after meticulous research, describes a problem that arises between an entrepreneur (the agent) and a VC (the principal) who have different goals and risk preferences. It assumes, and it is likely true, that if they have individualistic goals, it exposes the risk of a founder prioritizing personal interest over the bigger picture. Combined with a lack of information (bounded rationality), it creates opportunities for founders to purposely misrepresent their ability and knowledge to secure better financial terms. It only highlights the relationship between the two; however, it does not account for factors such as trust, ethical behaviour, and social structures (Arthurs & Busenitz, 2003). These categories are impactful for the theory because the agent and the principal often have misaligned incentives; for example, investors may want the startup to become a massive enterprise like Google, while the startup may have different goals, such as making 5 million in profit. Due to these differences in goals, and with investors having more influence, some founders may feel pressured to lie by purposely overstating numbers to keep their business afloat and still accomplish what they aimed for. Agents could also have selfish incentives, such as managers committing fraud by purposely overstating numbers to reach their quotas and earn massive cash bonuses. As mentioned earlier, information asymmetry continues to enlarge the differences in goals between the agent and the principal, as it allows the agent to hide important information. This results in fraud going under the radar and leads to unwanted consequences (Zahra et al., 2005) (Dyck et al., 2026).

Institutional Theory

As startups get accustomed to entering a VC ecosystem, under the institutional theory, they follow the unwritten rules of their specific environment to survive rather than the law in a traditional sense. For

example, where bad behaviour is normalized, such as in healthcare, hospitals would send more aggressive billing to Medicare to maximize profits and ensure financial survival. Papers have listed this act as following the rules in the specific environment; if they were not doing so, they would have prioritized the actual care of the patients and proper practice of the rules (Zahra et al., 2005). Sometimes, founders create their own environment, making their own culture based on what they deem necessary to thrive. By prioritizing short-term metrics, they allow misconduct to happen using excuses so the employees do not feel morally wrong, such as scamming customers. Another variation of that culture is creating a toxic one where rankings are determined by output, highly encouraging fraud, even to the point of firing those who rank too low. These examples of ventures creating their own rules and laws show the atmosphere that founders must face under excruciating pressure from investors as they strive to build an ethical business. It even spreads to the industries themselves when one startup manages to increase stock prices through deceptive methods; as a result, other startups in the same industry participate in such behaviour, and it spreads rapidly (Greve et al., 2010). Note that the reason behind such actions is the tone set by the VC investors, who implant the "fake it till you make it" mindset into the founders who typically have a long-term vision. This mindset plays a huge role in following the unwritten rules or even creating the rules and benefiting from them. From the literal definition of faking a functional product to attract both customers and investors, they then use the funds to build the functional product. The former unicorn Theranos illustrates this, developing into a 10-billion-dollar company without any working blood testing technology; the goal of these startups is to raise money and then invent the technology for it to work. Another form of this is cutting the legal or regulatory system in place; to best understand this, Uber operated in the legal grey zone during its release (Greve et al., 2010). At a time when commercial passenger transportation was only legal for regulated taxicab entities with licensed drivers, Uber was released without permission and quickly built a strong customer base; by the time regulations were enacted, political pressure as well as the customers largely left Uber alone. In some cases, the investors may request the founders to engage in such behaviour, describing it as the pinnacle of hustling and the entrepreneurial spirit (Gleason et al., 2022). When comparing them to bootstrapped founders, they are also affected, but in a different way. They may not be under the influence of VC; however, they play a different variation of the institutional theory. Instead, the theory applies when bootstrapped founders attempt to legitimize their ventures by looking professional. They create models, hire employees (perhaps promising to pay them later), rent facilities, and run promotional campaigns. Optimally, ventures that focus on external-oriented bootstrap financing techniques, such as fast payments, rather than internal techniques, such as personal savings, are more likely to be operational (Perry et al., 2011). In some ways, though it may seem harmless, establishing credibility with finite resources can produce a challenge where slight misconduct may occur. The institutional theory clearly highlights why startups, influenced by both the founders and the investors, would follow a different set of rules that enter ambiguous territory regarding ethics.

Moral Disengagement Theory

We understand how investors, the environment around them, and the rules can cause a founder to engage in misconduct. Growing a business from nothing is no easy feat, and these pressures play a key role. To

understand this, let's explore the specific influences on the founder. Moral disengagement theory posits that founders who engage in wrongful behaviour do not feel ashamed because they mentally believe they are doing the right thing and blame it on others. A sub-theory that aligns with this is moral seduction theory, which describes the mentality behind fraud. It reveals several important points, such as focusing on factors that benefit the founder, agreeing with lies because they are beneficial, justifying initial minor misconduct that eventually grows, and stating they were forced while shaming others in the same situation (Greve et al., 2010). Founders make it easy for misconduct to happen; for instance, when Elizabeth Holmes made it hard to verify blood testing results by keeping the process a secret, she created a skewed power structure, set a specific social dynamic, and fostered biased group dynamics. Choosing these decisions can prove detrimental. They are still regular people at the end of the day, and dealing with complicated rules set by social control agents and constant paperwork can overwhelm anyone (Palmer & Weiss, 2022).

CONCEPTUAL MODEL AND HYPOTHESES

Based on our findings, we have identified several factors that play a role for VC-funded founders and their relationship to misconduct. This conceptual model focuses on the time when the founder receives funding, the possible major influences, and how these factors lead to misconduct. We utilize a simple model consisting of independent variables (funding), mediating variables (stress), and a dependent variable (misconduct). The objective is to create a model that explains the overall process of how negative behaviour occurs.

Key Variables

Table 2

Independent variables	Mediators	Dependent variable
Funding Model	Stress	Propensity for Misconduct
Investor Pressure	Identity Conflict	
Time Horizon	Performance Pressure	

Hypothesis Development

If founders choose to receive VC funding, they put themselves under investor pressure to rapidly grow and maximize profits, which often leads to complications. Under these pressures, for example, they face a limited time horizon that forces them into an early exit or IPO. While these independent variables do not directly cause misconduct, they expose founders to mediators such as stress, identity conflict, and performance pressure. Stress is a common result because founders are left wondering how to accomplish these massive goals through legitimate means. Especially when founders measure their success solely by progression toward the goal, it creates many incentives for misconduct. Being under constant performance pressure can lead founders to make poor choices, often focusing on the short term rather than the bigger picture. Not only that, but founders also know that failure will hurt their reputation, trust, financial stability, and everything they have worked so hard for. When founders are given many options of what to do to survive, the choices that lead to misconduct sometimes become the better option. Hence, we expect that VC-backed founders are more likely to engage in misconduct.

Hypothesis 1: When founders choose to receive VC funding, they are more likely to engage in misconduct.

To understand the variables in play, the independent variables are factors chosen by the founder, such as the decision to receive external funding or remain bootstrapped. This creates conflict because the founder typically wants more time to grow and develop their business; however, under variables such as VC pressure, founders are often left in a troubling situation (Zahra et al., 2005). Conversely, bootstrapped founders have alternative options, as detailed in Table 3.

Table 3

Product Development
Special deals for access to hardware
Pre-paid licences, royalties or advances from customers
Development of products at nights and weekends
Research grants
Customer funded R&D

Commercializing university-based research
Commercializing public domain software
Porting fees to transfer software from one platform to another
Free or subsidized access to hardware
Commercializing an existing shareware product
Turning a consulting project into a commercial product
Using public domain development tools
Business Development
Delaying payments
Bartering arrangements
Personal credit cards & home equity/mortgage loans
Discounted advance payments from customers
Below market or very low rent space
Deals with professional service providers at below competitive rates
Leasing vs. purchasing assets
Purchasing used vs. new equipment

Working out of home
Gifts or interest-free loans from relatives
Unpaid family member working as an assistant
Loan Guarantee Scheme loan guarantees
Severance and parachute payments
Personal savings
Reduced compensation
Forgone or delayed compensation
Special terms with customers, including discounted advances, prepayments and larger than normal deposits
Outsourcing key parts of the business
Shareware revenue stream

Note. Adapted from Tömöry (2015, p. 42)

With all these methods, they are certainly thinking outside the box, which helps them avoid misconduct. The more pressing matter is whether they will engage in misconduct and go against their character or stay true to themselves and risk losing everything. Therefore, we expect that bootstrapped founders are less likely to engage in misconduct.

Hypothesis 2: Founders, who are bootstrapped, will be less likely to engage in misconduct.

METHODOLOGY

I plan to propose an empirical design with the goal of proving both hypotheses. The decision not to conduct a live experiment is due to several constraints that will be explained in the limitations section. This chapter is divided into four key parts detailing how this proposed study is structured to answer the core research question.

Research Design:

The research design will use quantitative data from an existing dataset of startups, as opposed to qualitative data, such as interviews. To access historical data, we will use reliable databases such as PitchBook, Crunchbase, and the SEC (Securities and Exchange Commission) accounting and auditing enforcement releases. Utilizing a quantitative approach allows us to gather more data, reduce personal bias, and provide a clear answer.

Data Collection:

After gathering lots of raw data, we need to measure and define specific variables from Table 2.

- Funding Model is an independent variable from Table 2 and explains the method by which founders receive funding. We will find the data from Crunchbase and categorize bootstrapped ventures with a 0 and VC-funded ventures with a 1.
- Investor Pressure is an independent variable from Table 2 and represents the external pressure VC founders face. We will measure this by looking at PitchBook to see how much equity or how many board seats the investors hold in the venture.
- Time Horizon is an independent variable from Table 2 and applies to VC founders who are forced into an early exit or IPO. We will track this by looking at the average number of months between funding rounds.
- Mediators such as stress, identity conflict, and performance pressure are examples of struggles founders face. These are difficult to measure, but we will investigate investor reports for indicators such as high executive turnover, massive cash burn rates, disputes, and more. Understandably, we cannot measure the internal stress of a founder based purely on secondary data, but our perspective is to view these metrics as observable symptoms of their stress as they manage intense internal pressure.
- Propensity for Misconduct is the dependent variable and is determined by the independent variables. We will measure this directly from SEC enforcement releases or public lawsuits to find cases of misconduct and the various types thereof. Since we are able to classify misconduct as either occurred or did not occur, this will be coded as a binary dependent variable (1 = documented misconduct, 0 = no documented misconduct).

Sample Selection:

To select our sample size, we would use the Stratified Random Sample method. To utilize this method, we would randomly select 50 bootstrapped startups and 50 VC-backed startups from the databases. To keep

our data accurate and simple, startups funded purely by angel investors will be excluded, and the sampling period for the startup data will be between 2015 and 2023. This creates a total sample size of 100 startups that are based in the U.S., ensuring the sample is specific enough to run an accurate side-by-side comparison to prove our hypotheses.

Analytical Approach:

This study proposes using a regression analysis to test the hypotheses. By plotting the funding model against the frequency of misconduct cases, the regression model will determine if a statistically significant correlation exists between taking VC money and committing fraud. To analyze the numbers, we will use a binary logistic regression model. We will incorporate the independent variables (the X variables) to see how they influence the dependent variable (the Y variable), which is the propensity for misconduct. It will show two lines because we have already coded the two funding models as 0 and 1. The plan is for it to show that significantly more independent variables would be present for the VC-backed group, whereas the bootstrapped group is not affected as much. This will effectively support our hypothesis and answer the research question.

DISCUSSION, LIMITATIONS, AND FUTURE RESEARCH

Since this research paper lacks an experiment with live results, we decided to combine the discussion, limitations, and future research sections. It has been an interesting process working on this paper and learning much more about the startup world. The following sections break down my core ideas regarding the data, along with the aspects of the study that I believe need improvement.

Time Pressure vs. Patience

The empirical design is meant to explain why misconduct is hypothesized to be higher with VC funding compared to bootstrapped founders. However, to understand how we came up with the variables, we must understand human nature better. The main driving difference between the two is time pressure and patience. VC founders are greatly affected by time pressure because once they receive funding, the amount of time they have to grow the venture is very limited. The investors are always encouraging IPOs and fast exits, prioritizing profits and completion of goals through any means necessary, rather than the actual growth. The important thing to note, and where the misconduct typically occurs, is how the investors measure it by progress; it leaves lots of room for events to occur. On the other hand, bootstrapped founders are more prone to deal with more internal financial pressure, rather than the institutional pressure that VC founders face. Instead of dealing with pressure, they deal with being patient, being able to focus on sustainable growth and making sure it follows along with their personal mission.

External Accountability vs. Internal Values

The main discussion between the two and why the two forms of financing differ so much is because of another important human concept. To be influenced and act upon external accountability or internal values is a conflict founders face that is much more than black and white. Typically, when VC-founders

Sep 2026

Vol 11. No 7.

accept the money, they also accept the fact that the investors have access to board seats and can effectively influence them now. It results in decisions that they aren't too particular about, but have no choice but to comply, leading to misconduct that could have been prevented had it not been for the demands of near impossible goals. Founders are often left to make a difficult decision, "fake it till you make it", or call it off, and if it wasn't clear enough, they usually choose the first method. They are having to fight between choosing external accountability and internal values, and it's clear that they had to make a difficult decision. Bootstrapped founders in a way face similar issues, just in a very unique way that restricts any possibilities for misconduct. Due to having little money to start with and having to use methods such as setting special terms with customers or other methods stated in Table 3, their connection with the customers is strong. Their business model depends on the quality of their product and trust; therefore it is unlikely and discouraged for them to participate in misconduct, because it could very well be the end for their business.

Methodological and Resource Limitation

These points I wanted to discuss are also the points of limitations that needed to be brought up. The empirical design doesn't talk about how the personality trait of the founder, investors, or the environment can impact the trajectory of the startup. The actions we measure, such as fraud, insider trading, and others mentioned earlier in the reading, are the symptoms of the real problem, the problem of human nature. That is one of the flaws with this paper that we tried our best to not let affect our study, for example with the environment. Theoretically, if it was shown that startups in Florida had higher misconduct and California had little to none, what state we used would certainly make or break the hypothesis.

The other constraint is regarding the resources that I couldn't access. As a high schooler who recently took behavioral statistics at a nearby community college, I realized I was limited mainly to free resources such as Google Scholar, PitchBook, and more, which were incredibly insightful. However, as I kept doing my research, many good research papers that I could've used for my paper were behind a paywall, which wasn't the most important fact, but something I wanted to note. In the future when I have more time, I plan to run this empirical design once I have more resources and maybe add some qualitative data to help bridge the original gaps in this paper.

CONCLUSION

As we have learned, founders typically have the option to become a VC-backed founder or a bootstrapped founder. The primary difference between the two is how they receive their funding and the purpose. One is to receive money to rapidly expand, and one is to focus on a personal mission under tighter constraints. The purpose of the paper was to explain why VC-backed founders are hypothesized to conduct more misconduct compared to their counterparts, based off the given info. The answer to the question would be summed up as extreme pressure that founders didn't expect to receive when they accepted the VC money. This pressure stemmed from the independent variables such as funding model, investor pressure, and time horizon from table 2. If it wasn't clear, these variables would lead to consequences such as stress, identity conflict, and performance pressure. If we were compared to bootstrapped, based on table 3, using methods

such as research grants, personal savings, special deals, the founders are not under pressure by people that don't have your best interest at heart. That was the very simplified version, but why is this important and shouldn't this be obvious already? If it wasn't obvious, over 90% of startups failed, and they failed because they weren't mentally prepared to be an entrepreneur. It's all glamorized but the truth is, that it is difficult and something that required taking reasonable risk, that may or may not pay off. From a non-biased perspective, the differences between the two funding models are straightforward, but the journey a person experiences is very much different. On today's social media, entrepreneurship has been shown as a way to break out of the "matrix" and to gain real freedom. However, the truth is that lots of risks are involved, and as mentioned earlier in the introduction, the chances of winning are against you. As I have learned valuable information about startups, it has become clear to me why bootstrapping can be unfavorable, as I personally struggle to make any real progress. This, in a way, demonstrates why being VC-backed could be better. Though that is not my decision to make for others, I would caution the reader to gain more insights and experience entrepreneurship for themselves.

REFERENCES

- Aldrich, H. E. (2019). What sustains a belief in success among the unsuccessful? *Academy of Management Discoveries*, 5(4), 481–486.
- Anokhin, S., Morgan, T., Schulze, W., & Wuebker, R. (2022). Is a reputation for misconduct harmful? Evidence from corporate venture capital. *Journal of Business Research*, 138, 65–76.
- Arthurs, J. D., & Busenitz, L. W. (2003). The boundaries and limitations of agency theory and stewardship theory in the venture capitalist/entrepreneur relationship. *Entrepreneurship Theory and Practice*, 28(2), 145–162.
- Blank, S. (2013). Why the lean start-up changes everything. *Harvard Business Review*, 91(5), 63–72.
- Buchholz, R. A., & Rosenthal, S. B. (2005). The spirit of entrepreneurship and the qualities of moral decision making: Toward a unifying framework. *Journal of Business Ethics*, 60(3), 307–315.
- Cumming, D. J., Mohammadi, A., & Zambelli, S. (2022). Misconduct risks, legal enforcement and venture capital networks. *European Financial Management*, 28(3), 607–650.
- Dyck, A., Fang, F., Hebert, C., & Xu, T. (2026). Venture fraud (Working Paper No. 34868). National Bureau of Economic Research.
- Gleason, K., Kannan, Y. H., & Rauch, C. (2022). Fraud in startups: What stakeholders need to know. *Journal of Financial Crime*, 29(4), 1191–1221.
- Gornall, W., & Strebulaev, I. A. (2020). Squaring venture capital valuations with reality. *Journal of Financial Economics*, 135(1), 120–143.
- Greve, H. R., Palmer, D., & Pozner, J. E. (2010). Organizations gone wild: The causes, processes, and consequences of organizational misconduct. *The Academy of Management Annals*, 4(1), 53–107.
- Harris, J. D., & Bromiley, P. (2007). Incentives to cheat: The influence of executive compensation and firm performance on financial misrepresentation. *Organization Science*, 18(3), 350–367.

- Mahendiran, S. (2023). Silence of the lambs: The effects of misconduct allegations on entrepreneurial venture outcomes [Seminar presentation]. Max Planck Institute for Innovation and Entrepreneurship Research Seminar.
- McCormick, M. E., Buttrick, H. G., & McGowan, R. J. (2018). Ethics of entrepreneurship: Should we be teaching students the inevitable moral dilemmas that challenge all entrepreneurs? *Journal of Legal Studies Education*, 35(1), 113–141.
- Mishina, Y., Block, E. S., & Mannor, M. J. (2012). The path dependence of organizational wrongdoing. *Academy of Management Journal*, 55(1), 170–193.
- National Commission on Fraudulent Financial Reporting. (1987). Report of the National Commission on Fraudulent Financial Reporting. Treadway Commission.
- Nguyen, T. A. (2024). Understanding startup failure: The impact of founders' personality and experiences on the decision to cease operations [Master's thesis, LUT University]. LUTPub.
- Palmer, D., & Weiss, T. (2022). The unique vulnerabilities of entrepreneurial ventures to misconduct. In R. N. Eberhart, M. Lounsbury, & H. E. Aldrich (Eds.), *Entrepreneurialism and society: New theoretical perspectives* (Vol. 81, pp. 129–159). Emerald Publishing Limited.
- Perry, J. T., Chandler, G. N., Yao, X., & Wolff, J. (2011). Bootstrapping techniques and new venture emergence. *New England Journal of Entrepreneurship*, 14(1), 35–45.
- Saini, R. (2022). Reasons behind startup failure. [Online resource/Article].
- Sekerka, L. E., & Stimel, D. (2024). Ethics from the start: Embracing professional moral courage in entrepreneurial decision-making. *Business and Entrepreneurship Journal*, 13(1).
- Shepherd, D. A., & Patzelt, H. (2017). Trailblazing in entrepreneurship research. *Journal of Management Studies*, 54(5), 738–746.
- Tömöry, E. M. (2015). Bootstrap financing: Case studies of ten technology-based innovative ventures, tales from the best [Doctoral dissertation].
- Winborg, J., & Landström, H. (2001). Financial bootstrapping in small businesses: Examining small business managers' resource acquisition behaviors. *Journal of Business Venturing*, 16(3), 235–254.
- Zahra, S. A., Priem, R. L., & Rasheed, A. A. (2005). The antecedents and consequences of top management fraud. *Journal of Management*, 31(6), 803–828.